



**FOBI AI INC.**

Consolidated Financial Statements

Years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

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**INDEPENDENT AUDITORS' REPORT**

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To the Shareholders and Directors of Fobi AI Inc.

**Opinion**

We have audited the consolidated financial statements of Fobi AI Inc. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, 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, 2022 and 2021, 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 28, 2022

**Fobi AI Inc.**

Consolidated Statements of Financial Position

As at June 30, 2022 and 2021

(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,031,021	7,501,753
Amounts receivable (Note 6)	1,241,961	844,502
Prepaid	310,715	328,565
Inventory (Note 7)	120,336	—
Investments (Note 8)	163,095	—
Loans receivable (Note 9)	46,256	288,438
<b>Total current assets</b>	<b>2,913,384</b>	<b>8,963,258</b>
<b>Non-current assets</b>		
Loan receivable (Note 9)	—	193,096
Equipment (Note 10)	113,724	122,062
Intellectual property (Note 11)	3,646,363	171,792
Right-of-use assets (Note 12)	36,771	37,672
Intangible assets (Note 13)	647,602	873,996
Goodwill (Note 4)	1,182,751	1,320,468
<b>Total assets</b>	<b>8,540,595</b>	<b>11,682,344</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 14)	1,802,027	538,938
Current portion of lease liabilities (Note 17)	21,014	16,912
Deferred revenue	221,908	108,488
Loans	—	20,000
<b>Total current liabilities</b>	<b>2,044,949</b>	<b>684,338</b>
Deferred income taxes (Note 24)	142,850	271,693
Non-current portion of lease liabilities (Note 17)	19,591	22,218
<b>Total liabilities</b>	<b>2,207,390</b>	<b>978,249</b>
<b>Shareholders' equity</b>		
Share capital (Note 18)	50,790,896	42,363,480
Subscription receivable	(130,568)	(130,568)
Contributed surplus	14,134,698	7,562,494
Deficit	(58,243,607)	(39,091,291)
Accumulated other comprehensive loss	(218,214)	(20)
<b>Total shareholders' equity</b>	<b>6,333,205</b>	<b>10,704,095</b>
<b>Total liabilities and shareholders' equity</b>	<b>8,540,595</b>	<b>11,682,344</b>

Nature of operations and continuance of business (Note 1)

Commitments and contingencies (Note 23)

Subsequent events (Note 26)

Approved and authorized for issuance on behalf of the Board of Directors on October 28, 2022:

/s/ "Jeffrey Hyman"

Director

/s/ "Robert Douglas Anson"

Director

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

**Fobi AI Inc.**

## Consolidated Statements of Loss and Comprehensive Loss

For the years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
Revenue	2,036,440	157,549
Expenses		
Advertising and marketing	530,297	1,059,667
Amortization (Notes 10, 11, 12, 13)	1,393,736	107,898
Bad debt	9,939	–
Consulting fees	1,826,163	1,111,510
Cost of services sold	–	36,339
Insurance	66,267	12,366
Interest and accretion expense	134,599	18,018
Investor relations	136,804	68,074
Office and general	350,929	405,758
Other	–	4,964
Professional fees	1,068,051	483,752
Rent	139,260	53,735
Research and development	–	167,849
Share-based compensation (Note 19)	7,978,310	5,243,212
Technology costs	1,023,756	70,044
Transaction costs	–	19,953
Transfer agent and filing fees	186,927	60,811
Travel	129,492	89,890
Wages and benefits (Note 15)	5,896,816	2,297,367
Total operating expenses	20,871,346	11,311,207
Loss before other items	(18,834,906)	(11,153,658)
Other items		
Gain on settlement of convertible debentures (Note 16)	–	86,913
Loss on settlement of purchase allocation	–	(33,250)
Gain on settlement of receivables	124,252	–
Other income	52,574	9,196
Interest income	11,266	803
Foreign exchange loss	(17,945)	(6,588)
Unrealized loss on loan receivable (Note 11(b))	(321,162)	–
Unrealized loss on short term investments (Note 8)	(295,238)	–
Net loss before income tax	(19,281,159)	(11,096,583)
Deferred income tax recovery	128,843	–
Net loss from continuing operations	(19,152,316)	(11,096,583)
Unrealized foreign exchange loss	(218,194)	(20)
Comprehensive loss	(19,370,510)	(11,096,603)
Basic and diluted loss per common share	(0.14)	(0.09)
Weighted average number of common shares outstanding	140,301,265	125,364,113

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

## Fobi AI Inc.

Consolidated Statements of Changes in Equity  
For the years ended June 30, 2022 and 2021  
(Expressed in Canadian Dollars)

	Common Shares		Subscriptions	Contributed	Accumulated	Deficit	Total
	Number	Amount	Receivable	Surplus	Other		Shareholders'
		\$	\$	\$	Comprehensive	\$	Equity (Deficit)
					Income		\$
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 share 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	—	—	—	—	—	(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
Issuance of common shares for acquisition of intellectual property	1,524,031	4,112,513	—	—	—	—	4,112,513
Warrants exercised	8,616,260	1,732,439	—	—	—	—	1,732,439
Stock options exercised	2,817,500	2,613,764	—	(1,406,106)	—	—	1,207,658
Share issue costs	—	(31,300)	—	—	—	—	(31,300)
Share-based compensation	—	—	—	7,978,310	—	—	7,978,310
Accumulated other comprehensive loss	—	—	—	—	(218,194)	—	(218,194)
Net loss from continuing operations	—	—	—	—	—	(19,152,316)	(19,152,316)
<b>Balance, June 30, 2022</b>	<b>147,820,054</b>	<b>50,790,896</b>	<b>(130,568)</b>	<b>14,134,698</b>	<b>(218,214)</b>	<b>(58,243,607)</b>	<b>6,333,205</b>

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

**Fobi AI Inc.**

Consolidated Statements of Cash Flows  
For the years ended June 30, 2022 and 2021  
(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
Operating activities		
Net loss	(19,152,316)	(11,096,583)
Items not affecting cash:		
Depreciation	1,393,736	107,898
Deferred income tax expense (recovery)	(128,843)	
Interest and accretion expense	134,599	(33,975)
Loss on settlement of purchase allocation	—	33,250
Gain on settlement of receivables	(124,252)	—
Share-based compensation	7,978,310	5,243,212
Unrealized loss on loan receivable	321,162	—
Unrealized loss on short-term investments	295,238	—
Changes in non-cash working capital items:		
Amounts receivable	(787,819)	232,024
Prepaid expenses	17,850	16,238
Inventory	(120,336)	—
Accounts payable and accrued liabilities	1,166,771	(1,004,191)
Deferred revenue	113,420	108,488
Net cash used in operating activities	(8,892,480)	(6,393,639)
Investing activities		
Cash paid on acquisition of Passcreator, net of cash received	—	(15,909)
Purchase of intellectual property	(511,152)	—
Purchase of property and equipment	(59,399)	(95,164)
Net cash used in investing activities	(570,551)	(111,073)
Financing activities		
Shares issued for cash	—	8,015,872
Share issue costs	(31,300)	(591,715)
Exercise of stock options	1,207,658	1,310,327
Exercise of warrants	1,732,439	6,077,912
Subscription receivables received	—	9,432
Lease payments	(26,251)	(28,941)
Loan advances	116,976	(481,534)
Repayment of loan to related party	—	(479,100)
Net cash provided by financing activities	2,999,522	13,832,253
Effect of foreign exchange on cash and cash equivalents	(7,223)	(20)
Increase (decrease) in cash and cash equivalents	(6,470,732)	7,327,521
Cash and cash equivalents, beginning of the year	7,501,753	174,252
Cash and cash equivalents, end of the year	1,031,021	7,501,753
Supplemental cash flow information		
Additions to ROU assets	29,626	31,793
Share issuance costs – non cash	—	340,707
Shares issued for intellectual property	4,112,513	232,750
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.**

Notes to the Consolidated Financial Statements

For the years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

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### **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, and from consulting and development services. The address of the Company’s corporate office and principal place of business is Suite 541 Howe Street #2F, 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 \$58,243,607 as at June 30, 2022. 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, 2022, 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.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. While the Company does not anticipate any long-term impact, it is not possible to reliably estimate the immediate impact on the financial results and condition of the Company. The Company does not anticipate any material impact and will continue to monitor and assess risks associated with COVID-19.



## Fobi AI Inc.

Notes to the Consolidated Financial Statements  
For the years ended June 30, 2022 and 2021  
(Expressed in Canadian Dollars)

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### 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:

<b>Subsidiaries</b>	<b>Country of incorporation</b>	<b>Functional currency</b>	<b>Percentage of ownership</b>
Fobi AI (USA) Inc.	USA	US Dollar	100%
1334047 B.C. Ltd.	Canada	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.

## **Fobi AI Inc.**

Notes to the Consolidated Financial Statements

For the years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

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### **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 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

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.

##### Revenue recognition

Management applies judgement in its evaluation of whether the applicable criteria for revenue recognition have been met.

## Fobi AI Inc.

Notes to the Consolidated Financial Statements  
For the years ended June 30, 2022 and 2021  
(Expressed in Canadian Dollars)

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### 3. Significant Accounting Policies (continued)

#### a) Significant Accounting Estimates and Judgments (continued)

##### Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidation financial statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported expenses and the statement of financial position classifications used.

#### b) Revenue Recognition

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

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, "*Revenue from Contracts with Customers*", the Company evaluates these arrangements to determine the appropriate accounting treatment in order to recognize revenue based on 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.**

Notes to the Consolidated Financial Statements

For the years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

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### **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"*.

During the year ended June 30, 2022, the Company acquired certain assets described in Note 11 which did not meet the definition of a business as defined under IFRS 3, *"Business Combinations"*. Within the IFRS Business Combinations guidance, there is an optional fair value concentration test. The concentration test is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process, and the acquisition is accounted for as a business combination. The cost of an acquisition that does not meet the definition of a business under IFRS and does not qualify as a business combination is measured as the fair value of the consideration given and liabilities incurred or assumed at the date of exchange. No goodwill arises on an asset acquisition and the cost of the assets acquired and liabilities assumed are allocated to the assets and liabilities on the basis of their relative fair values at the date of purchase. Asset acquisition associated transaction costs are capitalized as a cost of the acquisition.

#### **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. The Company amortizes its hardware on a straight-line basis over three years once it is available for use. Right-of-use assets are amortized over the lease term of the underlying asset.

## Fobi AI Inc.

Notes to the Consolidated Financial Statements  
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### 3. Significant Accounting Policies (continued)

#### 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 relationships	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.

#### 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, "Leases" 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.

## **Fobi AI Inc.**

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

#### **i) Financial Instruments (continued)**

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.

#### Recognition and measurement

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.

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 22 as of the date of the event or change in circumstances giving rise to the transfer.

## Fobi AI Inc.

Notes to the Consolidated Financial Statements  
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### 3. Significant Accounting Policies (continued)

#### i) Financial Instruments (continued)

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.

#### Classification of financial instruments

Cash and cash equivalents	FVTPL
Trade accounts receivable	Amortized cost
Investments	FVTPL
Loans receivable	FVTPL
Accounts payable	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.

## **Fobi AI Inc.**

Notes to the Consolidated Financial Statements  
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### **3. Significant Accounting Policies (continued)**

#### **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.

#### **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) Inventory**

Inventory consists of electronic components purchased to develop the Company's hardware devices and is stated at the lower of cost or market. The Company determines cost of inventory using first-in, first-out method.



## **Fobi AI Inc.**

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

#### **o) 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. The Company did not receive further government grants during the year ended June 30, 2022.

#### **p) Income Taxes**

Current income tax - current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

Deferred income tax - Deferred income tax is provided for based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Current income and deferred tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **q) 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.

## Fobi AI Inc.

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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 \$154,001 (US\$123,000) in cash and issued 1,301,425 common shares of the Company with a fair value of \$1,952,138. The Company acquired all the issued and outstanding common shares of 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 is not 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 loss. During the year ended June 30, 2022, the Company recorded a foreign currency translation adjustment of \$137,717 related to goodwill.

During the year ended June 30, 2022, the Company recorded amortization expense of \$153,140 (2021 - \$31,467) in connection with the customer relationships, developed technology and non-compete intangible assets. The Company also recorded an adjustment of \$137,717 (\$2021 - \$Nil) to goodwill to record the loss on the functional currency translation, which has been recorded within other comprehensive loss.

At June 30, 2022, management performed its annual impairment assessment and determined that the recoverable amounts of the Passcreator CGU and the intangible assets exceeded the carrying value.

Significant assumptions are used in calculating the recoverable amount of the CGU tested for impairment. The significant assumptions in the DCF analysis were as follows:

- Discount rate: The Company used post-tax discount rates of 28.9% to 30.8% which is reflective of an industry Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, a size premium and company specific risk, and after-tax cost of debt based on corporate bond yields.

## Fobi AI Inc.

Notes to the Consolidated Financial Statements

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### 4. Business Combination (continued)

- Projected cash flows: The estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The estimated cash flows were projected based on a number of assumptions, including:
  - Customer acquisition cost to long-term value ratio
  - Churn rate of existing and new customers
  - Operating expenses and costs of revenue
- Terminal value growth rate: The Company applied a terminal growth rate of 2.0% which is based on historical and projected consumer inflation, historical and projected economic indicators and projected industry growth.

### 5. Cash and Cash Equivalents

Cash and cash equivalents include \$132,500 (2021 – \$57,500) of cash held in a GIC, and \$nil (2021 – \$5,167,654) held in trust.

### 6. Amounts Receivable

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

		2022		2021
GST/VAT recoverable	\$	886,989	\$	761,201
Trade accounts receivable		354,972		83,301
	\$	1,241,961	\$	844,502

### 7. Inventory

		2022		2021
Electronic components	\$	120,336	\$	–

Inventory is comprised of electronic components purchased for resale.

### 8. Investments

- On March 1, 2022, the Company received 4,166,666 common shares of Azincourt Energy Corp. ("Azincourt") with a fair value of \$333,333 to settle amounts receivable from Azincourt of \$262,500. The Company recognized a gain on settlement of receivables of \$70,833. On April 19, 2022, Azincourt consolidated its shares on a 2.5:1 basis.
- On June 16, 2022, the Company purchased 223,214 Class A common shares of Turnium Technology Group inc. at \$0.56 per share for a total purchase price of \$125,000.

	Quantity of Common Shares	Cost \$	Accumulated Unrealized Gain (Loss) \$	Fair Value \$
<i>Available-for-sale:</i>				
Azincourt Energy Corp.	1,666,666	333,333	(241,666)	91,667
Turnium Technology Group Inc.	223,214	125,000	(53,572)	71,428
Balance, June 30, 2022		458,333	(295,238)	163,095

## Fobi AI Inc.

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### 9. Loans receivable

- a) In connection with the acquisition of Passcreator (Note 4), the Company granted 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:

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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

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The interest rate for the loans is 2% per annum 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. During the year ended June 30, 2022, the total amount of loan granted of \$480,730 was repaid by the Borrowers in full.

- b) On October 13, 2021, the Company entered into an Asset Purchase Agreement with Qples, Inc. ("Qples") to acquire certain assets and assume certain liabilities ("Purchased Assets"). In connection with the acquisition of the Purchased Assets as further described in Note 11(b), the Company granted a loan to Qples (the "Loan") of \$367,418 (US\$294,405). The Loan is non-interest bearing and is subject to repayment by Qples to the Company using proceeds from the sale of SBA-Payout shares, as further described in Note 11(b). On March 27, 2022, the Company and Qples entered into an amending agreement whereby the repayment period of the Loan was extended to April 1, 2023. As at June 30, 2022, Qples has not disposed of the SBA Payout shares and the Loan due to the Company is outstanding. As the fair value of the SBA-Payout shares was reduced to \$46,256, the Company has recorded an unrealized loss on loan receivable of \$321,162 to reduce the carrying value of the loan receivable as at June 30, 2022.

**Fobi AI Inc.**

Notes to the Consolidated Financial Statements

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**10. Equipment**

	Equipment \$
Cost:	
Balance, June 30, 2020	46,227
Additions	108,972
Balance, June 30, 2021	155,199
Additions	59,399
Balance, June 30, 2022	214,598
Accumulated amortization:	
Balance, June 30, 2020	8,796
Amortization	24,341
Balance, June 30, 2021	33,137
Amortization	67,737
Balance, June 30, 2022	100,874
Carrying amounts:	
Balance, June 30, 2021	122,062
Balance, June 30, 2022	113,724

## Fobi AI Inc.

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### 11. Intellectual Property

- a) 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 in consideration for the issuance of 166,250 common shares. The common shares had a fair value of \$199,500 and were capitalized to intellectual property.
- b) On September 22, 2021, the Company entered into an Asset Purchase Agreement with Qples to acquire certain assets including the Qples SaaS coupon management platform 4.0, the Grocery Coupon Network Mobile App, the Qples Platform 3.0, and to assume specified liabilities (“Purchased Assets”). In consideration for the Purchased Assets, the Company paid US\$2,120, issued 1,222,551 common shares with a fair value of \$3,569,848, and granted a US\$294,405 loan to Qples. The loan was paid directly by the Company to the Small Business Administration (“SBA”) on behalf of Qples as repayment in full by Qples of its loan from the SBA. The loan is subject to repayment by Qples to the Company using proceeds from the sale of 114,212 shares of the Company (“SBA Pay-out Shares”), on the date that is four months and one day after the issuance of SBA Pay-Out shares. On March 27, 2022, the Company and Qples entered into an amending agreement whereby the repayment period of the loan was extended to April 1, 2023. As at June 30, 2022, Qples has not disposed of the SBA Pay-Out shares and the loan due to the Company is outstanding. The Company recognized an unrealized loss on loan receivable of \$321,162 resulting from the reduction in fair value of the SBA Pay-Out shares as at June 30, 2022.

As additional consideration for the Purchased Assets, in the event the aggregate gross revenue generated directly from the Purchased Assets during the period January 1, 2022 to December 31, 2022 exceeded \$1,600,000 and \$3,200,000, the Company shall issue to Qples an aggregate of \$500,000 and \$1,000,000 of Earn-Out Shares respectively (“Revenue Targets”). As at June 30, 2022, Revenue Targets were not reached and no Earn-Out Shares were due to Qples.

The Company applied the optional concentration test permitted under IFRS 3 to the acquisition which resulted in the acquired assets being accounted for as an asset acquisition. As such the purchase price was allocated to the identifiable assets and liabilities based on their relative fair values at the date of acquisition.

- c) On November 4, 2021, the Company completed its acquisition of certain assets and assumed certain liabilities related to the PassWallet application from Quicket GmbH. In consideration, the Company paid \$511,153 and issued 301,480 common shares with a fair market value of \$542,664.

	Digital2go \$	Qples \$	Quicket \$	Total \$
Cost:				
Balance, June 30, 2020	–	–	–	–
Additions	199,500	–	–	199,500
Balance, June 30, 2021	199,500	–	–	199,500
Additions	–	3,569,848	1,053,817	4,623,665
Balance, June 30, 2022	199,500	3,569,848	1,053,817	4,823,165
Accumulated amortization:				
Balance, June 30, 2020	–	–	–	–
Amortization	27,708	–	–	27,708
Balance, June 30, 2021	27,708	–	–	27,708
Amortization	66,500	853,064	229,530	1,149,094
Balance, June 30, 2022	94,208	853,064	229,530	1,176,802
Carrying amounts:				
Balance, June 30, 2021	171,792	–	–	171,792
Balance, June 30, 2022	105,292	2,716,784	824,287	3,646,363

**Fobi AI Inc.**

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**12. Right-of-use Assets**

	Right-of-use Equipment \$	Right-of-use Vehicles \$	Total \$
Cost:			
Balance, June 30, 2020	57,928	24,795	82,723
Additions	–	31,793	31,793
Balance, June 30, 2021	57,928	56,588	114,516
Additions	–	29,626	29,626
Dispositions	–	(24,795)	(24,795)
Balance, June 30, 2022	57,928	61,419	119,347
Accumulated amortization:			
Balance, June 30, 2020	57,928	9,017	66,945
Amortization	–	9,899	9,899
Balance, June 30, 2021	57,928	18,916	76,844
Amortization	–	23,765	23,765
Dispositions	–	(18,033)	(18,033)
Balance, June 30, 2022	57,928	24,648	82,576
Carrying amounts:			
Balance, June 30, 2021	–	37,672	37,672
Balance, June 30, 2022	–	36,771	36,771

**13. Intangible Assets**

	Total \$
Cost:	
Balance, June 30, 2020	–
Additions	905,463
Balance, June 30, 2021	905,463
Foreign currency adjustment	(73,254)
Balance, June 30, 2022	832,209
Accumulated amortization:	
Balance, June 30, 2020	–
Amortization	31,467
Balance, June 30, 2021	31,467
Amortization	153,140
Balance, June 30, 2022	184,607
Carrying amounts:	
Balance, June 30, 2021	873,996
Balance, June 30, 2022	647,602

These intangible assets were acquired as part of the business combination described in Note 4.

## Fobi AI Inc.

Notes to the Consolidated Financial Statements

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### 14. Accounts Payable and Accrued Liabilities

		<b>2022</b>		<b>2021</b>
Accounts payable	\$	710,671	\$	504,576
Accrued liabilities		1,091,356		34,362
	<b>\$</b>	<b>1,802,027</b>	<b>\$</b>	<b>538,938</b>

### 15. 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, 2022. Short-term key management compensation during the year ended June 30, 2022 and 2021 consists of the following:

		<b>2022</b>		<b>2021</b>
Salaries, wages and professional fees	\$	1,143,724	\$	922,335
Share-based payments		2,818,048		1,578,990
	<b>\$</b>	<b>3,961,772</b>	<b>\$</b>	<b>2,501,325</b>

In connection with the acquisition of Passcreator, the managing directors of the subsidiary owed \$480,730 to the Company as at June 30, 2021 (Notes 4 and 9), in connection with the loans advanced for tax payments on acquisition of Passcreator. The loans bear interest of 2% per annum. The interest accrued as at June 30, 2021 was \$804. During the year ended June 30, 2022, the amounts owing were repaid in full.

As at June 30, 2022, the Company has amounts payable to its directors and officers totaling \$nil (June 30, 2021-\$29,474) which is included in accounts payable and accrued liabilities. The amounts payable are unsecured, non-interest bearing and due on demand.

### 16. 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 during the year ended June 30, 2021.

		<b>2022</b>		<b>2021</b>
Balance, beginning of year	\$	–	\$	396,983
Proceeds on conversion of convertible debentures		–		(360,000)
Interest expense		–		23,080
Finance expense		–		26,850
Gain on settlement of convertible debentures		–		(86,913)
	<b>\$</b>	<b>–</b>	<b>\$</b>	<b>–</b>



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### 17. Lease Liabilities

	<b>2022</b>	<b>2021</b>
Lease liability, beginning of year	\$ 39,130	\$ 33,270
Leases recognized during the year	29,626	31,793
Disposition of lease	(10,575)	–
Finance costs	8,675	3,009
Lease payments	(26,251)	(28,942)
Lease liability, end of year	<b>40,605</b>	<b>39,130</b>
Less current portion	21,014	16,912
Non-current portion	<b>\$ 19,591</b>	<b>\$ 22,218</b>

The lease liability was discounted using the Company's incremental borrowing rate of 18%.

As at June 30, 2022, the Company's future minimum lease payments are as follows:

Fiscal year ended June 30, 2023	\$ 26,252
Fiscal year ended June 30, 2024	20,898
Total lease payments	47,150
Amounts representing interest over the term of the lease	(6,545)
Present value of net lease payments	<b>\$ 40,605</b>

### 18. Share Capital

#### **Authorized share capital**

Unlimited number of common shares without par value.

#### **Issued share capital**

As at June 30, 2022, the Company had 147,820,054 (2021 - 134,862,263) issued and fully paid common shares of which nil (2021 – 5,055,000) are held in escrow subject to a four-month hold period.

*During the year ended June 30, 2022:*

- (a) The Company issued 1,222,551 common shares with a fair value of \$3,569,848 pursuant to the acquisition of Purchased Assets from Qples as further described in Note 11(b).
- (b) The Company issued 301,480 common shares with a fair value of \$542,664 pursuant to the acquisition of certain assets and assume certain liabilities related to the PassWallet application from Quicket GmbH as further described in Note 11(c).
- (c) The Company issued a total of 2,817,500 common shares pursuant to the exercise of stock options between \$0.11 to \$1.58 per share for gross proceeds of \$1,207,658.
- (d) The Company issued a total of 8,616,260 common shares pursuant to the exercise of warrants between \$0.15 to \$0.35 per share for gross proceeds of \$1,732,439.

*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.

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### 18. Share Capital (continued)

- (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 consisted of 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 14).
- (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 11(a)).
- (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 year 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.

### 19. Stock Options

During the year ended June 30, 2022, the Company granted a total of 6,512,500 (2021 - 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:

	2022		2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding – beginning of year	14,119,750	\$ 0.61	6,866,500	\$ 0.49
Granted	6,512,500	1.01	13,038,750	0.64
Exercised	(2,817,500)	0.43	(4,019,250)	0.33
Forfeited/Expired	(4,279,250)	0.90	(1,766,250)	0.71
Outstanding – end of year	13,535,500	\$ 0.74	14,119,750	\$ 0.61
Exercisable – end of year	12,053,625	\$ 0.73	9,918,500	\$ 0.41

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### 19. Stock Options (continued)

Share-based compensation expense is determined using the Black-Scholes option pricing model. During the year ended June 30, 2022, the Company recognized share-based compensation expense of \$7,978,310 (2021 - \$5,243,212), of which \$2,818,048 (2021 - \$1,578,990) 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:

	2022	2021
Exercise price	\$1.01	\$0.61
Risk-free interest rate	1.74%	0.51%
Dividend yield	0.00%	0.00%
Expected volatility	147%	162%
Expected life (years)	4.89	5.00

Additional information regarding options outstanding as at June 30, 2022, is as follows:

Exercise prices	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 - \$0.90	8,438,500	2.57	7,383,500	2.25
\$1.00 - \$1.99	5,097,000	4.12	4,670,125	4.09
	13,535,500	3.15	12,053,625	2.96

### 20. Warrants

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

	2022		2021	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding – beginning of year	13,692,795	\$ 0.55	34,183,733	\$ 0.28
Adjustment	11,600	0.35	–	–
Issued	–	–	9,537,439	0.71
Exercised	(8,616,260)	0.20	(24,949,226)	0.64
Expired	–	–	(5,079,151)	1.45
Outstanding – end of year	5,087,635	\$ 1.12	13,692,795	\$ 0.55

Additional information regarding warrants outstanding as at June 30, 2022, is as follows:

Exercise prices	Warrants Outstanding	Weighted Average Remaining Contracted Life (years)
	\$ 0.15	520,000
\$ 0.35	1,257,600	0.35
\$ 1.25	343,035	1.00
\$ 1.60	2,967,000	1.00
	5,087,635	0.74

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### 21. 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, 2022. The Company is not subject to externally imposed capital requirements.

### 22. Financial Instruments

The Company's financial instruments are comprised of cash, amounts receivable, loans receivable, investments, accounts payable, 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, investments and loans receivable are valued using quoted market prices in active markets. Accordingly, these are 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:

	Level 1	Level 2	Level 3	June 30, 2022
	\$	\$	\$	\$
Cash and cash equivalents	1,031,021	-	-	1,031,021
Investments	163,095	-	-	163,095
Loans receivable	46,256	-	-	46,256

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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### 22. 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 is exposed to market risk with respect to its marketable securities, which consists of common shares held in publicly traded companies and is dependent upon the market price or the fair value of the common shares for those companies. The market price or the fair value of the common shares of those companies can fluctuate significantly, and there is no assurance that the future market price or the fair value of those companies will not decrease significantly.

(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. 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 encounter difficulty in meeting financial obligations due to shortage of funds. The Company manages liquidity risk by maintaining sufficient cash balances and adjusting its operating budget and expenditure. Liquidity requirements are managed based on expected cash flows to ensure that there are sufficient funds to meet short-term and specific obligations.

(d) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Company is mainly exposed to foreign currency risk to the extent that the following monetary assets and liabilities are denominated in US dollars and Euros:

As at June 30, 2022:

	US\$	Euro
Cash and cash equivalents	206,519	106,139
Amounts receivable	127,671	61,469
Loans receivable	64,860	—
Accounts payable and accrued liabilities	(46,260)	(40,066)
Net exposure	<b>352,790</b>	<b>127,542</b>
Canadian dollar equivalent	<b>\$ 454,605</b>	<b>\$ 171,761</b>

As at June 30, 2021:

	US\$	Euro
Cash and cash equivalents	—	116,095
Accounts payable and accrued liabilities	—	(22,400)
Net exposure	—	<b>93,695</b>
Canadian dollar equivalent	<b>\$ —</b>	<b>\$ 137,722</b>

A 10% change in the foreign exchange rate of Euro's or US dollars is not expected to have a material impact on the Company's consolidated financial statements

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### 23. 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.

### 24. 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:

	2022	2021
	\$	\$
Net income (loss)	(19,281,159)	(11,096,583)
Statutory income tax rates	27% - 30%	27% - 30%
Income tax (recovery) at statutory rate	(5,203,042)	(2,959,258)
Permanent differences and others	2,224,701	1,247,081
Change in unrecognized deductible temporary differences	2,849,498	1,712,177
<b>Deferred income tax recovery</b>	<b>(128,843)</b>	<b>-</b>

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

	2022	2021
	\$	\$
Non-capital losses	9,959,927	7,305,872
Other	(22,020)	16,319
Capital assets	342,440	-
Intangible assets	(194,280)	(271,693)
Share issuance costs	145,098	202,326
Exploration and evaluation costs	545,000	545,000
Capital losses	1,435,467	1,435,467
<b>Net deferred income tax assets not recognized</b>	<b>12,354,482</b>	<b>9,504,984</b>
<b>Deferred income tax liability</b>	<b>(142,850)</b>	<b>(271,693)</b>

As at June 30, 2022, 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.

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### 25. Segmented Information

The Company operates in one operating segment, being the technology segment wherein the Company earns revenues from providing consulting and development services, 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:

<b>Geographical Segments</b>	<b>North America</b>	<b>Europe</b>	<b>Total</b>
Non-current assets other than financial instruments			
Balance, June 30, 2022	\$ 3,779,571	\$ 1,847,640	\$ 5,627,211
Balance, June 30, 2021	319,579	2,206,411	2,525,990
Year ended June 30, 2022			
Revenues	1,194,504	841,936	2,036,440
Net loss before tax	(19,094,256)	(186,903)	(19,281,159)
Year ended June 30, 2021			
Revenues	15,948	141,601	157,549
Net loss before tax	(11,085,624)	(10,959)	(11,096,583)

### 26. Subsequent Events

- On September 26, 2022 the Company announced it completed a non-brokered private placement offering of 3,681,595 units of the Company at a price per unit of \$0.35 for aggregate gross proceeds of \$1,288,558. Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company. Each Warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.65 at any time on or before September 26, 2024.
- Subsequent to year-end, 100,000 stock options with an exercise price of \$0.46 were granted to a consultant of the Company.
- Subsequent to year-end, 1,000,000 stock options with an exercise price of \$0.43 were granted to directors of the Company
- Subsequent to year-end, 369,500 stock options were exercised for gross proceeds of \$118,340, and 52,600 warrants were exercised for gross proceeds of \$18,410.
- Subsequent to year-end, 1,052,000 stock options expired unexercised.