

**Maritime Launch Services Inc.**  
**(formerly Jaguar Financial Corporation)**  
**Consolidated Financial Statements**  
For the Years Ended December 31, 2022 and  
December 31, 2021

## Independent Auditor's Report

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To the Shareholders of Maritime Launch Services Inc. (formerly Jaguar Financial Corporation):

### Opinion

We have audited the consolidated financial statements of Maritime Launch Services Inc. (formerly Jaguar Financial Corporation) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 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.

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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## **Valuation of Convertible Debentures**

### *Key Audit Matter Description*

As described in note 8 to the consolidated financial statements, the Company entered into a financing arrangement on May 7, 2021, the terms of which were amended on March 29, 2022, that included conversion features that were classified as liabilities. On the date of closing of the Company's reverse takeover transaction, the conversion feature became fixed such that it no longer met the definition of a derivative liability and was reclassified as a component of shareholders' equity.

The subsequent amendment was considered a significant modification and accordingly was accounted for as an extinguishment of the original convertible debenture.

The determination of the fair value of the amended host debt and conversion feature was significant to our audit and considered a key audit matter due to the significance of its value and the degree of judgement and subjectivity in evaluating management's estimates. In particular, the valuation is based on, and sensitive to, changes in specific inputs such as discount rates, share price volatility and probability weighted scenarios.

### *Audit Response*

We obtained an understanding of the valuation methodology and inputs used by management and evaluated management's key assumptions. As part of those procedures, we assessed specific inputs including assessing the reasonability of the Company's discount rates, probability weighted scenarios and other assumptions.

## **Other Information**

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

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 audits 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 audits 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 on this other information, 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

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.
- 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.

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

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 Marufur Raza.

Toronto, Ontario  
March 23, 2023

*MNP* **LLP**  
Chartered Professional Accountants  
Licensed Public Accountants

**Maritime Launch Services Inc.**  
**Consolidated Financial Statements**  
For the Years Ended December 31, 2022 and December 31, 2021

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## Maritime Launch Services Inc. Consolidated Statements of Financial Position

December 31	Notes	2022	2021
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 2,871,382	\$ 3,889,221
Restricted cash	9	-	3,942,923
Short-term investment	5	100,000	100,000
Sales tax receivable		268,476	267,385
Prepaid expenses and deposits		122,786	42,440
<b>Total current assets</b>		<b>3,362,644</b>	<b>8,241,969</b>
Long-term deposit		-	375,000
Land, spaceport under construction, and equipment	6	8,056,629	3,160,573
Right-of-use assets	7	211,223	93,494
<b>Total assets</b>		<b>\$ 11,630,496</b>	<b>\$ 11,871,036</b>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 1,080,614	\$ 806,101
Subscription receipts payable		-	3,942,923
Current portion of lease liabilities	7	32,625	13,150
Convertible debentures	8	7,391,634	7,308,007
Derivative liability	8	-	1,667,000
<b>Total current liabilities</b>		<b>8,504,873</b>	<b>13,737,181</b>
<b>Non-current liabilities</b>			
Lease liabilities	7	174,164	92,592
<b>Total liabilities</b>		<b>8,679,037</b>	<b>13,829,773</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	9	13,265,001	4,828,720
Warrants reserve	10	686,982	377,369
Contributed surplus		3,729,760	114,760
Deficit		(14,730,284)	(7,279,586)
<b>Total shareholders' equity (deficiency)</b>		<b>2,951,459</b>	<b>(1,958,737)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>\$ 11,630,496</b>	<b>\$ 11,871,036</b>

Going Concern Uncertainty (Note 2)  
Commitments (Note 14)

Approved on behalf of the Board:

(signed) Stephen Matier Director

(signed) Sasha Jacob Director

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

## Maritime Launch Services Inc. Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31	Notes	2022	2021
<b>Operating expenses</b>			
Administration		\$ 377,448	\$ 189,392
Management fees	12	-	152,170
Professional services		2,327,865	1,244,426
Research and development		-	72,314
Stock based compensation	9	1,407,000	114,760
Amortization	6,7	34,317	11,249
Wages and salaries	12	1,567,313	445,971
Listing expenses	1	2,242,404	-
Fair value adjustment on derivatives	8	(1,075,000)	1,574,000
<b>Loss from operations</b>		<b>(6,881,347)</b>	<b>3,804,282</b>
<b>Other income (expense)</b>			
Loss on extinguishment of convertible debentures	8	(206,256)	-
Interest and accretion expense	6,7,8,12	(382,344)	(507,616)
Foreign exchange gain (loss)		19,249	(5,508)
		<b>(569,351)</b>	<b>(513,124)</b>
<b>Loss and comprehensive loss for the year</b>		<b>\$ (7,450,698)</b>	<b>\$ (4,317,406)</b>
<b>Loss per share</b>			
Weighted average shares outstanding		389,875,866	71,468,875
Basic and diluted loss per share		\$ (0.02)	\$ (0.06)

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

## Maritime Launch Services Inc. Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

	Notes	Share Capital		Warrant Reserve	Contributed Surplus	Deficit	Total shareholders' Equity (Deficiency)
		Number <sup>(1)</sup>	Amount				
<b>Balance, as at January 1, 2021</b>		62,754,840	\$ 641,900	\$ 159,369	\$ -	\$ (2,962,180)	\$ (2,160,911)
<b>Loss and comprehensive loss for the year</b>		-	-	-	-	(4,317,406)	(4,317,406)
<b>Stock based compensation</b>	9	-	-	-	114,760	-	114,760
<b>Warrants issued</b>	10	-	-	218,000	-	-	218,000
<b>Shares issued in exchange for cash (net of issuance costs)</b>	9	12,000,000	2,696,785	-	-	-	2,696,785
<b>Shares issued in exchanges for services</b>	9	1,500,000	370,000	-	-	-	370,000
<b>Shares issued to settle liabilities</b>	12	660,046	495,035	-	-	-	495,035
<b>Shares issued for prepaid services</b>	9	500,000	375,000	-	-	-	375,000
<b>Shares reclassified from liability</b>	9	-	250,000	-	-	-	250,000
<b>Balance, as at December 31, 2021</b>		77,414,886	\$ 4,828,720	\$ 377,369	\$ 114,760	\$ (7,279,586)	\$ (1,958,737)
<b>Loss and comprehensive loss for the year</b>		-	-	-	-	(7,450,698)	(7,450,698)
<b>Shares issued in exchange for cash (net of issuance costs)</b>	9	9,372,690	6,283,531	-	-	-	6,283,531
<b>Split of common shares at the Exchange Ratio</b>	1,9	303,756,515	-	-	-	-	-
<b>Warrants issued</b>	10	-	-	309,613	-	-	309,613
<b>Derivative liability reclassified to contributed surplus</b>	8	-	-	-	2,146,000	-	2,146,000
<b>Common shares issued in Reverse Takeover Transaction ("RTO")</b>	1, 9	12,916,499	2,152,750	-	-	-	2,152,750
<b>Stock options issued in RTO</b>	1, 9	-	-	-	62,000	-	62,000
<b>Stock based compensation</b>	9	-	-	-	1,407,000	-	1,407,000
<b>Balance, as at December 31, 2022</b>		403,460,590	\$ 13,265,001	\$ 686,982	\$ 3,729,760	\$ (14,730,284)	\$ 2,951,459

(1) As at January 1, 2021, these shares include 250,000 common shares that were presented as a liability.

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

## Maritime Launch Services Inc. Consolidated Statements of Cash Flows

For the years ended December 31	2022	2021
<b>Cash flows used in operating activities</b>		
Loss and comprehensive loss for the year	\$ (7,450,698)	\$ (4,317,406)
Adjustments for:		
Amortization	34,317	11,249
Interest and accretion expense	471,113	515,517
Stock-based compensation	1,407,000	114,760
Loss on extinguishment of convertible debentures	206,256	-
Derivative liability - fair value adjustment	(1,075,000)	1,574,000
Listing expenses	2,242,404	-
Issuance of warrants for services	47,081	-
Issuance of shares for services	-	370,000
Issue costs related to derivative liability expense	-	1,931
	<u>(4,117,527)</u>	<u>(1,729,949)</u>
Changes in non-cash working capital balances		
Trade and other receivables	-	1,560
Sales tax receivable	(1,091)	(252,084)
Prepaid expenses and deposits	(80,346)	(42,440)
Accounts payable and accrued liabilities	(146,144)	39,437
	<u>(227,581)</u>	<u>(253,527)</u>
	<u>(4,345,108)</u>	<u>(1,983,476)</u>
<b>Cash flows provided by (used in) investing activities</b>		
Purchase of land and equipment	(5,836)	(109,400)
Costs incurred for spaceport under construction	(3,220,570)	(2,646,157)
Cash assumed on RTO	67,953	-
Decrease in restricted cash	3,942,923	(3,942,923)
Purchase of guaranteed investment certificates	-	(100,000)
	<u>784,470</u>	<u>(6,798,480)</u>
<b>Cash flows provided by financing activities</b>		
Increase in subscription receipts payable	-	3,942,923
Repayment to shareholders	-	(313,457)
Payment on lease liabilities	(60,341)	(2,556)
Repayment of long-term debt	-	(620,000)
Proceeds from issuance of convertible debentures	-	7,500,000
Costs incurred related to issuance of convertible debentures	-	(594,854)
Proceeds from issuance of subscription receipts	3,086,045	-
Proceeds from issuance of common shares, net of issuance costs	-	3,000,000
Costs incurred related to issuance of subscription receipts	(482,905)	(240,929)
	<u>2,542,799</u>	<u>12,671,127</u>
<b>Increase (decrease) in cash during the year</b>	<b>(1,017,839)</b>	<b>3,889,171</b>
<b>Cash, beginning of year</b>	<b>3,889,221</b>	<b>50</b>
<b>Cash, end of year</b>	<b>\$ 2,871,382</b>	<b>\$ 3,889,221</b>

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

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 1. Nature of Business

Maritime Launch Services Inc. (the "Company"), formerly Jaguar Financial Corporation ("Jaguar"), was incorporated under the Business Corporations Act (Ontario) and previously a Canadian merchant bank generally making investments in certain targeted companies. On April 1, 2022, the Company completed a reverse takeover (the "RTO Transaction" or "RTO") with Maritime Launch Services Ltd. ("MLS") and changed its name to Maritime Launch Services Inc.

As described below, the Company completed the acquisition of MLS through an acquisition agreement whereby the Company acquired all of the issued and outstanding shares of MLS on April 1, 2022, with the former shareholders of MLS obtaining control of the Company.

MLS was incorporated under the Companies Act of Nova Scotia. MLS is in the process of constructing and operating Canada's first commercial spaceport ("Spaceport") for launching satellites into low earth orbit.

Following the RTO Transaction, the Company is controlled by MLS, and as such, the transaction is accounted for as a reverse takeover of the Company by MLS for accounting purposes.

The historical figures presented in these consolidated financial statements represent those of MLS and its subsidiary. The acquired assets and liabilities and results of operations and cash flows of Jaguar are reflected only for periods from the acquisition date of April 1, 2022.

On April 27, 2022, the Company's shares were listed and commenced trading on the NEO Exchange under the symbol "MAXQ" ("Going Public Transaction"). On August 23, 2022, the Company received approval to trade on the OTCQB Venture Market under the symbol "MAXQF." The address of the Company's registered head office is 1 Adelaide Street East, Suite 801, Toronto, Ontario, M4C 2V9.

#### Reverse Takeover Transaction

On April 1, 2022, the Company (Jaguar at the time) acquired all of the issued and outstanding securities of MLS in exchange for the issuance of securities of Jaguar, which resulted in MLS becoming a wholly-owned subsidiary of Jaguar.

As consideration for the acquisition, each issued and outstanding common share of MLS was cancelled and replaced with 4.5 common shares of Jaguar (the "Exchange Ratio"). Further, each option or warrant issued by MLS was exchanged for a corresponding option or warrant of Jaguar on substantially the same economic terms and conditions as the original option or warrant issued on the Exchange Ratio.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 1. Nature of Business (Continued)

Following completion of the RTO Transaction, the Company had 403,460,590 common shares issued and outstanding on a non-diluted basis with existing shareholders of Jaguar holding approximately 3% and MLS shareholders holding approximately 97% of the outstanding shares of the Company. As a result, the transaction is considered a reverse takeover of Jaguar by MLS. For accounting purposes, MLS is considered the acquirer and Jaguar the acquiree.

Jaguar's activities prior to the acquisition were limited to management of cash resources, and accordingly, did not constitute a business. As a result, the RTO Transaction is considered to be outside the scope of IFRS 3, *Business Combinations*, and has been accounted for as an asset acquisition. Since MLS granted equity instruments as consideration for the acquisition, the arrangement has been accounted for under IFRS 2, *Share-based Payments*; accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by MLS to Jaguar. The share capital, reserves, and deficit of Jaguar at the time of the RTO Transaction have been eliminated against the fair value of the consideration and the difference has been recognized as a listing expense in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2022. The capital structure recognized in the consolidated statement of financial position is that of the Company, but the dollar amount of the issued share capital prior to the RTO is that of MLS, including the value of the shares issued prior to the RTO Transaction.

In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity that the legal subsidiary, being MLS, would have issued to the legal parent entity, being Jaguar, for the shareholders of Jaguar to obtain the same percentage interest of approximately 3% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measure being the market price per share from a recent MLS private placement to third party market participants.

The excess of the fair value of the RTO Transaction consideration to Jaguar over the fair value of the assets and liabilities of Jaguar acquired by MLS at April 1, 2022 is as follows:

Fair value of consideration issued:	
MLS common shares issued (1)	\$ 2,152,750
Jaguar options assumed (2)	62,000
	<hr/>
	\$ 2,214,750
Fair value of net assets (liabilities) acquired:	
Cash (3)	\$ 67,953
Accounts payable and accrued liabilities (3)	(95,607)
Listing expenses	2,242,404
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	\$ 2,214,750

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 1. Nature of Business (Continued)

(1) This is calculated based on the number of Jaguar shares outstanding of 12,916,499 multiplied by the observable fair value of MLS's common shares, being the market price of \$0.167 (on a post RTO Transaction basis) based on the most recent MLS private placement to third party market participants.

(2) The fair value of Jaguar's 1,010,039 outstanding options has been estimated at \$62,000 using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.00%
Expected volatility	90%
Expected dividend yield	0%
Expected forfeiture rate	0%
Fair value of resulting issuer common share	\$0.167
Exercise price	\$0.125
Estimated life	0.50 years

(3) The carrying value of Jaguar's assets and liabilities have been assumed to approximate their fair values, due to their short-term nature.

(4) A listing expense of \$2,242,404 has been included in the consolidated statement of loss and comprehensive loss to reflect the difference between the fair value of the amount paid and the fair value of the net assets received from Jaguar. In addition to listing expense noted above, the Company also incurred cash listing expenses of \$460,467, which have been recorded as professional service expenses.

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## **Maritime Launch Services Inc. Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

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### **2. Going Concern**

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information, which is at least, but is not limited to, twelve months from the end of the reporting period.

At December 31, 2022, the Company had no source of operating cash flow. Operations have been funded from the issuance of share capital and convertible debentures and as such, the Company's ability to continue as a going concern is dependent upon the ability to obtain financing to be able to secure adequate bonding for future projects. It is not possible at this time to predict the outcome of these matters. The Company incurred a net comprehensive loss of \$7,450,698 for the year ended December 31, 2022 (2021 - \$4,317,406). As a result, there is material uncertainty that may cast significant doubt as to whether the Company will have the ability to continue as a going concern.

These consolidated financial statements do not reflect the material adjustments to carrying values of assets and liabilities, and the reported expenses, that would be necessary if the going concern assumption was inappropriate.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 3. Significant Accounting Policies

#### **Basis of Consolidation**

The consolidated financial statements of the Company include the accounts of Maritime Launch Services Ltd., a wholly owned subsidiary incorporated in Nova Scotia, and Maritime Launch USA Inc., a wholly owned subsidiary incorporated in Delaware U.S. in November 2021. All transactions and balances between these companies have been eliminated on consolidation.

#### **Basis of Preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board ("IASB") of the International Financial Reporting Standards Interpretation Committee ("IFRIC") (collectively "IFRS").

The preparation of consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in the notes to follow.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 23, 2023.

#### **Basis of Measurement**

These consolidated financial statements have been prepared on the historical cost basis unless otherwise stated in the accounting policy or note disclosures to follow.

#### **Foreign Currency**

##### *Functional and Presentation Currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). These consolidated financial statements are presented in Canadian Dollars ("CDN"), which is also the functional currency for the Company and its subsidiaries.

##### *Foreign Currency Transactions*

Transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the closing rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **3. Significant Accounting Policies (Continued)**

#### **Financial Instruments**

The Company initially recognizes all financial instruments on the date the Company becomes a party to the contractual provisions of the instrument.

All financial instruments are originally recognized at fair value. Depending on classification, financial instruments are subsequently measured at either fair value or amortized cost. Fair value is determined as explained in Note 15.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The following sections identify the Company's financial assets and liabilities and how they are classified:

#### ***Financial Assets***

The Company classifies its financial assets into one of the categories below depending on the business model in which they are held and the characteristics of their contractual cash flows.

#### ***Financial Assets at Amortized Cost***

Financial assets at amortized costs incorporate financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Financial assets at amortized cost comprise of cash, restricted cash and short-term investments.

#### ***Financial assets at Fair Value through Other Comprehensive Income ("FVTOCI")***

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVTOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis.

#### ***Financial Assets at Fair Value through Profit or Loss ("FVTPL")***

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **3. Significant Accounting Policies (Continued)**

#### ***Financial Liabilities***

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are initially recognized at fair value and, in the case of other financial liabilities, plus directly attributable transaction costs.

The Company's derivative liability was accounted for at fair value through profit or loss.

#### ***Other Financial Liabilities***

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized as well as through the amortization process.

The following are classified as other financial liabilities: accounts payable and accrued liabilities, subscription receipts payable, and the liability component of convertible debentures.

#### **Internally Generated Intangible Assets (Development Costs)**

Expenditure on internally developed products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalized development costs are amortized over the periods the Company expects to benefit from selling the products developed. The amortization expense is included within the administration expenses in the consolidated statements of loss and comprehensive loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the consolidated statements of loss and comprehensive loss as incurred. To date, no expenditures have met the requirements for capitalization.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 3. Significant Accounting Policies (Continued)

#### Spaceport Under Construction and Equipment

Equipment is measured at historical cost, less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Equipment is amortized over its estimated useful life of the asset calculated as follows:

	Basis	Rate
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss and comprehensive loss in the period the asset is derecognized.

#### *Spaceport under Construction*

Initial costs related to the spaceport under construction are capitalized when they meet the criteria in IAS 16 Property, Plant & Equipment ("IAS 16") which are (a) it is probable the future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably. To date, the costs have been directly attributable costs related to initial site preparation and are measured at their fair value. The cost model is being used to account for the spaceport under construction. Depreciation will commence when the spaceport is available for use. The Company capitalizes the proportionate cost of general borrowings, which are the convertible debentures, to the spaceport under construction. Land has been determined to have an indefinite life and will not be depreciated.

#### **Convertible Debentures**

On issuance of convertible debentures, the Company analyzes the terms to determine whether the conversion features represent equity or a derivative liability. Where the convertible debentures provide the holder with an option to convert into a variable number of common shares, the conversion feature is accounted for as a derivative liability, fair valued on the issuance date with the residual allocated to the liability component. Where the convertible debentures provide the holder with an option to convert into a fixed number of common shares for a fixed amount of consideration, the Company fair values the liability component at the time of issuance and the residual is recorded as equity. Modifications of the terms of convertible debentures are analyzed in accordance with IFRS 9, *Financial Instruments* ("IFRS 9"), and accounted for as an extinguishment of the original financial liability, including the related derivative liability, and recognition of a new financial liability and derivative liability, where appropriate, where the modification is determined to be substantial.

See Note 8 for details of the accounting for the convertible debentures which were modified during 2022.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **3. Significant Accounting Policies (Continued)**

#### **Leases**

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives removed. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset, or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the consolidated statements of loss and comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

#### **Income Taxes**

##### *Current Income Taxes*

Current income taxes 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 current income taxes 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.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 3. Significant Accounting Policies (Continued)

#### *Deferred Income Taxes*

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except for taxable temporary differences arising on the initial recognition of temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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 taxes assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date.

Current and deferred tax is recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

#### **Stock Based Compensation**

The Company grants common stock options to its employees, officers, directors and advisors under its stock option plan. Stock-based compensation plans are accounted for on a fair value basis.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model which determines volatility based on comparable publicly traded companies' volatility for a similar term as the expected life of the options.

Options and shares granted to non-employees in exchange for services are valued at the fair value of the services incurred by the Company, unless the fair value cannot be estimated reliably, in which case the services are valued based on the fair value of the equity instruments granted.

Stock based compensation costs, measured at grant date based on the fair value of all options granted and recognized over the service period involved, are recorded as expenses on the consolidated statements of loss and comprehensive loss and credited to contributed surplus. The consideration paid by holders upon exercise of the options and the estimated fair value of the options exercised are added to share capital.

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## **Maritime Launch Services Inc. Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

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### **3. Significant Accounting Policies (Continued)**

#### **Share Capital**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **Loss per Share**

Basic loss per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common stock outstanding during the year.

Diluted loss per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stock outstanding, adjusted for the effects of all dilutive potential common stock. The weighted average number of common stock outstanding is increased by the number of additional common stock that would have been issued by the Company assuming exercise of all options and equity instruments with exercise prices below the average market price for the year. The effect on diluted loss per share of the exercise of stock options and warrants described in Note 9 and Note 10 would be anti-dilutive.

#### **New Standards, Interpretations, and Amendments**

a) New Standards, Interpretations, and Amendments Effective Beginning January 1, 2022:

The following amendments are effective beginning January 1, 2022:

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-20 (Amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3)

None of the above amendments impact the Company for the year ended December 31, 2022.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 3. Significant Accounting Policies (Continued)

#### New Standards, Interpretations, and Amendments (Continued)

b) New Standards, Interpretations, and Amendments Not Yet Effective:

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

### 4. Critical Accounting Estimates and Judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Estimates

##### *Convertible Debentures*

During Fiscal 2021, the Company issued convertible debentures that were accounted for as a hybrid financial instrument due to the fact that the convertible debentures were convertible into a variable number of common shares such that there were liability and derivative liability components. On issuance the financial instrument was bifurcated by evaluating the fair value of the derivative liability component and the residual was assigned to the host financial liability. The fair value of the derivative liability was determined using the Barrier Option Model on issuance and at each reporting date through to December 31, 2021 (refer to Note 15). Significant judgment was required to estimate the fair value of the common share and the probability of a going public transaction.

On April 1, 2022, the Company amended the terms of the convertible debentures (the “Amended Convertible Debentures”) as a part of its RTO Transaction (refer to Notes 1, 8). The amendment was accounted for as an extinguishment in accordance with IFRS 9. Estimation was required to determine the fair value of the amended convertible debentures and related derivative liability at the time of recognition. The Company measured the derivative liability using the Barrier Option Model based on the fair value of the common shares as evidenced by the Reverse

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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#### **4. Critical Accounting Estimates and Judgements (Continued)**

Takeover transaction that closed on April 1, 2022. The difference between the fair value of the common shares and the exercise price (the intrinsic value) and the number of shares into which the convertible debenture would convert, if converted, was the basis for the fair value determination on that date. On April 27, 2022, the date that the Company became a listed company, the number of shares into which the convertible debenture would convert was fixed such that the derivative liability no longer existed. The fair value of the derivative liability was determined using the Barrier Option Model at that date.

##### *Shares Issued in Exchange for Services*

The Company has issued common shares in exchange for services received. In accordance with IFRS 2, in most instances such shares must be valued as the fair value of the services received. Significant judgment is required to determine the fair value of the services, which can include a comparison to similar services received which were settled in cash.

##### *Depreciation and Amortization*

Depreciation and amortization methods for equipment and right of use assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these judgments are based on industry standards, manufacturers' guidelines and Company specific history and experience.

##### *Stock Based Compensation and Share Based Payments*

Estimating fair value for share-based payment transactions requires judgment in determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires estimation of the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility, dividend yield and share price.

##### *Determination of Incremental Borrowing Rate*

When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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#### **4. Critical Accounting Estimates and Judgments (Continued)**

##### **Judgments**

###### *Reverse Takeover Transaction*

The determination of the accounting acquirer, whether the acquired entity is a business and the fair value of the consideration transferred required considerable judgment (Note 1).

###### *Amendment of Convertible Debentures*

Judgment was required to determine whether the amendment discussed in the Estimates represented a significant modification that should be accounted for as an extinguishment of the original financial liability by estimating the present value of the amended liability, using the original effective interest rate, and comparing to the carrying value of the original liability at the amendment date to determine whether the 10% quantitative test was met.

###### *Income Taxes*

Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

###### *Capitalization of Property and Equipment*

The capitalization of property and equipment under IFRS is based on management's judgment as to whether all criteria under IAS 16 have been met. Significant judgment is required to assess whether expenditures should be capitalized, particularly with regards to the assessment of the point in time when it becomes probable that the property and equipment under construction will generate future economic benefits that will ultimately flow into the Company.

#### **5. Short-Term Investments**

During the year ended December 31, 2021, the Company obtained two one-year cashable guaranteed investment certificates ("GICs") from the Royal Bank of Canada, each in the amount of \$50,000, bearing interest at 0.4% per annum, maturing May 20, 2022 and September 29, 2022 respectively. Each GIC was renewed on maturity for another one-year period, bearing interest at 1.25% and 2.00% per annum, maturing May 20, 2023 and September 29, 2023, respectively. The GICs have been recorded as short-term investments.

**Maritime Launch Services Inc.**  
**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**6. Land, Spaceport under Construction and Equipment**

**Cost**

	<b>Land</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>Spaceport under Construction</b>	<b>Total</b>
January 1, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	80,012	13,833	15,556	3,055,350	<b>3,164,751</b>
December 31, 2021	80,012	13,833	15,556	3,055,350	<b>3,164,751</b>
Additions	-	2,019	3,817	4,898,620	<b>4,904,456</b>
<b>December 31, 2022</b>	<b>\$ 80,012</b>	<b>\$ 15,852</b>	<b>\$ 19,373</b>	<b>\$ 7,953,970</b>	<b>\$ 8,069,207</b>

**Accumulated Depreciation**

	<b>Land</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>Spaceport under Construction</b>	<b>Total</b>
January 1, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	2,882	1,296	-	<b>4,178</b>
December 31, 2021	-	2,882	1,296	-	<b>4,178</b>
Depreciation	-	5,031	3,369	-	<b>8,400</b>
<b>December 31, 2022</b>	<b>\$ -</b>	<b>\$ 7,913</b>	<b>\$ 4,665</b>	<b>\$ -</b>	<b>\$ 12,578</b>

**Carrying Amount:**

	<b>Land</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>Spaceport under Construction</b>	<b>Total</b>
January 1, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
December 31, 2021	\$ 80,012	\$ 10,951	\$ 14,260	3,055,350	<b>\$ 3,160,573</b>
December 31, 2022	\$ 80,012	\$ 7,939	\$ 14,708	\$ 7,953,970	<b>\$ 8,056,629</b>

During the year ended December 31, 2022, the Company capitalized borrowing costs of \$978,000 (2021 - \$147,823).

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 7. Right-of-Use Assets and Lease Liabilities

(a) The following table presents the right-of-use assets for the Company:

	<b>2022</b>	2021
Balance, January 1	\$ 93,494	\$ -
Additions	143,646	100,565
Depreciation	(25,917)	(7,071)
<b>Balance, December 31</b>	<b>211,223</b>	<b>\$ 93,494</b>

The Company's leases are for office space, a vehicle, and land for operating and developing the Spaceport. The initial terms of the leases were 5.3 years, 5 years, and 20 years (with a renewal term of a further 20 years), respectively. The Company has estimated an annual incremental borrowing rate of 18% on the office space and 17% on the land. The annual borrowing rate specified in the vehicle lease agreement was 8%. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option. The land lease can be cancelled by either the lessee or the lessor by providing 60 days written notice to the other party, and the annual rent is subject to adjustments by the lessor from time to time.

(b) The following table presents the lease liabilities for the Company:

	<b>2022</b>	2021
Balance, January 1	\$ 105,742	\$ -
Additions	143,646	100,565
Payments	(60,341)	(2,556)
Interest incurred	17,742	7,733
<b>Balance, December 31</b>	<b>\$ 206,789</b>	<b>\$ 105,742</b>
Current	32,625	13,150
Non-current	174,164	92,592
<b>Total</b>	<b>\$ 206,789</b>	<b>105,742</b>

(c) The following table presents the contractual undiscounted cash flows for lease liabilities as December 31:

	Total Undiscounted Lease Payments	
	<b>2022</b>	2021
Less than one year	\$ 56,744	\$ 30,674
Beyond one year	639,103	128,504
<b>Total undiscounted lease payments</b>	<b>\$ 695,847</b>	<b>\$ 159,178</b>

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **8. Convertible Debentures**

#### *Issuance of Convertible Debentures*

On May 7, 2021, the Company issued unsecured convertible debentures for proceeds of \$7,500,000 that bear interest at 4% per annum, calculated, accruing, and compounded annually with principal and interest initially due on May 7, 2022 or such later date as may be mutually agreed. The debentures were initially convertible into common shares at a price of \$0.75 per share (\$0.167 on a post RTO basis) on demand at any time by the holder and the debentures will convert at the election of the Company in the event of a Going Public Transaction where either (a) the Company has raised not less than \$10M in equity at a price of not less than \$1.00 per common share (\$0.2222 on a post RTO basis) or (b) the common shares trade at over \$1.00 (\$0.2222 on a post RTO basis) for 10 consecutive trading day on a recognized exchange. In the event the Company did not complete a Going Public Transaction prior to December 31, 2021, the conversion price would be adjusted such that upon conversion the Company shall issue an additional 10% of the number of common shares, and a further 1% per month thereafter. Therefore, if the Company did not complete a Going Public Transaction, at the end of each month the conversion price would be adjusted such that upon conversion the Company shall issue an additional 1% of the number of common shares.

The conversion feature that provided the holder with the option to convert the debentures into common shares based on a price that is adjusted in the event that a Going Public Transaction did not occur by December 31, 2021 resulted in the conversion being accounting for as a Derivative Liability as a variable number of shares will be issued in the event of conversion. As a result, the convertible debenture was initially treated as a hybrid financial instrument. The liability component was initially accounted for as an Other Financial Liability and an effective interest rate of 15.7% was used to accrete the liability component.

#### *Issuance of Amended Convertible Debentures*

On March 29, 2022, the Company amended the terms of the convertible debentures, which were made in contemplation of the closing of the Reverse Takeover (Note 1). The conversion price applicable to the debentures was amended from \$0.75 (\$0.167 on a post RTO basis) per common share to \$0.1475 per common share to reflect the impact and timing of the RTO transaction. The maturity date of the debenture was extended by one year to May 7, 2023. The convertible debentures are convertible at the option of the holder at any time up to and including the maturity date. At the election of the Company, the principal amount and any accrued interest outstanding on the debentures will convert into common shares at the conversion price if (a) a Going Public Transaction (i.e.; becoming a listed company) has occurred; and (b) either the Company has raised not less than \$10 million in equity at a price not less than \$0.2222 per common share, or the Common shares trade at over \$0.2222 per share for 10 consecutive trading days on a recognized exchange. If the Company did not complete a Qualified Transaction on or prior to April 30, 2022, then, at that date and at the end of each month thereafter, if the Company did not complete a Qualified Transaction, the Conversion Price was adjustable such that upon conversion the Company shall issue an additional 1% of the number of common shares.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **8. Convertible Debentures (Continued)**

The amendments were determined to be significant modifications of the original terms of the convertible debentures; accordingly, the modification was accounted for as an extinguishment on April 1, 2022. The original convertible debentures' liability and derivative liability components were derecognized and the Amended Convertible Debentures' liability and derivative liability components were recorded at fair value resulting in a loss on extinguishment of \$206,256 recognized in the consolidated statement of loss and comprehensive loss.

The derivative liability was measured on the date of extinguishment based on the difference between the fair value of the Company's common shares and the exercise price (the intrinsic value), quantified based on the number of common shares into which the convertible debentures would convert, if converted. On the date of amendment, the derivative liability was measured using a Barrier Option Model with the following inputs: share price of \$0.167, exercise price of \$0.1475, barrier price of \$0.2222, term of 1.10 years, volatility of 90% and a risk-free rate of 1.91%.

The liability component was fair valued based on a market interest rate for a debt instrument with the same rights, but no conversion feature. It is being accounted for as an Other Financial Liability and an effective interest rate of 25% is being used to accrete the liability component.

There were no additional costs incurred or received as a part of the amendments to the convertible debentures.

*Going Public Transaction occurred April 27, 2022 such that number of common shares issuable on conversion of Amended Convertible Debentures was fixed*

The conversion feature that provided the holder with the option to convert the Amended Convertible Debentures into common shares based on a price that was to be adjusted in the event that a Going Public Transaction did not occur by April 30, 2022 resulted in the conversion feature being accounting for as a Derivative Liability at the time of issuance. As at April 27, 2022 and upon the closing of the Going Public Transaction, the number of shares into which the Amended Convertible Debentures converts was fixed such that there is no longer a derivative liability.

The derivative liability component was fair valued using the Barrier Option Model immediately prior to April 27, 2022, at which time it was reclassified to contributed surplus. The following inputs were utilized in the Barrier Option Model:

Share price	\$0.1500
Exercise price	\$0.1475
Barrier price	\$0.2222
Term	1.02 years
Volatility	90%
Risk-free interest rate	2.38%

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 8. Convertible Debentures (Continued)

The following table outlines the continuity of the convertible debentures, derivative liability and contributed surplus for the year ended December 31, 2022 and December 31, 2021:

	Convertible Debentures	Contributed Surplus	Derivative Liability
Proceeds from issuance of unsecured convertible debentures	\$ 7,500,000	\$ -	\$ -
Cash issuance costs	(594,854)	-	-
Fair value of warrants issued attributable to convertible debentures	(153,784)	-	-
Fair value attributed to derivative liability component	(93,000)	-	93,000
Residual value attributable to financial component	6,658,362	-	93,000
Accrued interest at 4%	175,000	-	-
Fair value adjustment – derivative liability component	-	-	1,574,000
Accretion of discount	474,645	-	-
<b>Balance at December 31, 2021</b>	<b>7,308,007</b>	<b>-</b>	<b>1,667,000</b>
Accrued interest at 4%	75,000	-	-
Accretion of discount	217,257	-	-
Change in fair value of derivative liability	-	-	(657,000)
Balance immediately prior to extinguishment	7,600,264	-	1,010,000
Extinguishment of convertible debentures	(7,600,264)	-	(1,010,000)
Recognition of amended convertible debentures	6,252,520	-	2,564,000
Change in fair value of derivative liability	-	-	(418,000)
Reclassify derivative liability to contributed surplus	-	2,146,000	(2,146,000)
Accrued interest at 4%	225,000	-	-
Accretion of discount of amended convertible debentures	914,114	-	-
<b>Balance at December 31, 2022</b>	<b>\$ 7,391,634</b>	<b>\$ 2,146,000</b>	<b>\$ -</b>

Unless the Amended Convertible Debentures are converted into common shares prior to maturity, the principal balance of \$7,500,000 and all accrued interest at 4% per annum is due on May 7, 2023.

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 9. Share Capital

#### Authorized

An unlimited number of shares without par value of the following classes:

Common shares voting and participating.

#### (a) Issued and outstanding shares

The following table provides a continuity of share capital as presented in these consolidated financial statements:

	MLS Common Shares		Company Common Shares	
	Number <sup>(1)</sup>	Amount	Number	Amount
Balance as at December 31, 2020	62,754,840	\$ 641,900	-	\$ -
Shares issued in exchange for cash (net of issuance costs)	12,000,000	2,696,785	-	-
Shares issued in exchange for services	1,500,000	370,000	-	-
Shares issued to settle liabilities	660,046	495,035	-	-
Shares issued for prepaid services	500,000	375,000	-	-
Shares reclassified from liability	-	250,000	-	-
Balance as at December 31, 2021	77,414,886	\$ 4,828,720	-	\$ -
Shares issued in exchange for cash (net of issuance costs)	9,372,690	6,283,531	-	-
Share for share exchange in RTO Transaction	(86,787,576)	(11,112,251)	390,544,091	11,112,251
Share capital of the Company at the date of the Reverse Takeover	-	-	12,916,499	2,152,750
<b>Balance as at December 31, 2022</b>	<b>-</b>	<b>\$ -</b>	<b>403,460,590</b>	<b>\$ 13,265,001</b>

(1) As at December 31, 2020, the balances include Class B common shares that were converted into common shares on August 9, 2021.

Between April 19, 2021 and May 5, 2021, MLS issued 12,000,000 common shares to various individuals for cash consideration of \$3,000,000. MLS incurred cash share issuance costs of \$240,929 and non-cash of \$62,286 (related to warrants issued).

On July 15, 2021, MLS issued 1,500,000 common shares to a non-employee shareholder in exchange for services received. These shares were measured at \$370,000, being the fair value of the services received by MLS.

On August 9, 2021, a special resolution was passed by MLS to convert the Class B common shares into common shares. On the same date, these Class B common shares were deleted from MLS's authorized capital.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **9. Share Capital (Continued)**

During October and November 2021, the Company settled liabilities to two shareholders in the amount of \$495,035 through the issuance of 660,046 common shares on November 4, 2021.

Pursuant to the RTO Transaction and on December 30, 2021, MLS issued 5,256,025 subscription receipts (the "Subscription Receipts") for gross proceeds of \$3,941,469 and on January 12, 2022, the Company issued 4,116,665 additional Subscription Receipts for gross proceeds of \$3,087,499 for a total issuance of 9,372,690 Subscription Receipts for aggregate gross proceeds of \$7,028,968. On March 31, 2022, the Subscription Receipts were converted on a one for one basis into common shares of MLS, resulting in the issuance of 9,372,690 common shares (the "Equity Financing"). Pursuant to the closing of the Equity Financing on March 31, 2022, MLS was obligated to pay finders fees of \$457,905 (the "Finders Fees") and incurred other professional fees related to the Equity Financing of \$25,000. In addition to the Finders Fees, MLS issued 610,540 finders warrants (the "Finders Warrants") (Note 10) which have been valued at \$262,532. The Finders Fees, professional fees, and the Finders Warrants have been recorded as share issue costs.

Effective April 1, 2022, the Company's share capital was consolidated at the Exchange Ratio resulting in 390,544,091 common shares issued and outstanding at the time of the RTO Transaction (Note 1).

#### **(b) Stock option plan**

The Company has established a stock option plan. Under the plan, eligible directors, key employees, and consultants of the Company are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted. The Board is also authorized to determine the terms of the grant including the time or times when each option shall vest, the duration of the exercise period, and any performance vesting or other exercise conditions. The Board may make available a number of common shares it considers appropriate, not exceeding 10% of the common shares outstanding from time to time. In the event of a Going Public transaction, the Board may, in its sole and absolute discretion, permit the exercise prior to the Going Public transaction of any or all options held by optionees which are not by their terms exercisable in the manner and on the terms authorized by the Board.

The weighted average fair value of options granted during the year ended December 31, 2022 was \$0.106 (2021 - \$0.07) per option on a post-RTO basis and excluding the Jaguar options assumed, estimated using the Black-Scholes option pricing model. The expected life of the options is equivalent to the life of the options granted. Expected volatility is estimated based on historical price volatility for comparable publicly traded companies over terms consistent with the expected life. The stock options granted during the year ended December 31, 2022 vest based on a combination of certain performance and service obligations.

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

### December 31, 2022 and 2021

#### 9. Share Capital (Continued)

The following assumptions were used to estimate the fair value of the options granted in the years ended December 31, 2022 and December 31, 2021:

	2022	2021
Share price (post RTO basis)	<b>\$0.14 - \$0.167</b>	\$0.056 - \$0.167
Exercise price (post RTO basis)	<b>\$0.167</b>	\$0.167
Expected price volatility	<b>90%</b>	91%
Expected option life	<b>5 years</b>	5 years
Expected dividend yield	<b>0%</b>	0%
Risk-free interest rate	<b>1%</b>	1%
Forfeiture rate	<b>0%</b>	0%

The following table presents the stock option activity, after converting for the Exchange Ratio, for the years ended December 31:

	2022		2021	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, January 1	13,950,000	0.167	-	-
Transactions during the year:				
Granted	18,450,000	0.167	13,950,000	0.167
Jaguar's options assumed in connection with RTO Transaction	1,010,039	0.125	-	-
Forfeited	(3,375,000)	0.167	-	-
Expired	(1,010,039)	0.125	-	-
Outstanding, December 31	<b>29,025,000</b>	<b>0.167</b>	13,950,000	0.167
Exercisable, December 31	<b>8,100,000</b>	<b>0.167</b>	112,500	0.167

Certain options granted during the years ended December 31, 2022 and 2021 are subject to certain performance vesting conditions. The performance condition is generally that they are exercisable upon the Spaceport becoming operational. The weighted average remaining contractual life as at December 31, 2022 is 4.01 years (2021 – 4.70 years).

At December 31, 2022, 11,321,059 stock options remained available for future grants pursuant to the Company's stock option plan.

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 10. Warrants

Warrant activity, after converting for the Exchange Ratio, for the years ended December 31, 2022 and 2021 was as follows:

	2022		2021	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, January 1	20,430,000	0.087	13,500,000	0.078
Transactions during the period:				
Adjustment pursuant to the RTO	409,500	0.147	-	-
Granted	2,810,430	0.164	6,930,000	0.106
Outstanding, end of period	23,649,930	0.095	20,430,000	0.087
Exercisable, end of period	23,649,930	0.095	20,430,000	0.087

As a result of the Company completing its listing on the NEO Exchange on April 27, 2022, the Company completed its Going Public Transaction. As a result, all of the warrants that have been issued expire 3 years from the Going Public Transaction on April 26, 2025.

During the year ended December 31, 2021 and in conjunction with the issuance of convertible debentures and the common shares (Note 8), MLS issued a total of 6,930,000 warrants to the finders. 3,780,000 warrants were issued with an exercise price of \$0.056 and 3,150,000 warrants were issued with an exercise price of \$0.1667. The fair value of the warrants was estimated to be \$218,000. The weighted average fair value of the warrants issued was estimated to be \$0.033 per warrant on a post RTO basis, estimated using the Black-Scholes option pricing model. The following assumptions were used:

Grant date share price	\$0.056
Exercise price	\$0.056 and \$0.1667 as described above
Expected price volatility	101%
Expected warrant life	3.5 years
Expected dividend yield	0%
Risk-free interest rate	0.8%

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 10. Warrants (Continued)

In conjunction with the Equity Financing (Note 9), on April 1, 2022, the Company issued a total of 2,747,430 Finders Warrants. These warrants were issued with an exercise price of \$0.1667. The estimated fair value of the warrants was determined to be \$0.096 per warrant, estimated using the Black-Scholes option pricing model and the total calculated value of the Finders Warrants of \$262,532 has been recorded as a share issue cost (Note 9).

In conjunction with the RTO Transaction (Note 1), on April 1, 2022, the Company issued 63,000 warrants to advisors with an exercise price of \$0.1667 and the total calculated value of \$47,081 has been recorded as professional fees.

On April 1, 2022 and as the result of an adjustment clause, an additional 409,500 warrants were issued having an exercise price of \$0.1475.

The estimated fair value of the warrants issued on April 1, 2022 was determined to be \$0.10 per warrant, calculated using the Black-Scholes option pricing model using the following assumptions:

Grant date share price	\$0.1667
Exercise price	\$0.1475 - \$0.1667
Expected price volatility	90% - 92%
Expected warrant life	3.0 years
Expected dividend yield	0%
Risk-free interest rate	0.8% - 1.00%

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 11. Income Taxes

- a) The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the reported income tax expense:

	2022	2021
Loss before income taxes	\$ (7,450,698)	\$ (4,317,406)
Combined basic federal and provincial tax rates	29.00%	29.00%
Expected income tax recovery	\$ (2,160,702)	\$ (1,252,048)
Fair value adjustment on derivatives	(207,829)	456,460
Listing expenses	650,297	-
Stock based compensation	408,030	29,838
Other non-deductible items	136,205	126,563
Share issue costs booked in equity	(140,043)	(199,946)
Capitalized accretion expenses	224,176	-
Book to filing adjustments and other	(108,319)	-
Change in tax benefits not recognized	1,198,185	839,133
Income tax expense	\$ -	\$ -

- b) The following table summarizes the components of deferred tax:

	2022	2021
<b>Deferred income tax assets</b>		
Lease liability	\$ 59,969	\$ 30,665
Non-capital losses	258,323	79,357
	<b>318,292</b>	<b>110,022</b>
<b>Deferred income tax liabilities</b>		
Spaceport under construction and equipment	(257,037)	(3,451)
Right-of-use asset	(61,255)	(27,113)
Convertible debentures	-	(79,458)
Deferred tax liabilities	<b>(318,292)</b>	<b>(110,022)</b>
<b>Net deferred income tax asset</b>	<b>\$ -</b>	<b>\$ -</b>

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 11. Income Taxes (Continued)

c) Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible approximate temporary differences:

	2022	2021
Share issue costs	<b>\$ 892,276</b>	\$ 1,150,485
Non-capital losses carried forward	<b>8,498,406</b>	4,101,556
	<b>9,390,682</b>	\$ 5,251,041

The non-capital loss carry forwards expire as noted in the table below. Share issue and finance costs will be fully amortized in 2026.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the unused tax losses can be utilized.

The Company's approximate non-capital losses, the benefit of which has not been recognized on the consolidated financial statements, expire as follows:

2038	\$	1,492,428
2039		1,381,236
2040		210,028
2041		2,399,971
2042		2,569,323
Indefinite		445,420
	\$	8,498,406

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 12. Related Party Balances and Transactions

(a) The Company has entered into the following transactions with related parties:

	2022	2021
<b>Operating expenses</b>		
Management fees to shareholders	\$ -	\$ 152,170
Interest expense to shareholders	\$ -	\$ 17,972
Management compensation attributable to the Chief Executive Officer and Chief Financial Officer	\$ 498,654	\$ 196,154
Director fees	\$ 190,000	\$ -
Non-cash stock based compensation attributable to the Chief Executive Officer, Chief Financial Officer and Directors	\$ 962,949	\$ 5,141

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

(b) At the end of the year, the balances with related parties are as follows:

	2022	2021
<b>Due to related parties</b>		
Management	\$ 19,000	\$ -
Directors	\$ 38,750	\$ -

These balances are payable on demand are unsecured and non-interest bearing.

On November 4, 2021, MLS settled liabilities due to two shareholders of \$495,035 through the issuance of 660,046 common shares which were measured at their fair value of \$0.75 per share (\$0.167 on a post RTO basis).

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 13. Capital Management Transactions

The Company has defined its capital as the aggregate of its convertible debentures and shareholder's equity. The Company's objectives when managing capital are to:

- (a) safeguard the Company's ability to continue as a going concern;
- (b) maintain appropriate cash reserves on hand to support continued operations and shareholder returns, generate benefits for its other stakeholders, and maintain the most optimal capital structure possible with a view to keeping capital costs to a minimum; and
- (c) invest cash on hand in highly liquid, highly rated financial instruments.

The Company's objectives and strategy described above have not changed since last year. These objectives and strategy are reviewed on a continuous basis.

Annual budgets are developed and monitored to ensure the Company's capital is maintained at an appropriate level. The Company monitors and assesses its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. The Company's capital is not subject to any externally imposed capital requirements.

### 14. Commitments

The Company has entered into a contract (the "Contract") with a supplier for the design, development, and documentation of certain technical elements of its Spaceport, pursuant to which it is committed to incur total capital expenditures of EURO €6,900,000. As of December 31, 2022 and pursuant to the Contract, the Company has made total payments of EURO €2,500,000, including EURO €1,200,000 during the year ended December 31, 2022, and is required to make the remaining payments as follows:

Year-ended	EURO €
2023	4,400,000

The Contract is with a supplier based in Dnipro, Ukraine.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 15. Financial Instruments and Risk Management

#### Fair Value Measurements

Fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal, and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions, and maturities. Inputs used in determining fair value measurements are categorized into three different levels based on how observable the inputs used in the valuation technique utilized are (the "fair value hierarchy"):

- Level 1: Quote prices in active markets for identified items;
- Level 2: Observable direct and indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs (i.e. not derived from market data).

The derivative liability (Note 8) represented a Level 3 fair value measurement. At the amendment date of the convertible debentures, the Company had measured the derivative liability using the Barrier Option Model based on the fair value of the common shares as evidenced by the Reverse Takeover transaction that closed on April 1, 2022. The difference between the fair value of the common shares and the exercise price (the intrinsic value) and the number of shares into which the convertible debenture would convert, if converted, was the basis for the fair value determination on that date.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of the derivative liability at issuance and for reporting periods thru until the completion of the Going Public Transaction, as well as the inter relationship between key unobservable inputs and fair value are set out below:

- Financial Instrument Valuation techniques used:
  - Barrier Option Model
- Significant unobservable inputs (Level 3 only):
  - Fair value of the Common Share
  - Probability of a Going Public Transaction
- Inter relationship between key unobservable inputs and fair value (Level 3 only):
  - Increases in the fair value of the Common share would increase the fair value while increases in the probability of a Going Public Transaction would decrease the fair value.

The fair value of all other financial instruments approximate their carrying amounts due to the relatively short period to maturity.

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### **15. Financial Instruments and Risk Management (Continued)**

#### **Risk Management**

The Company is exposed through its operations to the following financial risks:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk
  - i. Foreign exchange risk
  - ii. Interest rate risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

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

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

#### *(a) Credit Risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to cash, restricted cash, and short term investments.

The Company mitigates its risk by maintaining its funds with large reputable financial institutions, from which management believes the risk of loss to be minimal. The Company's management considers that all the above financial assets are of good credit quality.

## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

### 15. Financial Instruments and Risk Management (Continued)

(b) *Liquidity Risk*

Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities (Note 2). Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities, convertible debentures, lease liabilities and commitments. The Company limits its exposure to this risk by closely monitoring its cash flow.

The following table presents the contractual maturities of the liabilities as of:

**December 31, 2022**

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$ 1,080,614	\$ -	\$ -	\$ -	\$ -
Convertible debentures	7,975,000	-	-	-	-
Lease liabilities	56,744	59,299	53,131	44,173	482,500
	<u>\$ 9,112,358</u>	<u>\$ 59,299</u>	<u>\$ 53,131</u>	<u>\$ 44,173</u>	<u>\$ 482,500</u>

**December 31, 2021**

	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$ 806,101	\$ -	\$ -	\$ -	\$ -
Convertible debentures	7,675,000	-	-	-	-
Subscription receipts payable	3,942,923	-	-	-	-
Lease liabilities	30,674	30,906	33,462	33,462	30,674
	<u>\$ 12,454,698</u>	<u>\$ 30,906</u>	<u>\$ 33,462</u>	<u>\$ 33,462</u>	<u>\$ 30,674</u>

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## Maritime Launch Services Inc. Notes to Consolidated Financial Statements

**December 31, 2022 and 2021**

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### 15. Financial Instruments and Risk Management (Continued)

(c) *Market Risk*

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates and foreign exchange rates.

(i) *Foreign Exchange Risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets that are denominated in foreign currencies and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

The Company has liabilities that are payable in U.S. dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the U.S. dollar against the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$30,236 (2021 - \$1,924).

(ii) *Interest Rate Risk*

Interest rate risk is the risk that the value of financial assets and liabilities or future cash flows will fluctuate as a result of changes in market interest rates.

The Company currently does not have any short-term or long-term debt that is variable interest bearing and, as such, the Company's current exposure to interest rate risk is minimal.