

**Maritime Launch Services  
Inc.**

**Consolidated Financial  
Statements**

For the Years Ended December 31, 2023  
and December 31, 2022

## Independent Auditor's Report

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To the Shareholders of Maritime Launch Services Inc. :

### Opinion

We have audited the consolidated financial statements of Maritime Launch Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material 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, 2023 and December 31, 2022, 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 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2023 and December 31, 2022. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 7 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, and then amended again on May 8, 2023. The modification has been accounted for as an extinguishment of the existing convertible debenture and the issuance of a new convertible debenture.

Such assessment was based on quantitative assessment performed by management pursuant to the requirements of IFRS. The quantitative assessment required significant management's estimate on the appropriate discount rate that would be applicable to the Company. The determination of the discount rate was significant to our audit and therefore considered as a key audit matter.

On December 8, 2023, the Company closed a non-brokered private placement of convertible debentures, with gross proceeds of \$2.282 million. The Company exercised significant judgement when estimating the fair value of the hybrid instrument.

The determination of the fair value of the hybrid instrument was significant to our audit and considered a key audit matter due to the significance of their value and the degree of judgment and subjectivity in evaluating management's estimates.

### *Audit Response*

With the assistance of our internal valuation specialists, our audit procedures to assess the fair value of the debentures and conversion feature included, among others, an assessment of the methodology and the appropriateness of the valuation models used by management to value the instruments.

- 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 the Company's discount rates and its share price volatility.

## **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.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

*MNP LLP*

Toronto, Ontario

March 27, 2024

Chartered Professional Accountants

Licensed Public Accountants

**Maritime Launch Services Inc.**  
**Consolidated Financial Statements**  
For the Years Ended December 31, 2023, and December 31,  
2022

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

December 31	Notes	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 1,367,267	\$ 2,871,382
Short-term investment		30,000	100,000
Sales tax receivable		85,455	268,476
Prepaid expenses and deposits		122,090	122,786
<b>Total current assets</b>		<b>1,604,812</b>	<b>3,362,644</b>
Land, spaceport under construction, and equipment	5	12,627,210	8,056,629
Right-of-use assets	6	180,127	211,223
<b>Total assets</b>		<b>\$ 14,412,149</b>	<b>\$ 11,630,496</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,506,391	\$ 1,080,614
Current portion of lease liabilities	6	32,674	32,625
Convertible debentures	7	9,299,990	7,391,634
<b>Total current liabilities</b>		<b>12,839,055</b>	<b>8,504,873</b>
<b>Non-current liabilities</b>			
Lease liabilities	6	141,736	174,164
<b>Total liabilities</b>		<b>12,980,791</b>	<b>8,679,037</b>
<b>Shareholders' equity</b>			
Share capital	8	14,443,564	13,265,001
Warrants reserve	9	814,982	686,982
Contributed surplus		5,303,860	3,729,760
Deficit		(19,131,048)	(14,730,284)
<b>Total shareholders' equity</b>		<b>1,431,358</b>	<b>2,951,459</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 14,412,149</b>	<b>\$ 11,630,496</b>

Going Concern Uncertainty (Note 2)

Commitments (Note 13)

Subsequent Events (Note 15)

Approved on behalf of the Board:

(signed) Stephen Matier Director

(signed) Sasha Jacob Director

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

<b>For the years ended December 31</b>	<b>Notes</b>	<b>2023</b>	<b>2022</b>
<b>Operating expenses</b>			
Administration		\$ 473,408	\$ 377,448
Professional services		1,934,678	2,327,865
Stock based compensation	8	665,300	1,407,000
Amortization	5,6	37,548	34,317
Wages and salaries		1,478,474	1,567,313
Listing expenses	1	-	2,242,404
Fair value adjustment on derivatives	7(a)	-	(1,075,000)
<b>Loss from operations</b>		<b>(4,589,408)</b>	<b>(6,881,347)</b>
<b>Other income (expense)</b>			
Loss on extinguishment of convertible debentures	7(a)	-	(206,256)
Loss on settlement of debt	8	(106,563)	-
Interest and accretion expense	6,7(a)	(57,638)	(382,344)
Foreign exchange gain (loss)		(18,355)	19,249
		<b>(182,556)</b>	<b>(569,351)</b>
<b>Loss before income taxes</b>		<b>(4,771,964)</b>	<b>(7,450,698)</b>
Recovery of income taxes deferred	10	(371,200)	-
<b>Loss and comprehensive loss for the year</b>		<b>\$ (4,400,764)</b>	<b>\$ (7,450,698)</b>
<b>Loss per share</b>			
Weighted average shares outstanding		408,075,719	389,875,866
Basic and diluted loss per share		\$ (0.01)	\$ (0.02)

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

**Maritime Launch Services Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**

	Notes	Common Shares	Share Capital	Warrant Reserve	Contributed Surplus	Deficit	Total shareholders' equity
<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>	8	9,372,690	6,283,531	-	-	-	6,283,531
<b>Split of common shares at the Exchange Ratio</b>	1,8	303,756,515	-	-	-	-	-
<b>Warrants issued</b>	8	-	-	309,613	-	-	309,613
<b>Stock based compensation</b>	8	-	-	-	1,407,000	-	1,407,000
<b>Derivative liability reclassified to contributed surplus</b>	7(a)	-	-	-	2,146,000	-	2,146,000
<b>Common shares issued in Reverse Takeover Transaction ("RTO")</b>	1	12,916,499	2,152,750	-	-	-	2,152,750
<b>Stock options issued in RTO</b>	1	-	-	-	62,000	-	62,000
<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
<b>Loss and comprehensive loss for the year</b>		-	-	-	-	(4,400,764)	(4,400,764)
<b>Shares issued to settle debt</b>	8	2,875,000	566,563	-	-	-	566,563
<b>Shares issued on conversion of interest payable on Convertible Debentures</b>	7(a), 8	4,149,151	612,000	-	-	-	612,000
<b>Stock based compensation</b>	8	-	-	-	665,300	-	665,300
<b>Warrants issued</b>	7(b)	-	-	128,000	-	-	128,000
<b>Equity component recognized pursuant to the amendment of the 2021 Convertible Debentures</b>	7(a), 8	-	-	-	1,280,000	-	1,280,000
<b>Deferred tax related to equity component recognized</b>	10	-	-	-	(371,200)	-	(371,200)
<b>Balance, as at December 31, 2023</b>		410,484,741	\$ 14,443,564	\$ 814,982	\$ 5,303,860	\$ (19,131,048)	\$ 1,431,358

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

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

For the year ended December 31	2023	2022
<b>Cash flows used in operating activities</b>		
Loss and comprehensive loss for the year	\$ (4,400,764)	\$ (7,450,698)
Adjustments for:		
Amortization	37,548	34,317
Interest and accretion expense	125,235	471,113
Stock-based compensation	665,300	1,407,000
Finders' warrants	128,000	-
2023 convertible debenture issue costs expensed	166,285	-
Loss on settlement of debt	106,563	-
Deferred tax recovery	(371,200)	-
Loss on extinguishment of convertible debentures	-	206,256
Derivative liability - fair value adjustment	-	(1,075,000)
Listing expenses	-	2,242,404
Issuance of warrants for services	-	47,081
	<b>(3,543,033)</b>	<b>(4,117,527)</b>
Changes in non-cash working capital balances		
Sales tax receivable	183,020	(1,091)
Prepaid expenses and deposits	696	(80,346)
Accounts payable and accrued liabilities	957,206	(146,144)
	<b>1,140,922</b>	<b>(227,581)</b>
	<b>(2,402,111)</b>	<b>(4,345,108)</b>
<b>Cash flows provided by (used in) investing activities</b>		
Purchase of equipment	(1,070)	(5,836)
Costs paid for spaceport under construction	(545,238)	(3,220,570)
Interest paid that was capitalized to spaceport under construction	(444,668)	-
Cash assumed on RTO	-	67,953
Decrease in short-term investments	70,000	-
Decrease in restricted cash	-	3,942,923
	<b>(920,976)</b>	<b>784,470</b>
<b>Cash flows provided by (used in) financing activities</b>		
Payments on lease liabilities	(56,743)	(60,341)
Proceeds from 2023 convertible debentures	2,042,000	-
Costs incurred – issuance of 2023 convertible debentures	(166,285)	-
Proceeds from issuance of subscription receipts	-	3,086,045
Costs incurred related to issuance of subscription receipts	-	(482,905)
	<b>1,818,972</b>	<b>2,542,799</b>
<b>Decrease in cash during the year</b>	<b>(1,504,115)</b>	<b>(1,017,839)</b>
<b>Cash, beginning of year</b>	<b>2,871,382</b>	<b>3,889,221</b>
<b>Cash, end of year</b>	<b>\$ 1,367,267</b>	<b>\$ 2,871,382</b>
Supplemental cashflow information:		
Interest paid - 2021 convertible debentures	444,668	-

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, 2023**

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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 was controlled by MLS, and as such, the transaction has been accounted for as a reverse takeover of the Company by MLS for accounting purposes.

Certain historical figures for the period ended December 31, 2022, 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 after the acquisition date of April 1, 2022.

On April 27, 2022, the Company's shares were listed and commenced trading on the Cboe Canada (formerly NEO Exchange) under the symbol "MAXQ". 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.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

**December 31, 2023**

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### 1. Nature of Business (Continued)

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.

Immediately 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 were eliminated against the fair value of the consideration and the difference was recognized as a non-cash listing expense in the statement of loss and comprehensive loss for the period 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 the most recent MLS private placement to third party market participants.

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

**December 31, 2023**

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### 1. Nature of Business (Continued)

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, and recorded in the Company's financial statements for the year ended December 31, 2022, is as follows:

Fair value of consideration issued:

MLS common shares issued (1)	\$ 2,152,750
Jaguar options assumed (2)	62,000
	<u>\$ 2,214,750</u>

Fair value of net assets (liabilities) acquired:

Cash (3)	\$ 67,953
Accounts payable and accrued liabilities (3)	(95,607)
Listing expenses	2,242,404
	<u>\$ 2,214,750</u>

(1) This was 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 was 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 was assumed to approximate their fair values, due to their short-term nature.

(4) A non-cash listing expense of \$2,242,404 was included in the statement of loss and comprehensive loss for the year ended December 31, 2022, 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 was recorded as professional service expenses.

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

**December 31, 2023**

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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, 2023, 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 \$4,400,764 for the year ended December 31, 2023 (2022 - total comprehensive loss of \$7,450,698 for the year ended December 31, 2022). 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, 2023

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### 3. Material Accounting Policies

#### **Basis of Consolidation**

The consolidated financial statements of the Company include the accounts of Maritime Launch Services (Nova Scotia) 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 27, 2024.

#### **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.

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

**December 31, 2023**

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### 3. Material Accounting Policies (Continued)

#### *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.

#### **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 14.

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.

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

**December 31, 2023**

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### 3. Material Accounting Policies (Continued)

Financial assets at amortized cost comprise of 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.

#### ***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.

The 2023 liability host and embedded derivatives related to the convertible debentures are accounted for at fair value through profit or loss. The warrants that were issued along with the convertible debentures are classified as equity instruments.

#### *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, and the liability component of 2021 convertible debentures.

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

**December 31, 2023**

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### 3. Material Accounting Policies (Continued)

#### 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.

#### 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:

	<b>Basis</b>	<b>Rate</b>
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.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

December 31, 2023

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### 3. Material Accounting Policies (Continued)

#### *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.

#### **Impairment of Non-Financial Assets**

At each reporting period-end, the Company reviews the carrying amounts of its non-financial assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are largely independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### **Convertible Debentures**

On issuance of convertible debentures, the Company analyzes the terms to determine whether the conversion features represent equity or a derivative liability. The 2021 convertible debentures provided the holder with an option to convert into a variable number of common shares at the time of issuance (Note 7(a)). The conversion feature was accounted for as a derivative liability, fair valued on the issuance date with the residual allocated to the liability component. 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.

The 2023 convertible debentures include anti-dilution rights with down round protection (Note 7(b)), that result in the holder being entitled to a variable number of common shares. The Company has elected to irrevocably designate the entire hybrid financial instrument, being the convertible debentures, at FVTPL. The warrants issued to the convertible debenture holders as a part of the financing represent an equity classified instrument. At the time of issuance, the Company determined the fair value of the liability host and embedded derivatives and allocated the residual to equity.

See Note 7 for details of the accounting for the convertible debentures.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

December 31, 2023

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### 3. Material 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.

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

**December 31, 2023**

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### 3. Material Accounting Policies (Continued)

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.

#### *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, 2023**

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### 3. Material 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 8 and Note 9 would be anti-dilutive.

#### New Standards, Interpretations, and Amendments

a) New Standards, Interpretations, and Amendments Effective Beginning January 1, 2023:

The following amendments are effective beginning January 1, 2023:

- 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).

None of the above amendments impact the Company for the year ended December 31, 2023.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

December 31, 2023

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### 3. Material 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 related to supplier finance arrangements (Amendments to IAS 7 and IFRS 7); and

Classification of liabilities as current or non-current (Amendments to IAS 1);  
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*

Estimates are required to be made by management in determining the fair value of the 2021 convertible debentures allocation for the host debt and conversion feature that are comprised within the convertible debentures on the date of initial recognition, as well as when these convertible debentures were modified. The determination of the fair value of these instruments requires estimates to be made by management inclusive of the fair market interest rate of the Company, and the relevant inputs to the Barrier Option Pricing model including the Company's share price, expected share volatility, and the probability weighted scenarios.

Estimates were required by management on the issuance date and at each reporting date are also required to be made by management in determining the fair value of the 2023 convertible debentures as they are being accounted for at FVTPL. Management used the Convertible Debt valuation based on a partial differential equation model to estimate the value allocation on the issue date and to estimate the fair value at each reporting date thereafter. The significant estimates in this model relate to the fair market interest rate of the Company and the volatility of the share price. Refer to note 7(b).

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

**December 31, 2023**

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

##### *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.

#### **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 2021 Convertible Debentures*

Judgment was required to determine whether the amendment discussed in the Estimates and Judgements 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.

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

**December 31, 2023**

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

##### *Issuance of 2023 Convertible Debentures*

Judgment was required to determine whether the 2023 convertible debentures in the Estimates and Judgements included embedded derivatives and the appropriate classification of the financial instrument and the warrants issued to the convertible debenture holders as a part of the issuance.

Judgment was also required in the determination of the appropriate valuation model to be used for the value allocation on the issue date and whether the value resulting from that model resulted in the determination that the transaction price was not the fair value of the financial instrument on that date. The determination of the appropriate assumptions for the model selected also required significant judgment by management. Refer to note 7(b).

##### *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.

##### *Impairment of spaceport under construction*

Judgment was required to assess whether there were any impairment indicators related to the spaceport under construction in accordance with IAS 36, Impairment of assets. Management considered both external and internal sources of information in making its assessment as to whether there were any indicators of impairment.

##### *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.

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

**December 31, 2023**

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

<b>Cost</b>			
	<u>Cost</u>	<u>Additions</u>	<u>Total</u>
Land	\$ 80,012	\$ -	\$ 80,012
Computer Equipment	15,852	1,070	16,922
Furniture and Equipment	19,373	-	19,373
Spaceport under Construction	7,953,970	4,575,963	12,529,933
	\$ 8,069,207	\$ 4,577,033	\$ 12,646,240

<b>Amortization</b>			
	<u>Accumulated Amortization</u>	<u>Amortization</u>	<u>Total</u>
Land	\$ -	\$ -	-
Computer Equipment	(7,913)	(3,724)	(11,637)
Furniture and Equipment	(4,665)	(2,728)	(7,393)
Spaceport under Construction	-	-	-
	\$ (12,578)	\$ (6,452)	\$ (19,030)

<b>Net Book Value</b>		
	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Land	\$ 80,012	\$ 80,012
Computer Equipment	5,285	7,939
Furniture and Equipment	11,980	14,708
Spaceport under Construction	12,529,933	7,953,970
	\$ 12,627,210	\$ 8,056,629

During the year ended December 31, 2023, the Company capitalized borrowing costs of \$1,862,154 (December 31, 2022 - \$978,000).

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

**December 31, 2023**

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

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

	<b>December 31, 2023</b>	December 31, 2022
Balance, January 1	\$ 211,223	\$ 93,494
Additions	-	143,646
Depreciation	<b>(31,096)</b>	(25,917)
<b>Balance</b>	<b>\$ 180,127</b>	<b>\$ 211,223</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 year 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 lease liabilities for the Company:

	<b>December 31, 2023</b>	December 31, 2022
Balance, January 1	\$ 206,789	\$ 105,742
Additions	-	143,646
Payments	<b>(56,743)</b>	(60,341)
Interest incurred	<b>24,364</b>	17,742
<b>Balance</b>	<b>\$ 174,410</b>	<b>\$ 206,789</b>
Current	<b>32,674</b>	32,625
Non-current	<b>141,736</b>	174,164
Total	<b>\$ 174,410</b>	<b>\$ 206,789</b>

(c) The following table presents the contractual undiscounted cash flows for lease liabilities as at December 31, 2023, and December 31, 2022:

	Total Undiscounted Lease Payments	
	<b>2023</b>	2022
Less than one year	\$ 59,299	\$ 56,744
Beyond one year	<b>\$ 593,305</b>	\$ 639,103
<b>Total undiscounted lease payments</b>	<b>\$ 652,604</b>	<b>\$ 695,847</b>

Total cash outflow for the year ended December 31, 2023, was \$56,743 (year ended December 31, 2022 - \$60,341).

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

**December 31, 2023**

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### 7. Convertible Debentures

#### *(a) Issuance of Convertible Debentures in 2021*

On May 7, 2021, the Company issued unsecured convertible debentures (the “2021 convertible debentures”) for proceeds of \$7,500,000 initially bearing 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 days 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 would 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 accounted for as an Other Financial Liability and an effective interest rate of 15.7% was used to accrete the liability component.

#### *Amendment 1 of the 2021 Convertible Debentures*

On March 29, 2022, the Company amended the terms of the 2021 convertible debentures (“Amendment 1”) that were made in contemplation of the closing of the RTO (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, on a post RTO basis, to reflect the impact and timing of the RTO Transaction. The maturity date of the debentures was extended by one year to May 7, 2023. The convertible debentures remained 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 would 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 had not completed a Qualified Transaction on or prior to April 30, 2022, then at that date and at the end of each month thereafter during which the Company did not complete a Qualified Transaction, the Conversion Price would be adjusted 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, 2023**

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### 7. Convertible Debentures (Continued)

The amendments included in Amendment 1 were determined to be significant modifications of the terms of the convertible debentures; accordingly, Amendment 1 was accounted for as an extinguishment on April 1, 2022. The existing convertible debentures' liability and derivative liability components were derecognized and the convertible debentures' liability and derivative liability components were recorded at estimated fair value, resulting in a loss on extinguishment of \$206,256 being recognized in the consolidated statement of loss and comprehensive loss for the period ended December 31, 2022.

Pursuant to Amendment 1, 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 1, 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 with no conversion feature and was accounted for as an Other Financial Liability. 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 Amendment 1.

The Going Public Transaction occurred April 27, 2022, such that number of common shares issuable on conversion of convertible debentures became fixed.

Subsequent to Amendment 1, the conversion feature that provided the holder with the option to convert the 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 accounted 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 converted was fixed such that there was 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 rate	2.38%

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

**December 31, 2023**

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### 7. Convertible Debentures (Continued)

#### *Amendment 2 of the 2021 Convertible Debentures*

On May 5, 2023, the Company further amended the terms of the convertible debentures ("Amendment 2"). The maturity date of the convertible debentures was extended by one year to May 7, 2024. The interest rate on the convertible debentures was increased to 9% and interest is now calculated, compounded and paid in cash semi-annually on June 30 and December 31, with the first payment due December 31, 2023. The holders may elect to receive all or part of the accrued interest in common shares of the Company at a price of \$0.1475 per common share.

Also pursuant to Amendment 2, accrued interest of \$612,000, representing all accrued interest owing through May 7, 2023, was converted by the holder into 4,149,151 common shares of the Company at a price of \$0.1475 per common share (Note 8).

As noted, the convertible debentures are convertible into common shares at a price of \$0.1475 on demand at any time by the holder and the convertible debentures will convert at the election of the Company in the event of either (a) the Company has raised not less than \$10M in equity at a price of not less than \$0.2222 per common share or (b) the common shares trade at over \$0.2222 for 10 consecutive trading days on a recognized exchange. Pursuant to Amendment 2 and in reference to (a) in the preceding sentence, where common shares are issued with attached warrants ("Units"), the warrants will be valued, then the common shares will be valued by subtracting the value of the warrants from the value of the Units to determine the price of the common shares.

The amendments included in Amendment 2 were determined to be significant modifications of the terms of the convertible debentures; accordingly, Amendment 2 was accounted for as an extinguishment on May 5, 2023. On extinguishment, the fair value of the existing liability component was determined to be equal to the carrying value, resulting in no gain or loss being recognized on extinguishment of the liability component.

Pursuant to Amendment 2, on recognition of the convertible debentures, the liability component was fair valued by reference to the fair market interest rate of the Company, estimated to be 28% at the date of Amendment 2. Any residual between the fair value of the liability component under the original terms and the fair value of the liability component under the amended terms was recognized as a charge to contributed surplus, representing the incremental change in fair value of the conversion feature.

There were no additional costs incurred or received as a part of Amendment 2.

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

**December 31, 2023**

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**7. Convertible Debentures (Continued)**

The following table outlines the continuity of the 2021 convertible debentures, derivative liability and residual component:

	<b>Convertible Debentures</b>	<b>Contributed Surplus</b>	<b>Derivative Liability</b>
<b>Balance at December 31, 2021</b>	<b>\$ 7,308,007</b>	<b>\$ -</b>	<b>\$ 1,667,000</b>
Interest expense 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 the convertible debentures per Amendment 1	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 convertible debentures	914,114	-	-
<b>Balance at December 31, 2022</b>	<b>\$ 7,391,634</b>	<b>\$ 2,146,000</b>	<b>\$ -</b>

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

**December 31, 2023**

**7. Convertible Debentures (Continued)**

	Convertible Debentures	Contributed Surplus
<b>Balance at December 31, 2022</b>	<b>\$ 7,391,634</b>	<b>\$ 2,146,000</b>
Interest expense at 4%	125,000	-
Accretion of discount	595,366	-
Settlement of interest payable through the issuance of common shares (Note 8)	(612,000)	-
Balance immediately prior to extinguishment	7,500,000	2,146,000
Extinguishment of convertible debentures	(7,500,000)	-
Recognition of the convertible debentures per Amendment 2	6,220,000	1,280,000
Accrued interest at 9%	444,668	-
Interest paid	(444,668)	-
Accretion of convertible debentures	798,090	-
<b>Balance at December 31, 2023</b>	<b>\$ 7,018,090</b>	<b>\$ 3,426,000</b>

Unless the convertible debentures are converted into common shares, the first interest payment at 9% per annum was due and was paid on December 31, 2023, and the principal balance of \$7,500,000 and all remaining accrued interest is due on May 7, 2024.

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

**December 31, 2023**

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### 7. Convertible Debentures (Continued)

#### *(b) Issuance of Convertible Debentures in 2023*

On December 8, 2023, the Company issued unsecured convertible debentures (the “2023 convertible debentures”) for proceeds of \$2,282,000 payable on December 8, 2024, unless earlier converted or repaid. The 2023 convertible debentures bear interest at 10% per annum payable in cash quarterly as well as interest payable in common shares of the Company (paid in kind, referred to as “PIK” interest), consisting of 5% of the outstanding 2023 convertible debentures, calculated at a price of \$0.12 per common share (the “conversion price”), payable at the earlier of the end of term or early repayment. The Company may choose to prepay the 2023 convertible debentures. Upon a prepayment, the holders may elect, solely at the option of each holder, to be repaid in cash with an early repayment bonus of 10% of the principal amount outstanding, or to convert the principal and any accrued, unpaid interest into common shares at the conversion price. The 2023 convertible debentures have anti-dilution rights such that if the Company issues, offers, sells, grants any option or rights to purchase, or otherwise dispose of any equity securities, for consideration on a share basis that is less than the conversion price, the conversion price will be adjusted to such lower price. This anti-dilution right resulted in the number of shares issuable on conversion, and for PIK, being variable and therefore representing embedded derivatives. The early repayment features were also determined to be embedded derivatives due to the fact the amount repaid early does not approximate the amortized cost at the time of repayment.

The host liability instrument, the PIK interest, the conversion feature and the early repayment option have been considered as one hybrid instrument and the Company has elected to measure this financial instrument at FVTPL.

Each 2023 convertible debenture is accompanied by one common share purchase warrant for each whole \$0.48 principal amount. Each warrant is exercisable at a price of \$0.15 any time prior to December 8, 2028. The warrants represent an equity classified instrument.

At the time of issuance, the Company determined the fair value of the host liability and interest payable quarterly in cash and PIK and the conversion feature using a Convertible Debt valuation based on a partial differential equation model with a market yield estimated at 35% on the repayment features and a volatility of 55%. The fair value of the early repayment options were deemed to be nil as the Company does not intend to exercise its option to early repay. There was no residual value allocated to the equity classified warrants.

There was no change in the fair value of the 2023 convertible debentures from the date of issuance to December 31, 2023, and therefore there the Company recognized \$NIL (2022 – n/a) in change in fair value of the hybrid contract.

The Company paid cash finders fees of \$133,870 and issued 1,585,000 Finders Warrants (Note 9) in conjunction with the issuance of the 2023 convertible debentures and incurred other expenses of \$32,415 which were expensed.

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

**December 31, 2023**

### 8. 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 financial statements:

	MLS Common Shares		Company Common Shares	
	Number	Amount	Number	Amount
<b>Balance as at December 31, 2021</b>	<b>77,414,886</b>	<b>\$ 4,828,720</b>	-	\$ -
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 (Note 1)			12,916,499	2,152,750
<b>Balance as at December 31, 2022</b>	-	-	<b>403,460,590</b>	<b>\$ 13,265,001</b>
Shares issued on conversion of interest payable on Convertible Debentures	-	-	4,149,151	612,000
Shares issued to settle accounts payable	-	-	2,875,000	566,563
<b>Balance as at December 31, 2023</b>	-	-	<b>410,484,741</b>	<b>\$ 14,443,564</b>

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, the Company issued 610,540 finders warrants (the "Finders Warrants") (Note 9) 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).

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

**December 31, 2023**

### 8. Share Capital (Continued)

As described in Note 7(a) and pursuant the Amendment of the Convertible Debenture, on May 5, 2023, accrued interest of \$612,000, being all accrued interest owing through until May 7, 2023, was converted into 4,149,151 common shares of the Company at the conversion price of \$0.1475 per common share.

On May 5, 2023, the Company issued 2,875,000 common shares at a price of \$0.16 to settle accounts payable of \$460,000. In connection with the settlement, the common shares were valued at \$566,563, based on the trading price of the common shares issued on the date of settlement, resulting in a recognized loss on settlement of debt totaling \$106,563 in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2023.

#### (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, 2023, was \$0.11 (nine-month period ended December 31, 2022, post-RTO basis - \$0.11) per option on a post-RTO basis, 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 based on historical price volatility for comparable publicly traded companies over terms consistent with the expected life. The stock options granted during the periods vest based on a combination of certain performance and service conditions.

The following assumptions were used to determine the fair value of the options granted in the year ended December 31, 2023, and 2022:

	<b>December 31, 2023</b>	December 31, 2022
Weighted average grant date share price (post RTO basis)	<b>\$0.160</b>	\$0.14 - \$0.167
Exercise price (post RTO basis)	<b>\$0.167</b>	\$0.167
Expected price volatility	<b>90%</b>	90%
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, on a post RTO basis, for the year ended December 31, 2023, and 2022:

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

**December 31, 2023**

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**8. Share Capital (Continued)**

	December 31, 2023		December 31, 2022	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	29,025,000	0.167	13,950,000	0.167
Granted	2,700,000	0.167	18,450,000	0.167
Jaguar options assumed in connection with RTO Transaction			1,010,039	0.125
Expired	(1,125,000)	0.167	(1,010,039)	0.167
Forfeited	(2,250,000)	0.167	(3,375,000)	0.125
Outstanding, end of year	28,350,000	0.167	29,025,000	0.167
Exercisable, end of year	11,025,000	0.167	8,100,000	0.167

Certain options granted during the year ended December 31, 2023, and 2022 are subject to certain performance and service based vesting conditions. The weighted average remaining contractual life as at December 31, 2023, is 3.25 years (December 31, 2022 – 4.01 years). At December 31, 2023, 12,698,474 stock options remain available for future grants pursuant to the Company's stock option plan.

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

**December 31, 2023**

### 9. Warrants

Warrant activity, after converting for the Exchange Ratio, for year ended December 31, 2023, and 2022 was as follows:

	December 31, 2023		December 31, 2022	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of year	23,649,930	0.095	20,430,000	0.087
Adjustment pursuant to the RTO	-	-	409,500	0.147
Granted – with 2023 convertible debentures	4,754,165	0.12	-	-
Granted	1,585,000	0.12	2,810,430	0.164
Outstanding, end of year	29,989,095	0.11	23,649,930	0.095
Exercisable, end of year	29,989,095	0.11	23,649,930	0.095

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 issued and outstanding at the time expire 3 years from the Going Public Transaction on April 26, 2025.

In conjunction with the Equity Financing (Note 8), on April 1, 2022, the Company issued a total of 2,747,430 Finders Warrants. These warrants were issued with an exercise price of \$0.167. 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 was recorded as a share issue cost (Note 8).

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 was recorded as professional services expense.

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	\$0.167
Exercise price	\$0.1475 - \$0.167
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, 2023**

### 9. Warrants (Continued)

In conjunction with the issuance of the 2023 convertible debentures (Note 7(b)), on December 8, 2023, the Company issued 1,585,000 warrants Finders Warrants to with an exercise price of \$0.12 per common share exercisable anytime prior to expiry 5 years from the date of issuance. The estimated fair value of the warrants was determined to be \$0.08 per warrant, estimated using the Black-Scholes option pricing model and the total calculated value of the Finders Warrants of \$128,000 was expensed.

### 10. 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:

	2023	2022
Loss before income taxes	\$ (4,771,964)	\$ (7,450,698)
Combined basic federal and provincial tax rates	29.00%	29.00%
Expected income tax recovery	\$ (1,383,870)	\$ (2,160,702)
Fair value adjustment on derivatives	-	(207,829)
Listing expenses	-	650,297
Stock based compensation	192,937	408,030
Other non-deductible items	79,824	136,205
Share issue costs booked in equity	-	(140,043)
Capitalized accretion expenses	-	224,176
Book to filing adjustments and other	(331,200)	(108,319)
Change in tax benefits not recognized	1,071,649	1,198,185
Income tax recovery	\$ (371,200)	\$ -

The Company's income tax (recovery) is allocated as follows:

	2023	2022
Current tax (recovery) expense	\$ -	\$ -
Deferred tax (recovery) expense	(371,200)	-
	\$ (371,200)	\$ -

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

**December 31, 2023**

### 10. Income Taxes (Continued)

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

<b>Deferred income tax assets</b>	<b>2023</b>	<b>2022</b>
Lease liability	\$ 50,579	\$ 59,969
Spaceport under construction and equipment	-	-
Share issuance costs	<b>44,996</b>	-
Non-capital losses	<b>341,608</b>	258,323
	<b>\$ 437,183</b>	<b>\$ 318,292</b>
<b>Deferred income tax liabilities</b>		
Spaceport under construction and equipment	<b>(245,192)</b>	(257,037)
Right-of-use asset	<b>(52,237)</b>	(61,255)
Convertible debentures	<b>(139,754)</b>	-
Deferred tax liabilities	<b>(437,183)</b>	(318,292)
<b>Net deferred income tax asset</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

#### 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:

	<b>2023</b>	<b>2022</b>
Share issue costs	<b>\$ 822,000</b>	\$ 892,276
Non-capital losses carried forward – Canada	<b>11,359,000</b>	-
Non-capital losses carried forward – USA	<b>910,000</b>	-
	<b>13,091,000</b>	<b>\$ 9,360,682</b>

The non-capital loss carry forwards expire as noted in the table below. Share issue and finance costs will be fully amortized in 2027.

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.

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

**December 31, 2023**

### 10. Income Taxes (Continued)

The Company's unrecognized Canadian and U.S. non-capital losses, the benefit of which has not been recognized on the consolidated financial statements, expire as follows:

2038	\$	1,097,000
2039		1,381,000
2040		210,000
2041		2,400,000
2042		3,434,000
2043		2,837,000
2043		910,000
	\$	<u>12,269,000</u>

### 11. Related Party Transactions

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

	<u>2023</u>	<u>2022</u>
<b>Operating expenses</b>		
Management compensation attributable to the Chief Executive Officer and Chief Financial Officer	\$ 455,008	\$ 498,654
Director's fees	\$ 195,000	\$ 190,000
Non-cash stock-based compensation attributable to the Chief Executive Officer and Chief Financial Officer	\$ 210,410	\$ 962,949

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.

Proceeds of \$140,000 were received from an existing shareholder and Director of the Company on issuance of the 2023 convertible debentures (Note 7(b)).

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Due to related parties</b>		
Management	\$ 14,318	\$ 19,000
Directors	\$ 66,750	\$ 38,750

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

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

**December 31, 2023**

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### 12. 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.

### 13. 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, 2023, and pursuant to the Contract, the Company has made total payments of EURO €2,500,000 (December 31, 2022 - EURO €2,500,000), and is required to make the remaining payments as follows:

	<b>EURO €</b>
January 2024	440,000
April 2024	3,960,000

As for the date of these financial statements, neither of the above payments have been made and the Company continues to renegotiate with the vendor to further defer payments.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

December 31, 2023

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### 14. 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 7(a)) 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.

The fair value of the 2023 convertible debentures at December 31, 2023, determined using the Convertible Debt valuation based on a partial differential equation model, would not have differed significantly from the fair value recorded had the volatility rate increased or decreased by 5%.

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# Maritime Launch Services Inc.

## Notes to Consolidated Financial Statements

December 31, 2023

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### 14. 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.

#### *(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.

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

**December 31, 2023**

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**14. Financial Instruments and Risk Management (Continued)**

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

**December 31, 2023**

	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$ 3,506,391	\$ -	\$ -	\$ -	\$ -
Convertible debentures	9,299,990	-	-	-	-
Lease liabilities	59,299	53,131	44,173	13,500	428,501
	<u>\$ 12,865,680</u>	<u>\$ 53,131</u>	<u>\$ 44,173</u>	<u>\$ 13,500</u>	<u>\$ 428,501</u>

**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>

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**15. Subsequent Events**

On March 1, 2024, the Company appointed Philip Jones as Chief Financial Officer and granted Mr. Jones 2,250,000 stock options in connection with his employment. The strike price set as the weighted average price for the 5-day period prior to and including March 1, 2024.