Consolidated financial statements of

KURE TECHNOLOGIES, INC.

for the years ended August 31, 2022 and 2021

(In thousands of Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kure Technologies, Inc.

Opinion

We have audited the consolidated financial statements of Kure Technologies, Inc. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

January 12, 2023

MOORE

An independent firm
associated with Moore
Global Network Limited

KURE TECHNOLOGIES, INC.

Consolidated statements of financial position
(In thousands of Canadian dollars)

As at August 31,

	Note	2022	2021
Assets			
Current assets			
Cash		**$ 2**	$ 117
Prepaid expenses and deposits		**6**	13
Other receivables		**3**	1
Total assets		**$ 11**	$ 131
Liabilities and shareholders' equity (deficiency)			
Current liabilities			
Accounts payable		**$ 755**	$ 424
Accrued liabilities		**211**	390
Short-term loans	3, 6	**203**	185
Interest payable	5	**14**	1
Convertible debentures	5	**124**	-
Derivative liability	5	**1**	290
Total current liabilities		**1,308**	1,290
Convertible debentures	5	**-**	107
Total liabilities		**1,308**	1,397
Shareholders' equity (deficiency)			
Share capital	4	**58,533**	58,533
Deficit		**(59,830)**	(59,799)
		(1,297)	(1,266)
Total liabilities and shareholders' equity (deficiency)		**$ 11**	$ 131
Nature of operation and going concern	1		
Subsequent events	11		

Approved by the Board of Directors:

(Signed) – *Alex Dolgonos*

Alex Dolgonos - Director and Chief Executive Officer

(Signed) – *Igor Keselman*

Igor Keselman - Director and Chief Financial Officer

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

KURE TECHNOLOGIES, INC.

Consolidated statements of loss and comprehensive loss

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31,

	Note	**2022**	2021
Expenses			
Compensation	6	$ 185	$ 265
General and administrative	7	90	120
		275	385
Loss for the period before the undernoted		(275)	(385)
Interest and finance charges	3, 5	(47)	(18)
Adjustment to Trustee receivable		2	-
Change in fair value of derivative liability	5	289	(253)
Net and comprehensive loss for the year		$ (31)	$ (656)
Loss per share			
Basic and diluted		(0.00)	(0.04)
Weighted average number of shares outstanding			
Basic and diluted		15,097,800	15,097,800

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

KURE TECHNOLOGIES, INC.

Consolidated statements of changes in shareholders' equity (deficiency)
(In thousands of Canadian dollars)

	Share Capital			
	Shares **#**	**Amount** **$**	**Deficit** **$**	**Total equity (deficiency)** **$**
Balance, August 31, 2020	15,097,800	58,533	(59,143)	(610)
Net loss for the year	-	-	(656)	(656)
Balance, August 31, 2021	**15,097,800**	**58,533**	**(59,799)**	**(1,266)**
Net loss for the year	-	-	(31)	(31)
Balance, August 31, 2022	**15,097,800**	**58,533**	**(59,830)**	**(1,297)**

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

KURE TECHNOLOGIES, INC.

Condensed consolidated interim statements of cash flows
(In thousands of Canadian dollars)

For the years ended August 31,

	2022	2021
Cash flows from operating activities		
Net loss for the year	**$ (31)**	$ (656)
Interest expense	**47**	18
Change in fair value of derivative liability	**(289)**	253
Change in non-cash operating assets and liabilities		
Other receivables	**(2)**	12
Prepaid expenses and deposits	**7**	(5)
Accounts payable and accrued liabilities	**152**	289
Cash used in operating activities	**(115)**	(89)
Financing activities		
Short-term loan	**-**	52
Issuance of convertible debentures	**-**	140
Cash provided by financing activities	-	192
Increase (decrease) in cash	**(115)**	103
Cash, beginning	**117**	14
Cash, ending	**$ 2**	$ 117

There were no investing activities during the periods reported.

1. Nature of operation and going concern

Kure Technologies, Inc. (the “Company” or “Kure”) was incorporated June 1, 1998 under the Business Corporations Act of Ontario.

The Company currently has no business activity. The Company’s shares are listed for trading on the NEX, a separate board of the TSX Venture Exchange, under the symbol “KUR.H”. The address of the Company’s head office and registered and records office is 291 York Hill Blvd, Thornhill Ontario L4J 3L5.

References to "Kure” and the “Company” include the legal entity Kure Technologies, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc.

Going concern
These consolidated financial statements were prepared on a going-concern basis of preparation, which assumes that the Company will continue operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has an accumulated deficit of $59,830 and a working capital deficiency of $1,297. The Company’s ability to continue as a going concern is dependent on its ability to obtain additional financing and or achieve profitable operations in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company’s financing efforts to date, are not sufficient in and of themselves to enable the Company to fund all aspects of its operations. Management will pursue funding initiatives if, as and when required to meet the Company’s requirements on an ongoing basis. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

2. Summary of significant accounting policies

These consolidated financial statements were approved for issue by the Board of Directors on January 12, 2023.

(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”).

(b) Basis of presentation
These consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars.

2. Summary of significant accounting policies (continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary, USB Wireless Services Inc. which was incorporated in Ontario.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances, transactions, revenues and expenses have been eliminated.

(d) Financial instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and 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. 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.

(i) Classification

The Company's classification of its financial instruments under IFRS 9 are as follows:

Financial assets/liabilities	Classification
Cash	FVTPL
Other receivable	Amortized cost
Accounts payable	Amortized cost
Short-term loans	Amortized cost
Convertible debentures	Amortized cost
Derivative liability	FVTPL

(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 subsequently carried at amortized cost less any impairment.

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

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 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 statements of loss and comprehensive loss in the period 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 profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or 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 profit or 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 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 loss allowance at the reporting date to the amount that is required to be recognized.

(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 profit or loss.

2. Summary of significant accounting policies (continued)

(e) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity.

Current tax assets and liabilities for the current and prior periods 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 deferred tax assets and liabilities are measured at future anticipated tax rates which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

With certain exceptions, deferred tax assets and liabilities are provided on all qualifying temporary differences at the end of the reporting period between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(f) Provisions and contingencies

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

2. Summary of significant accounting policies (continued)

(g) Basic and diluted loss per share

Basic loss per share is computed by dividing the net loss applicable by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

(h) Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date. Any consideration paid by directors, officers and employees on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on stock options granted to non-employees is measured at the fair value of the goods and services on the date when the goods or services are received and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. When the fair value of the goods or services received from non-employees in exchange for the share-based payment cannot be reliably estimated, the fair value of the shares issued is measured by use of a Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. No share-based payments were made during fiscal 2022 and 2021.

(i) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant management estimation is required in determining accrued liabilities and accrued restructuring liabilities due to related parties.

(In thousands of Canadian dollars, except per share amounts)

2. Summary of significant accounting policies (continued)

(j) Significant accounting judgments and estimates (continued)

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Factors considered in the assessment of the likelihood and value of the realizable deferred tax assets include the Company's forecast of the amount and timing of future net income before taxes, available tax planning strategies that could be implemented to realize the deferred tax assets and the remaining period of loss carry forwards. Significant judgment and estimates are also required in assessing the carrying value of accounts receivable and other receivables. Factors considered in assessment of carrying value included the ability of the counterparty to pay and the actions available to the Company to enforce collection. Significant judgment and estimates are also required in the valuation of the convertible debenture components as disclosed in notes 5 and 10.

(k) Standards and amendments issued but not yet adopted

Amendment to IAS 1 *Presentation of financial statements*

IAS 1 has been revised to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Had the Company adopted the amendment to IAS 1 at August 31, 2022, the convertible debentures would be classified as a current liability.

3. Short-term loans

Between August 31, 2018 and February 12, 2021, interim unsecured demand loans were extended to the Company by a director at an annual interest rate of 12%.

Details of the balance on the loans are as follows:

		August 31, 2022		August 31, 2021
Balance, opening	**$**	**185**	$	114
Additional loans received		**-**		52
Accrued interest on unsecured loans		**18**		15
Legal fees		**-**		4
Balance, ending	**$**	**203**	$	185

Interest recorded on the loans during the year ended August 31, 2022 totaled $18 (August 31, 2021 - $15).

(In thousands of Canadian dollars, except per share amounts)

4. Share capital

(a) Authorized

Unlimited common shares
Unlimited Class A non-voting shares

(b) Issued and outstanding

As at August 31, 2022 and 2021, 15,097,800 common shares in the Company were issued and outstanding.

(c) Stock option incentive plan

Kure's stock option plan (the "Option Plan") provides for the granting of stock options to employees, directors and consultants of Kure. Under the Option Plan, up to 1,976,560 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option but cannot be lower than the closing market price of Kure's shares on the NEX on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

As at August 31, 2022 and 2021, no stock options were issued or outstanding, and no stock options were granted or expired.

5. Convertible debentures

A continuity of the Company's convertible debentures is as follows:

	August 31, 2022	August 31, 2021
Balance, opening	**$ 108**	$ -
Issuance of Debentures	**-**	150
Fair value of derivative liability	**-**	(37)
Transaction costs	**-**	(7)
Interest accretion	**16**	1
Interest accrual	**14**	1
Balance, ending	**$ 138**	$ 108
Allocated as:		
Current	**$ 138**	$ 1
Non-current	**$ -**	$ 107

On July 29, 2021, the Company completed a non-brokered private placement offering of unsecured convertible debentures (the "Debentures") which raised aggregate gross proceeds of $150.

The Debentures bear interest at a rate of 8.5% per annum and will mature on July 29, 2023. The Debentures are convertible into units of the Company at a price of $0.15 per unit during the first year and are convertible at the higher of $0.15 and the trading price of the Company's common shares on the TSX Venture Exchange on the date of conversion. Each unit consists of one common share and one-half common share purchase warrant exercisable at $0.18 for a period of one year. As the conversion feature may be settled in a variable number of common shares of the Company, it does not meet the fixed for fixed criteria and has been accounted for as a derivative liability. The Company paid cash issuance costs of $10, of which $7 has been allocated to the convertible debenture principal and $3 has been allocated to the derivative liability and included as interest and finance charges in the statement of loss and comprehensive loss during the three months ended August 31, 2021.

(In thousands of Canadian dollars, except per share amounts)

5. Convertible debentures (continued)

The Company has the option to purchase all or any part of the principal amount (the "Repurchase Amount") of the Debentures at any time. Within 20 business days' notice, the holder shall elect to either convert the Repurchase Amount into Units, or to receive the Repurchase Amount plus any accrued interest in cash.

The following table is a continuity of the Company's derivative liability:

	August 31, 2022	August 31, 2021
Balance, beginning	**$ 290**	$ -
Issuance of convertible debt	**-**	37
Change in fair value of derivative liability	**(289)**	253
Balance, ending	**$ 1**	$ 290

The valuation model used to estimate the fair value of the Debentures is a system of two coupled Black-Scholes Option Pricing equations and partial differential equations that are solved simultaneously using finite-difference methods, with the following assumptions:

	August 31, 2022	**August 31, 2021**
Expected volatility	48%	60%
Expected life	0.91	1.91
Risk free interest rate	3.686%	0.416%
Coupon interest rate	8.5%	8.5%
Expected dividend yield	Nil	Nil
Credit Spread	30%	25%
Underlying share price	$0.11	$0.40
Exercise price	$0.18	$0.18
Discount for lack of marketability	44.56%	10.8%

6. Related party transactions

(a) Compensation of key management personnel

The Company's key management personnel includes members of the executive team and the board of directors of the Company and its wholly owned subsidiaries. Key management compensation is as follows:

	August 31, 2022	2021
Chief Executive Officer fees	**$ 56**	$ 157
Chief Financial Officer fees	**56**	37
Director fees	**10**	13
	$ 122	$ 207

There are no ongoing contractual or other commitments arising from these transactions with related parties.

(b) Short-term loans payable

The Company executed unsecured demand loans payable with a director between August 31, 2018 and February 12, 2021. As at August 31, 2022, $203 remained outstanding (August 31, 2021 - $185) (note 3). During the year ended August 31, 2022, the Company incurred interest expense of $18 (2021 - $15).

(In thousands of Canadian dollars, except per share amounts)

7. General and administrative

General and administrative expense included mainly professional fees, board of director fees, general occupancy, and other administrative overheads for the Company. The breakdown is as follows:

	August 31, 2022	2021
Professional expenses	**$ 86**	$ 102
Office and general	**4**	18
Total general and administrative	**$ 90**	$ 120

8. Income taxes

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following items:

	2022	2021
Loss before income taxes	**$ (31)**	$ (656)
Combined basic federal and provincial tax rates	**27%**	27%
Computed expected tax recovery	**(8)**	(177)
Increase resulting from:		
Non deductible items and other	**4**	(34)
Change in unrecognized deferred assets	**4**	211
	$ -	$ -

The significant components of the Company's deductible temporary differences that have not been included on the consolidated statement of financial position are as follows:

	2022	2021
Non-capital loss carry forwards	**$ 5,870**	$ 5,788
SRED Pool	**3,117**	3,117
Capital loss carry forwards	**3,447**	3,447
Derivative liability	**-**	78
Non-tax deductible reserves	**65**	65
	12,499	12,495
Unrecognized deferred tax assets	**(12,499)**	(12,495)
	$ -	$ -

As at August 31, 2022, the Company had approximately $21,437 in non-capital income tax losses with expiry dates between 2027 and 2041, SRED pool carry-forwards of $3,117, capital loss carry-forwards of $25,530, and non-tax deductible reserves of $65.

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

9. Management of capital

The Company's main objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at August 31, 2022, the Company was not subject to any externally imposed capital requirements. The Company defines its capital as shareholders' equity plus convertible debentures and short-term loans.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. There were no significant changes to the Company's approach to capital management during the years ended August 31, 2022 and 2021.

10. Financial instruments and risk management

The Company's activities may expose it to a variety of financial risks: fair values, credit risk, liquidity risk and market risk (including interest rate and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee, under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Fair values

As at August 31, 2022 and 2021, financial instruments consist of cash, accounts receivable and other receivables, accounts payable, accrued liabilities, convertible debentures, derivative liabilities, short-term loans, and long-term loans. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company classifies its financial instruments carried at fair value according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

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

(In thousands of Canadian dollars, except per share amounts)

10. Financial instruments and risk management (continued)

As at August 31, 2022 and 2021, cash is recorded at fair value under Level 1 within the fair value hierarchy and the derivative liability (Note 5) is classified as Level 3 within the fair value hierarchy.

The following table shows the valuation techniques used in measuring Level 3 fair values for the derivative liability as well as the significant unobservable inputs used.

Type	Valuation technique	Key inputs	Inter-relationship between significant inputs and fair value measurement
Derivative liability	The fair value of derivative liability at initial recognition and at period-end has been calculated using a system of two-coupled Black Scholes Option pricing equations and partial differential equations that are solved simultaneously using finite-difference methods.	*Key observable inputs* • Share price • Risk free interest rate • Dividend yield *Key unobservable inputs* • Expected volatility • Discount for lack of marketability	The estimated fair value would increase (decrease) if: • The share price was higher (lower) • The risk-free interest rate was higher (lower) • The dividend yield was lower (higher) • The expected volatility was higher (lower) • The discount for lack of marketability was lower (higher)

For the fair values of the derivative liability, reasonably possible changes to the expected volatility, the most significant unobservable input would have the following effects:

Derivative liability	**August 31, 2022**	
Comprehensive Loss	**Increase**	**Decrease**
Expected volatility (20% change vs. model input)	$ (1)	$ 1

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks. The Board approves the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations and limit exposure to credit and market risks.

<u>Credit risk</u>
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company is exposed to credit risk through its cash balance which is held at Canadian financial institutions. The Company believes its exposure to credit risk is not significant.

<u>Interest rate risk</u>
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. Management believes the Company had no significant exposure to interest rate risk through its financial instruments as at August 31, 2022 and 2021.

10. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements.

The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in note 9, in normal circumstances.

11. Subsequent events

Trustee receivable

On December 2, 2022, the Company received the final payment totaling $3 from a bankruptcy trustee in Ontario in which the Company was a claimant.

Convertible Debentures

On December 19, 2022, the Debentures valued at $150 and accrued interest totaling $14 were converted to shares at a value of $0.15 per share. A total of 1,092,659 shares and 546,329 warrants were issued, and the Company's outstanding shares as at December 19, 2022 was 16,190,458.

Short-term loans

During the second quarter of fiscal 2023, unsecured demand loans totaling $75 were extended to the Company at an effective annual interest rate of 12%, of which $50 was received from related parties.