



FOBI AI INC.
(Formerly Loop Insights Inc.)

Consolidated Financial Statements

Years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Fobi AI Inc. (formerly Loop Insights Inc.)

Opinion

We have audited the consolidated financial statements of Fobi AI Inc. (formerly Loop Insights Inc.) and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (together, the "Financial Statements").

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the Financial Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying Financial Statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

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

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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Financial Statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Waseem Javed.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
October 27, 2021

Fobi AI Inc. (formerly Loop Insights Inc.)

Consolidated Statements of Financial Position

As at June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	Note	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 7,501,753	\$ 174,252
Accounts receivable	6	844,502	1,076,526
Prepaid		328,565	344,804
Loans receivable	7	288,438	-
		8,963,258	1,595,582
Non-current assets			
Loan receivable	7	193,096	-
Equipment	8	122,062	37,430
Intellectual property	9	171,792	-
Right-to-use asset		37,672	30,261
Intangible assets	4	873,996	-
Goodwill	4	1,320,468	-
TOTAL ASSETS		\$ 11,682,344	\$ 1,663,273
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 538,938	\$ 1,945,400
Convertible debenture	12	-	396,983
Current portion of lease liabilities	13	16,912	25,260
Due to related parties	11	-	479,100
Deferred revenue		108,488	-
Loans		20,000	20,000
		684,338	2,866,743
Deferred income taxes	4	271,693	-
Non-current portion of lease liability	13	22,218	8,010
TOTAL LIABILITIES		978,249	2,874,753
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	14	42,363,480	23,464,437
Subscription receivable		(130,568)	(140,000)
Contributed surplus		7,562,494	3,458,791
Deficit		(39,091,291)	(27,994,708)
Accumulated other comprehensive loss		(20)	-
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		10,704,095	(1,211,480)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 11,682,344	\$ 1,663,273

Nature of operations and continuance of business (Note 1)

Commitments and contingencies (Note 19)

Subsequent events (Note 22)

Approved and authorized for issuance on behalf of the Board of Directors on October 27, 2021:

/s/ "Robert Douglas Anson"

Director

/s/ "Jeff Hyman"

Director

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

Fobi AI Inc. (formerly Loop Insights Inc.)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	Notes	2021	2020
Revenue		\$ 157,549	\$ -
Operating Expenses			
Advertising and marketing		1,059,667	282,732
Cost of services sold		36,339	-
Consulting fees		1,111,510	775,503
Amortization	4,8,9	107,898	60,259
Insurance		12,366	13,680
Interest and accretion expense		18,018	204,297
Investor relations		68,074	-
License and distribution fees		70,044	62,929
Office and general		405,757	232,659
Professional fees		483,752	702,998
Rent		53,735	46,210
Research and development		167,849	63,818
Share-based compensation	15	5,243,212	467,700
Transaction costs		19,953	-
Transfer agent and filing fees		60,811	-
Travel		89,890	225,836
Other		4,964	-
Wages and benefits	11	2,297,367	2,505,410
Loss before other items		\$ (11,153,657)	\$ (5,644,031)
Other items			
Gain on settlement of convertible debentures	12	86,913	-
Loss on settlement of purchase allocation		(33,250)	(7,918)
Other income		9,196	-
Interest income		804	400,928
Foreign exchange loss		(6,588)	-
Net Loss		\$ (11,096,583)	\$ (5,251,021)
Other comprehensive income		(20)	-
Comprehensive Loss		\$ (11,096,603)	\$ (5,251,021)
Comprehensive loss per share, basic and diluted		\$ (0.09)	\$ (0.08)
Weighted Average Number of Common Shares Outstanding		125,364,113	64,395,612

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

Fobi AI Inc. (formerly Loop Insights Inc.)

Consolidated Statements of Changes in Equity

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	Number of Outstanding Shares	Common Shares	Subscriptions receivable	Contributed surplus	Accumulated other comprehensiv e income	Deficit	Total Shareholders' Equity
Balance, June 30 2019	58,889,377	\$ 19,383,689	\$ (855,000)	\$ 2,710,638	\$ -	\$ (22,743,687)	\$ (1,504,360)
Issuance of common shares for cash	25,213,807	3,121,148	-	135,314	-	-	3,256,462
Share issuance costs	-	(338,525)	-	145,139	-	-	(193,386)
Warrants exercised	3,325,000	332,500	-	-	-	-	332,500
Issuance of common shares for liabilities	3,955,025	965,625	-	-	-	-	965,625
Subscription received	-	-	715,000	-	-	-	715,000
Share-based compensation	-	-	-	467,700	-	-	467,700
Net loss for the year	-	-	-	-	-	(5,251,021)	(5,251,021)
Balance, June 30, 2020	91,383,209	\$ 23,464,437	\$ (140,000)	\$ 3,458,791	\$ -	\$ (27,994,708)	\$ (1,211,480)
Balance, June 30, 2020	91,383,209	\$ 23,464,437	\$ (140,000)	\$ 3,458,791	\$ -	\$ (27,994,708)	\$ (1,211,480)
Issuance of common shares for cash, net of issuance costs	11,621,904	7,424,157	-	-	-	-	7,424,157
Issuance of common shares for obligation	1,200,000	402,000	-	-	-	-	402,000
Issuance of common shares for convertible debentures	239,999	401,780	-	(41,781)	-	-	359,999
Issuance of common shares for acquisition of intellectual property	166,250	232,750	-	-	-	-	232,750
Issuance of common shares for business combination	1,301,425	1,952,138	-	-	-	-	1,952,138
Warrants exercised	24,929,226	6,487,997	-	(410,085)	-	-	6,077,912
Fair market value of broker warrants	-	(340,707)	-	340,707	-	-	-
Stock options exercised	4,019,250	2,338,678	-	(1,028,350)	-	-	1,310,328
Share for services	1,000	250	-	-	-	-	250
Subscription received	-	-	9,432	-	-	-	9,432
Share-based compensation	-	-	-	5,243,212	-	-	5,243,212
Accumulated other comprehensive loss	-	-	-	-	(20)	-	(20)
Net loss for the year	-	-	-	-	-	(11,096,583)	(11,096,583)
Balance, June 30, 2021	134,862,263	42,363,480	\$ (130,568)	\$ 7,562,494	\$ (20)	\$ (39,091,291)	\$ 10,704,095

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

Fobi AI Inc. (formerly Loop Insights Inc.)

Consolidated Statements of Cash Flows

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	2021		2020	
Operating Activities				
Net loss for the period	\$	(11,096,583)	\$	(5,251,021)
Adjustments for non-cash items:				
Depreciation		107,898		60,259
Interest and accretion expense		(33,975)		114,085
Loss on settlement of purchase allocation		33,250		-
Share-based compensation		5,243,212		467,700
Changes in non-cash working capital items:				
Amounts receivable		232,024		(488,943)
Prepaid expenses		16,238		(104,804)
Accounts payable and accrued liabilities		(1,004,191)		1,138,608
Deferred Income		108,488		-
Net cash flows used in operating activities	\$	(6,393,639)	\$	(4,064,116)
Investing Activities				
Cash paid for the acquisition of Passcreator, net of cash received		(15,909)		-
Purchase of property and equipment		(95,164)		(40,312)
Net cash used in investing activities	\$	(111,073)	\$	(40,312)
Financing Activities				
Shares issued for cash		8,015,872		4,303,962
Share issue costs		(591,715)		(193,386)
Exercise of stock options		1,310,327		-
Exercise of warrants		6,077,912		-
Subscription receivables received		9,432		-
Lease repayment		(28,941)		(59,574)
Loan advances		(481,534)		-
Repayment of loan to related party		(479,100)		-
Net cash flows provided by financing activities	\$	13,832,253	\$	4,051,002
Effect of foreign exchange on cash and cash equivalents		(20)		-
Increase (decrease) in cash and cash equivalents		7,327,521		(53,426)
Cash and cash equivalents, beginning of the year		174,252		227,678
Cash, ending	\$	7,501,753	\$	174,252
Non-cash Investing and Financing information				
Additions to ROU asset	\$	31,793	\$	-
Shares issuance cost - non cash		340,707		-
Shares issued for convertible debenture		359,999		-
Shares issued for obligations	\$	402,250	\$	-

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

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

1. Nature of Operations and Continuance of Business

Fobi AI Inc. (formerly “Loop Insights Inc.”) (the “Company”) was incorporated under the laws of the province of British Columbia, Canada, on January 12, 1987, under the name 320092 British Columbia Ltd. On January 24, 2009, the Company continued into the province of Alberta. Effective August 11, 2016, the Company changed its name to AlkaLi3 Resources Inc. (“AlkaLi3”) and began trading on the NEX board of the TSX Venture Exchange (“TSXV”) under the symbol “ALK.H” on August 16, 2016. On May 31, 2021, the Company rebranded as Fobi AI Inc. With this, the Company’s trading name changed to “FOBI” on TSX Venture Exchange and to “FOBIF” on OTCQF.

On February 5, 2019, the Company completed a reverse takeover pursuant to an amalgamation agreement between a non-reporting issuer, Loop Insights Inc. (“Loop”) and AlkaLi3 to form the continuing entity, Loop Insights Inc. Loop was incorporated under the laws of the province of British Columbia, Canada, on January 2, 2018. On February 16, 2018, Loop changed its name from Cannabis Big Data Holdings Inc. to Loop Cannabis Insights Inc. On March 21, 2018, Loop changed its name from Loop Cannabis Insights Inc. to Loop Insights Inc.

The Company operates in the technology industry and earns revenues from directly selling software as a service (“SaaS”), reselling, referring, and licensing its technology to licensors. The address of the Company’s corporate office and principal place of business is Suite 541 Howe Street, Vancouver B.C., V6C 2C2.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The Company has incurred losses since inception and has an accumulated deficit of \$39,091,291 as at June 30, 2021. The continued operations of the Company are dependent on future profitable operations, management’s ability to manage costs and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due subsequent to June 30, 2021, is uncertain. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

The impact of the outbreak of COVID-19 is uncertain, and could ultimately have a significant impact on operations. The Company has adapted certain of its software technologies to provide contact solutions to schools and sports venues. To date there has been no material negative economic impact on the Company’s operations. The Company established COVID-19 management plans and implemented protocols and preventative measures to mitigate the spread of COVID-19 to protect the well-being of its employees, contractors, their families. The Company continues to follow the stringent COVID-19 infection prevention guidance and directives of federal, provincial and regional authorities in respect of acceptable protocols.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

2. Basis of Preparation

a) Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value. The functional and presentation currency of the Company is the Canadian dollar.

b) Basis of Consolidation and Functional Currency

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

Subsidiaries	Country of incorporation	Functional currency	Percentage of ownership
Loop Insights (USA) Inc.	USA	Canadian Dollar	100%
AlkaLi3 Resources Inc.	Canada	Canadian Dollar	100%
Mediahelden GmbH d/b/a Passcreator	Germany	Euros	100%

Subsidiaries are entities that the Company controls directly. Control is defined as the exposure, or rights, or variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when the Company has existing rights and the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All inter-company balances and transactions, including unrealized profits and losses arising from intra-group transactions, have been eliminated upon consolidation. Where necessary, adjustments are made to the results of the subsidiaries and entities to bring their accounting policies in line with those used by the Company.

The Company's functional currency is the Canadian Dollar and the functional currencies of its subsidiaries are outlined above.

c) Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation on the consolidated statements of financial position and comprehensive loss.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. Significant Accounting Policies

a) Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Goodwill

The excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net tangible assets and the intangible assets acquired is classified to goodwill. Goodwill is assessed annually for potential impairment losses and carried net of these losses.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Share-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

b) Revenue Recognition

The Company earns revenue from selling software as a service, reselling, referring, and licensing its technology to licensors.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations, if applicable.

Licenses for the Company's technologies provide the customer with a right to use the technologies as they exist when made available to the customer. The Company also, from time to time, enters into contracts that contain maintenance and support for its licenses. In accordance with IFRS 15, the Company evaluates these arrangements to determine the appropriate accounting treatment in order to recognize revenue based in whether the multiple products in the contract are distinct. A product is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the product or services is separately identifiable from other promises in the contract. Non-distinct products or services are combined with other products or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price. Cash received in advance of revenue being recognized is classified as unearned revenues. Typically revenue from licenses is recognized upfront at the point in time when the software is made available to the customer provided that the following criteria are met: the parties to the contract have approved the contract and are committed to perform their respective obligations; the Company can identify each party's rights regarding the goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance; and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Typically, revenue for support and maintenance is recognized over the term of the maintenance contract.

c) Impairment of Long-lived Assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

d) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration.

Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred. Management determines whether assets acquired, and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

During the year ended June 30, 2021, the Company completed a transaction described in Note 4 and concluded that the transaction qualifies as a business combination under IFRS 3, “Business Combinations”.

e) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and impairment losses. The Company amortizes its office equipment on a straight-line basis over three years. Right-of-use assets are amortized over the lease term of the underlying asset.

f) Intangible Assets

Intangible assets, acquired separately, are measured on initial recognition at cost. Intangible assets acquired through business combinations are measured at the fair value on the date of the acquisition and are subsequently assessed for impairment at each reporting date.

Intangible assets with finite useful lives are amortized over their estimated useful lives as follows;

Intellectual property	3 years
Customer relationship	3 years
Developed technology	5 years
Non-compete	5 years

Amortization methods, useful lives and residual value are reviewed at each reporting date and adjusted if appropriate.

Trade name is not subject to amortization as it is deemed to have an indefinite useful life.

g) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

h) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

i) Financial Instruments

Recognition and measurement

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is both to hold assets to collect contractual cash flows and to potentially sell financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

All financial assets not classified as and measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Company may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

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3. Significant Accounting Policies (continued)

i) Financial Instruments (continued)

Financial assets are not reclassified subsequent to their initial recognition. Should the Company change its business model for managing financial assets, all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at FVTPL, such as derivatives liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Fair value through profit or loss

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive loss in the period in which they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) is based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price for both financial assets and financial liabilities. In circumstances where there is no closing price, the average of the closing bid and the closing ask price on the valuation date is used. The Company's policy is to recognize transfers into and out of the fair value hierarchy levels described in Note 15 as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including non-publicly traded derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other methods commonly used by market participants and which make the maximum use of observable inputs. Where the value of a financial asset or liability is not readily available or where management is of the opinion that the value available is inaccurate or unreliable, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

For investments that are not publicly traded securities (i.e., those not traded in an active market), the Company uses valuation techniques in order to estimate fair value. The initial transaction price of such an investment is considered to be a reasonable approximation of its fair value on the date on which the investment is made. Thereafter, valuation techniques are used to consider various inputs which may indicate a change to that fair value. These techniques may include recent arm's length transactions between knowledgeable, willing parties, discounted cash flows, or multiple-based techniques where there is a track record of the relevant performance criteria used in such multiples.

The process of estimating the fair value of investments for which there is no active market is based on inherent measurement uncertainties and it is reasonably possible that the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material.

Amortized cost

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequently measurement is at amortized cost using the effective interest method, less any impairment losses.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

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3. Significant Accounting Policies (continued)

i) Financial Instruments (continued)

Classification of financial instruments

Cash and cash equivalents	FVTPL
Trade accounts receivable	Amortized cost
Accounts payable	Amortized cost
Loans receivable	Amortized cost
Convertible debentures	Amortized cost
Due to related parties	Amortized cost
Deferred revenue	Amortized cost
Lease liabilities	Amortized cost

j) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued. The Company has adopted the residual method with respect to the measurement of common shares and warrants issued as equity units.

k) Earnings (Loss) Per Share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Basic and diluted loss per share is the same for the periods presented.

l) Provisions

The Company recognizes a provision when all of these conditions are met:

- a. an entity has present obligation (legal or constructive) as a result of a past event;
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c. a reliable estimate can be made of the amount of the obligation.

In certain asset acquisitions, the Company provides consideration that is contingent on uncertain future events of which the existence will be confirmed only by the occurrence or non-occurrence of one or more future events. These events are typically in control of management and as a result do not meet the definition of a financial liability until the events have occurred. As a result, a contingent consideration in these situations is not measured until the event occurs.

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3. Significant Accounting Policies (continued)

m) Share-Based Payments

The fair value of stock options granted is measured at the grant date using the Black-Scholes option pricing model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against share-based compensation reserve. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in share-based compensation reserve is credited to share capital.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

n) Government Grants

In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the Company recognizes government grants only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. Grants receivable as compensation for costs already incurred or for immediate financial support, with no future related costs are recognized as income in the period in which it is receivable. During the year ended June 30, 2020, the Company recognized other income in the amount of \$400,930 receivable pursuant to the Government of Canada's Scientific Research and Experimental Development ("SR&ED") Program. The Company's SR&ED application was approved subsequent to June 30, 2020 and the balance of \$400,930 was applied against certain payroll remittance liabilities during the year ended June 30, 2021.

o) Accounting Pronouncements Not Yet Adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. The Company did not identify any standards that may have any impact on the Company's consolidated financial statements during the period.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

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Notes to the Consolidated Financial Statements

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4. Business Combination

On April 16, 2021, the Company acquired 100% control over Mediaheldon GmbH, d/b/a Passcreator ("Passcreator"). Based in Germany, Passcreator is a European digital wallet and mobile marketing company.

In consideration for the acquisition of Passcreator, the Company paid US\$123,000 in cash and issued 1,301,425 common shares of the Company.

The Company acquired all the issued and outstanding common shares of Passcreator. As the Company is the sole owner of all the common shares and has certain provisions, including the ability to elect the majority of the directors, in accordance with IFRS 10, the Company has control over Passcreator.

The investment in Passcreator has been accounted for as a business combination. In accordance with IFRS 3 "Business Combinations", the assets acquired, and liabilities assumed are measured at their fair value at the acquisition date and the excess value of the consideration above the fair value of the net assets acquired is recognized as goodwill.

The acquisition was recorded as follows:

Fair value of consideration		
Cash	\$	154,001
Common shares issued		1,952,138
	\$	2,106,139
Net assets acquired		
Customer relationships	\$	329,870
Developed technology		209,917
Trade name		359,858
Non-compete		5,998
Goodwill		1,320,468
Deferred income taxes		(271,693)
Equipment		14,076
Other current assets		137,645
	\$	2,106,139

The goodwill recorded upon acquisition of Passcreator represents the sales and growth potential of Passcreator and will not be deductible for tax purposes. Had the Company acquired Passcreator on July 1, 2020, management estimates that there would be no significant impact on the reported revenues and net income(loss).

During the year ended June 30, 2021, the Company recorded amortization expense of \$31,467 in connection with the customer relationships, developed technology and non-complete intangible assets.

5. Cash and Cash Equivalents

Cash and cash equivalents include \$57,500 (2020 – \$57,500) of cash held in a GIC, and \$5,167,654 (2020 – nil) held in trust.

6. Amounts Receivable

Amounts receivables consists primarily of GST receivable and amounts due from customers-

	2021		2020
GST/VAT receivable	\$	761,201	\$ 675,596
SR&ED tax credit receivable		-	400,930
Trade accounts receivable		83,301	-
	\$	844,502	\$ 1,076,526

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7. Loans receivable

In connection with the acquisition of Passcreator (Note 4), the Company agreed to grant secured limited recourse loans to former shareholders of Passcreator (the "Borrowers"), in the amount the Borrowers had to pay in income tax, solidarity tax and church tax on the proceeds from the sale of their shares.

The loans are due for repayment according to the following repayment schedule:

20% of the amount of loan	10 months after the closing of the acquisition
20% of the amount of loan	12 months after the closing of the acquisition
20% of the amount of loan	14 months after the closing of the acquisition
20% of the amount of loan	16 months after the closing of the acquisition
20% of the amount of loan	18 months after the closing of the acquisition

The interest rate for the loans is 2% p.a. and shall be payable from the date on which the loans were advanced to the Borrowers until and including the date of the repayment of the loans. Interest is due semi-annually, and is payable to the Company on June 30 and December 30 of each year.

As at June 30, 2021, the total amount of loan granted was \$480,730 of which \$288,438 is due for repayment in the next twelve months. The interest accrued as of June 30, 2021 amounts to \$804.

8. Equipment

		Equipment
Cost		
Balance, June 30, 2020	\$	46,227
Costs incurred during the year:		
Additions		108,972
Balance, June 30, 2021	\$	155,199
Accumulated amortization		
Balance, June 30, 2020	\$	8,796
Amortization		24,341
Balance, June 30, 2021	\$	33,137
Net book value		
As at June 30, 2020	\$	37,430
As at June 30, 2021	\$	122,062

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Notes to the Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

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9. Intellectual Property

On February 18, 2021, the Company entered into an Intellectual Property Purchase Agreement with Digital2Go Medial Networks, Inc. dba Locally ("Locally") to acquire its software solutions, whereby the Company issued 166,250 common shares at a fair value of \$199,500 to Locally.

Management recorded the total consideration of \$199,500 as intellectual property on the Consolidated Statements of Financial Position. The cost will be amortized over the estimated useful life of three years on straight-line basis. The total amortization as at June 30, 2021 amounts to \$27,708.

10. Accounts Payable and Accrued Liabilities

		2021		2020
Accounts payable	\$	504,576	\$	1,833,273
Accrued liabilities		34,362		112,127
	\$	538,938	\$	1,945,400

11. Related Party Transactions and Balances

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits and termination benefits were made during the year ended June 30, 2021. Short-term key management compensation during the year ended June 31, 2021 and 2020 consists of the following:

		2021		2020
Salaries, wages and professional fees	\$	922,335	\$	1,050,019
Share-based payments		1,578,990		177,807
	\$	2,501,325	\$	1,227,826

As at June 30, 2021, the Company owed \$nil (June 30, 2020- \$479,100) to the Company's CEO, a company controlled by the CEO, and a significant shareholder.

In connection with the acquisition of Passcreator, the managing directors of the subsidiary owe \$480,730 to the Company as at June 30, 2021 (Note 4 and 7), in connection with the loans advanced for tax payments on acquisition of Passcreator. The loans bear interest of 2% p.a. The interest accrued as at June 30, 2021 amounts to \$804.

As at June 30, 2021, the Company also has a balance payable to its directors and officers totaling \$29,474 (June 30, 2020- \$74,901) which is included in accounts payable and accrued liabilities. The amounts payable to related parties are unsecured, non-interest bearing and due on demand.

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Notes to the Consolidated Financial Statements

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12. Convertible Debentures

During the year ended June 30, 2019, the Company issued unsecured convertible debentures for gross proceeds of \$360,000 (the "Debentures"). The Debentures accrue interest at a rate of 12%, payable semi-annually, and mature two years from issuance. At the option of the holders, the debentures, and any accrued and unpaid interest, may be converted to common shares of the Company at a price of \$1.50 per common share.

On January 11, 2021, the Debentures were converted to common shares of the Company at a price of \$1.50 per common share. The Company accrued \$86,913 as interest on the Debentures until the date of conversion. The total of interest has been waived as per the agreement between the Company and the holders and has been recognized as gain on settlement of the convertible debentures.

	2021		2020	
Balance, beginning of year	\$	396,983	\$	293,019
Proceeds on conversion of convertible debentures		(360,000)		-
Interest expense		23,080		62,847
Finance expense		26,850		41,117
Gain on settlement of convertible debentures		(86,913)		-
	\$	-	\$	396,983

13. Lease Liabilities

	2021		2020	
Balance, beginning of year	\$	33,270	\$	-
Recognized at adoption of IFRS 16		-		82,723
Leases recognized during the year		31,793		-
Finance cost		3,009		10,121
Payments		(28,942)		(59,574)
	\$	39,130	\$	33,270
Current lease liabilities		16,912		25,260
Non-current lease liabilities		22,218		8,010

Fobi AI Inc. (formerly Loop Insights Inc.)

Notes to the Consolidated Financial Statements

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14. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

As at June 30, 2021, the Company had 134,862,263 (2020 - 91,383,209) issued and fully paid common shares of which 5,055,000 (2020 – nil) are held in escrow subject to a four-month holding period.

During the year ended June 30, 2021:

- (a) On July 20, 2020, the Company completed a non-brokered private placement of 5,686,904 units at \$0.105 per unit for proceeds of \$597,125. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.25 per share for a period of two years from the date of issuance.
- (b) On June 30, 2021, the Company completed a brokered private placement for 5,935,000 units at \$1.25 per unit for proceeds of \$7,418,750. Each unit consisted of one common share and one-half of purchase warrant exercisable at \$1.60 per share for a period of two years from the date of issuance. In connection with this private placement, the Company incurred share issuance costs of \$591,718, consisting of \$433,469 in finders' fees and \$158,249 in legal and other fees.

In connection with the private placement, the Company also issued 343,025 non-transferable broker warrants to purchase compensation units each at a price of \$1.25. Each compensation unit consists one fully assessed common share in the capital of the company and one half warrant. Each full warrant entitles the holder to acquire one common share until June 30, 2023 at a price of \$1.60 per share. The fair value of the share purchase warrants was determined to be \$340,707, calculated using Black-Scholes option pricing model under the following assumptions: exercise price- \$1.60; price on grant date- \$0.60; risk-free interest rate- 0.98%; dividend yield- 0%; expected volatility- 227%; and expected life of one to two years.

- (c) On July 31, 2020, the Company issued 1,200,000 common shares to settle an arm's length obligation of \$402,000.
- (d) On January 11, 2021, \$360,000 of convertible debentures were converted to 239,999 common shares at a price of \$1.50 per common share (Note 12).
- (e) On February 17, 2021, the Company completed the acquisition of the intellectual property assets of Digital2Go Medial Networks, Inc, pursuant to which, the Company issued 166,250 common shares (Note 9).
- (f) In connection with the acquisition of Passcreator (Note 4), the Company issued 1,301,425 common shares, at a fair value of \$1,952,138.
- (g) During the period ended June 30, 2021, the Company issued 1,000 shares for services provided with a fair market value of \$250.
- (h) The Company issued 24,929,226 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$6,077,912. Contributed surplus of \$410,085 was reversed upon exercising the warrants.
- (i) The Company issued 4,019,250 common shares pursuant to the exercise of stock options for total proceeds of \$1,310,328. Contributed surplus in the amount of \$1,028,350 was reversed and included in the share capital.

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14. Share Capital (continued)

Issued share capital (continued)

During the year ended June 30, 2020:

- (a) On September 16, 2019, the Company completed a non-brokered private placement for 1,470,000 units at \$0.28 per unit for proceeds of \$411,600. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.35 per share for a period of three years from the date of issuance.
- (b) On November 12, 2019, the Company completed a non-brokered private placement for 2,613,797 units at \$0.28 per unit for proceeds of \$731,861. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.35 per share for a period of three years from the date of issuance.
- (c) On April 30, 2020, the Company completed a non-brokered private placement for 21,130,010 units at \$0.10 per unit for proceeds of \$2,113,001. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.15 per share for a period of two years from the date of issuance.
- (d) The Company issued 3,955,025 common shares to settle outstanding liabilities of \$965,625.
- (e) The Company issued 3,325,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$332,500.
- (f) In connection with the private placements completed during the year ended June 30, 2020, the Company incurred \$193,386 in share issuance costs paid in cash. The Company also issued 1,367,513 share purchase warrants to finders which are exercisable at prices ranging from \$0.15 to \$0.35 per share for a period of one to three years from the date of issuance. The fair value of the share purchase warrants was determined to be \$145,139, calculated using the Black-Scholes option pricing model under the following assumptions: exercise price - \$0.22; price on grant date - \$0.20; risk-free interest rate - 0.76%; dividend yield - 0%; expected volatility - 150%; and expected life of one to three years.

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15. Stock Options

During the year ended June 30, 2021, the Company granted a total of 13,038,750 stock options. The total grant date fair value of the stock options was determined using the Black-Scholes option pricing model, which requires management to make estimates that are subjective and may not be representative of the actual results. Changes in assumptions can materially affect estimates of fair value.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price
		\$
Outstanding, June 30, 2019	8,144,000	0.25
Granted	1,430,000	0.20
Exercised	(2,455,000)	0.51
Cancelled	(250,000)	0.75
Outstanding, June 30, 2020	6,869,000	0.49
Exercisable, June 30, 2020	6,866,500	0.49
Outstanding, June 30, 2020	6,866,500	0.49
Granted	13,038,750	0.64
Exercised	(4,019,250)	0.33
Cancelled	(1,766,250)	0.71
Outstanding, June 30, 2021	14,119,750	0.61
Exercisable, June 30, 2021	9,918,500	0.41

Share-based compensation expense is determined using the Black-Scholes option pricing model. During the year ended June 30, 2021, the Company recognized share-based compensation expense of \$5,243,212 (2020 - \$467,700), of which \$1,578,990 (2020 - \$177,807) pertains to directors and officers of the Company. Weighted average assumptions used in calculating the fair value of share-based compensation expense are as follows:

	2021	2020
Exercise price	\$0.61	\$0.47
Risk-free interest rate	0.51%	2.25%
Dividend yield	0.00%	0.00%
Expected volatility	162%	154%
Expected life (years)	5.00	4.85

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15. Stock Options (continued)

Additional information regarding options outstanding as at June 30, 2021, is as follows:

Exercise prices (in CAD)	Stock options outstanding		Stock options exercisable	
	Number of stock options outstanding	Weighted average years to expiry	Number of stock options outstanding	Weighted average years to expiry
\$0.10 - \$0.99	10,611,000	3.28	9,402,250	3.19
\$1.00 - \$1.99	3,508,750	4.82	516,250	4.72
	14,119,750	3.66	9,918,500	3.27

16. Warrants

The following table summarizes the continuity of the Company's warrants:

	Number of warrants	Weighted average exercise price
Outstanding, June 30, 2020	34,183,733	\$ 0.28
Issued	9,537,439	0.71
Exercised	(24,949,226)	(0.64)
Expired	(5,079,151)	(1.45)
Outstanding, June 30, 2021	13,692,795	\$ 0.55

Additional information regarding warrants outstanding as at June 30, 2021, is as follows:

Exercise price	Warrants Outstanding	Weighted average remaining contracted life (years)
\$0.15	4,936,260	
\$0.25	4,000,000	
\$0.35	1,446,000	
\$1.60	3,310,535	
	13,692,795	1.23

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17. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the general operations of the Company and facilitate the liquidity needs of its operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include share capital and share-based payment reserve.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during year ended June 30, 2021. The Company is not subject to externally imposed capital requirements.

18. Financial Instruments

The Company's financial instruments are comprised of cash, accounts payable, convertible debentures, due to related parties and loans payable. The carrying value of cash and cash equivalents as presented in the statement of financial position is a reasonable estimate of its fair value.

Financial assets and liabilities measured at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value financial assets and liabilities are described below.

Level 1 - Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash and cash equivalents are valued using quoted market prices in active markets. Accordingly, it is included in Level 1 of the fair value hierarchy.

Level 2 - Significant Other Observable Inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. There are no items in Level 2 of the fair value hierarchy.

Level 3 - Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

				June 30,
	Level 1	Level 2	Level 3	2021
	\$	\$	\$	\$
Cash and cash equivalents	7,501,753	-	-	7,501,753

There were no transfers between Levels 1, 2, or 3 in these consolidated financial statements.

Except as described in the following paragraphs, in management's opinion, the Company is not exposed to financial instrument risks including credit risk, foreign exchange rate risk or interest rate risk.

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18. Financial Instruments (continued)

The Company will be exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include market risk, interest rate risk, liquidity risk, credit risk and foreign currency risk. These risks and related risk management practices employed by the Company are discussed below:

(a) Market risk

The Company's equities are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at June 30, 2021, the Company does not have any investments susceptible to market price risk.

(b) Interest rate risk

Interest rate risk refers to the effect on the fair value of the Company's assets and liabilities due to fluctuations in interest rates.

As at June 31, 2021 and 2020, the Company does not have investments in any variable interest bearing securities and therefore is not subject to interest rate risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

As at June 30, 2021, the Company does not have significant exposure to liquidity risk.

(d) Currency risk

As at June 30, 2021 and 2020, the Company does not have any significant assets or liabilities held in currencies other than the cash of €116,095 and trade payables balance of €22,400. As a result, a fluctuation in the CAD-USD or CAD-EUR foreign exchange rate would not have a significant impact on the financial position of the Company.

19. Commitments and Contingencies

(a) From time to time, the Company is engaged in various legal proceedings and claims that have arisen in the normal course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company.

(b) The Company has entered into employment agreements with its COO and CEO wherein the Company has agreed to pay annual salaries to these individuals. Should the employment of these individuals be terminated for any reason other than for-cause termination or resignation, the individuals will be eligible for compensation equivalent to an aggregate of one year's salary and any performance bonus equivalent to one-half of any of the average of the two highest performance bonuses paid in the previous five fiscal years.

(c) From time to time, the Company enters into contracts for services in the normal course of operations. The Company's current contractual commitments vary in terms and can be terminated upon sufficient notice.

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(Expressed in Canadian Dollars)

20. Income Taxes

The tax effect (computed by applying the applicable federal and provincial/state statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2021	2020
Canadian statutory income tax rate	27% - 30%	27%
Income tax (recovery) at statutory rate	\$ (2,959,000)	\$ (1,426,000)
Permanent differences and others	1,247,000	1,683,000
Change in unrecognized deductible temporary differences	1,712,000	(257,000)
Deferred income tax recovery	\$ -	\$ -

The significant components of deferred income tax assets and liabilities are as follows:

	2021	2020
Non-capital losses	\$ 7,306,000	\$ 5,702,000
Intangible assets	(271,693)	-
Other	16,000	-
Share issuance costs	202,000	110,000
Exploration and evaluation costs	545,000	545,000
Capital losses	1,435,000	1,435,000
Deferred income tax assets not recognized	\$ 9,504,000	\$ 7,792,000
Deferred income tax liability recognized	\$ (271,693)	\$ -

As at June 30, 2021, the Company has non-capital losses carried forward of approximately \$27,057,000 in Canada, which are available to offset future years' taxable income and begin expiring in 2026.

21. Segmented Information

The Company operates in one operating segment, being the technology segment wherein the Company earns revenues from directly selling software as a service, reselling, referring and licensing its technology to licensors. The Company's operations and non-current assets in different geographical segments are as follows:

Geographical Segments	North America	Europe	Total
Non-current assets other than financial instruments			
Balance, June 30, 2021	\$ 319,579	\$ 2,206,411	\$ 2,525,990
Balance, June 30, 2020	67,691	-	67,691
Year ended June 30, 2021			
Revenues	15,948	141,601	157,549
Net loss	(11,085,624)	(10,959)	(11,096,583)
Year ended June 30, 2020			
Revenues	-	-	-
Net loss	(5,251,021)	-	(5,251,021)

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(Expressed in Canadian Dollars)

22. Subsequent Events

- (a) On October 7, 2021, the company entered into an agreement to acquire certain assets and assume certain liabilities related to the PassWallet application from Quicket GmbH (the "Transaction"). In consideration, the Company will pay €355,200 in cash and issue common shares of the Company valued at €532,800, calculated by using the ten-day volume weighted average price of the Company's common shares on TSXV for the period ended five days prior to the date of closing of the Transaction. Any common shares of the Company issued in connection with the Transaction will be subject to a four-month hold period. The Transaction is subject to regulatory approval and has not been completed as of the date of these consolidated financial statements.
- (b) On October 13, 2021, the Company acquired certain assets and assumed certain liabilities related to the Qples application from Qples Inc. In consideration, the Company paid USD \$2,120 in cash and issued 1,222,551 common shares of the Company. The Company has also committed to provide certain future consideration to the sellers, contingent upon achieving certain milestones. The Company has not yet completed its assessment of the accounting treatment pertaining to this transaction.
- (c) The Company issued 2,422,500 common shares pursuant to the exercise of share purchase warrants and stock options.