



## **FOBI AI INC.**

Condensed Interim Consolidated Financial Statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

**Fobi AI Inc.**

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	March 31, 2023 \$	June 30, 2022 \$
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	279,752	1,031,021
Amounts receivable (Note 4)	1,874,064	1,241,961
Prepaid expenses	41,297	310,715
Inventory (Note 5)	120,336	120,336
Investments (Note 6)	150,449	163,095
Loan receivable (Note 7)	50,253	46,256
Total current assets	2,516,151	2,913,384
Non-current assets		
Equipment (Note 8)	67,842	113,724
Intellectual property (Note 9)	2,440,574	3,646,363
Right-to-use asset (Note 10)	21,416	36,771
Intangible assets (Note 11)	632,170	647,602
Goodwill (Note 3)	1,291,743	1,182,751
Total assets	6,969,896	8,540,595
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	2,092,139	1,802,027
Current portion of lease liabilities (Note 14)	22,956	21,014
Deferred revenue	346,703	221,908
Total current liabilities	2,461,798	2,044,949
Deferred income taxes	142,850	142,850
Non-current portion of lease liabilities (Note 14)	2,245	19,591
Total liabilities	2,606,893	2,207,390
Shareholders' equity		
Share capital (Note 15)	54,909,474	50,790,896
Subscription receivable	(130,568)	(130,568)
Contributed surplus	17,610,889	14,134,698
Deficit	(68,312,231)	(58,243,607)
Accumulated other comprehensive income (loss)	285,439	(218,214)
Total shareholders' equity	4,363,003	6,333,205
Total liabilities and shareholders' equity	6,969,896	8,540,595

Going concern (Note 2(c))

Commitments and contingencies (Note 20)

Subsequent events (Note 22)

Approved and authorized for issuance by the Board of Directors on May 8, 2023:

/s/ "Jeffrey Hyman"

Director

/s/ "Robert Douglas Anson"

Director

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

**Fobi AI Inc.**

## Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Three Months Ended March 31, 2023 \$	Three Months Ended March 31, 2022 \$	Nine Months Ended March 31, 2023 \$	Nine Months Ended March 31, 2022 \$
Revenue	1,255,093	315,008	2,288,568	1,818,148
Expenses				
Advertising and marketing	184,720	183,871	351,876	411,526
Amortization (Note 8, 9, 10, 11)	459,857	862,752	1,387,401	987,590
Bad debt recovery	(9,939)	–	(9,939)	–
Consulting fees	189,823	505,976	670,646	1,213,146
Insurance	21,787	43,367	103,493	54,194
Interest and accretion expense	13,499	2,104	27,179	5,551
Investor relations	25,541	3,870	95,685	119,330
Office and general	36,477	79,110	93,538	240,250
Professional fees	254,389	218,199	423,800	453,699
Rent	39,330	65,284	119,180	94,277
Research and development	172,254	–	269,805	–
Share-based compensation (Note 16)	2,384,770	2,153,448	4,149,106	7,645,328
Technology costs	264,703	254,230	846,140	889,201
Transfer agent and filing fees	19,134	73,257	87,286	205,526
Travel	12,828	(46,056)	83,138	124,308
Wages and benefits (Note 13)	1,006,769	1,461,341	3,366,554	4,394,848
Total operating expenses	5,075,942	5,860,753	12,064,888	16,838,774
Loss before other items	(3,820,849)	(5,545,745)	(9,776,320)	(15,020,626)
Other items				
Other income (loss)	4,179	24,399	14,323	44,399
Interest income	899	–	4,867	2,368
Foreign exchange gain (loss)	2,328	(5,089)	(7,606)	3,235
Unrealized gain on loan receivable	18,844	–	3,997	–
Unrealized loss on investments	(38,551)	–	(38,551)	–
Gain on settlement of receivables	–	70,833	–	70,833
Gain on settlement of accounts payable	–	53,419	8,746	53,419
Loss from sale of investments (Note 6)	–	–	(278,080)	–
Net loss from continuing operations	(3,833,150)	(5,402,183)	(10,068,624)	(14,846,372)
Unrealized foreign exchange gain (loss)	70,805	–	503,653	–
Comprehensive loss	(3,762,345)	(5,402,183)	(9,564,971)	(14,846,372)
Basic and diluted loss per common share	(0.02)	(0.04)	(0.07)	(0.11)
Weighted average number of common shares outstanding	158,780,732	145,084,120	153,345,498	139,693,840

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

**Fobi AI Inc.**

Condensed Interim Consolidated Statements of Changes in Equity  
(Expressed in Canadian dollars)  
(Unaudited)

	<u>Common Shares</u>		Subscriptions Receivable \$	Contributed Surplus \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Shareholders' Equity \$
	Number	Amount \$					
<b>Balance, June 30, 2021</b>	<b>134,862,263</b>	<b>42,363,480</b>	<b>(130,568)</b>	<b>7,562,494</b>	<b>(20)</b>	<b>(39,091,291)</b>	<b>10,704,095</b>
Issuance of common shares for acquisition of intellectual property	1,524,031	4,505,531	–	–	–	–	4,505,531
Warrants exercised	7,135,000	1,510,250	–	–	–	–	1,510,250
Stock options exercised	2,662,000	2,279,362	–	(1,110,339)	–	–	1,169,023
Share-based compensation	–	–	–	7,645,328	–	–	7,645,328
Net loss	–	–	–	–	–	(14,846,372)	(14,846,372)
<b>Balance, March 31, 2022</b>	<b>146,183,294</b>	<b>50,658,623</b>	<b>(130,568)</b>	<b>14,097,483</b>	<b>(20)</b>	<b>(53,937,663)</b>	<b>10,687,855</b>
<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>
Issuance of common shares for cash, net of share issuance costs	8,405,541	2,078,932	–	13,655	–	–	2,092,587
Issuance of common shares to settle debt	510,045	226,970	–	–	–	–	226,970
Warrants exercised	1,257,600	440,160	–	–	–	–	440,160
Stock options exercised	2,532,600	1,372,516	–	(686,570)	–	–	685,946
Share-based compensation	–	–	–	4,149,106	–	–	4,149,106
Accumulated other comprehensive income	–	–	–	–	503,653	–	503,653
Net loss	–	–	–	–	–	(10,068,624)	(10,068,624)
<b>Balance, March 31, 2023</b>	<b>160,525,840</b>	<b>54,909,474</b>	<b>(130,568)</b>	<b>17,610,889</b>	<b>285,439</b>	<b>(68,312,231)</b>	<b>4,363,003</b>

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

**Fobi AI Inc.**

Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)  
(Unaudited)

	Nine Months Ended March 31, 2023 \$	Nine Months Ended March 31, 2022 \$
Operating activities		
Net loss	(10,068,624)	(14,846,372)
Items not affecting cash:		
Amortization	1,387,401	987,590
Interest and accretion expense	4,285	4,152
Unrealized gain on loan receivable	(3,997)	–
Unrealized loss on investments	38,551	–
Gain on settlement of receivables	–	(70,833)
Gain on settlement of accounts payable	(8,746)	(53,419)
Share-based compensation	4,149,106	7,645,328
Loss on sale of investments	278,080	–
Changes in non-cash operating working capital:		
Amounts receivable	(695,103)	(1,365,306)
Prepaid expenses	269,418	(107,597)
Inventory	–	(118,294)
Accounts payable and accrued liabilities	525,828	931,202
Deferred revenue	124,795	285,122
<b>Net cash used in operating activities</b>	<b>(3,999,006)</b>	<b>(6,708,427)</b>
Investing activities		
Purchase of equipment	(2,212)	(60,637)
Purchase of investments	(126,000)	–
Purchase of intellectual property	–	(511,153)
<b>Net cash used in investing activities</b>	<b>(128,212)</b>	<b>(571,790)</b>
Financing activities		
Proceeds from shares issued for cash, net of costs	2,092,587	–
Proceeds from exercise of warrants	440,160	1,510,250
Proceeds from exercise of options	685,946	1,169,023
Net proceeds from advancement and repayment of loans	–	94,116
Repayment of principal portion of the lease liability	(19,689)	(18,687)
<b>Net cash provided by financing activities</b>	<b>3,199,004</b>	<b>2,754,702</b>
Effect of foreign exchange on cash and cash equivalents	176,945	–
Decrease in cash and cash equivalents	(751,269)	(4,525,515)
Cash and cash equivalents, beginning of period	1,031,021	7,501,753
<b>Cash and cash equivalents, end of period</b>	<b>279,752</b>	<b>2,976,238</b>
Cash and cash equivalents are comprised of:		
Cash in bank	204,752	2,443,738
Cashable guaranteed investment certificates	75,000	532,500
<b>Total cash and cash equivalents</b>	<b>279,752</b>	<b>2,976,238</b>
Supplemental cash flow information (Note 21)		

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

## Fobi AI Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

### 1. Corporate Information

Fobi AI 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 #2F, Vancouver B.C., V6C 2C2.

### 2. Basis of Presentation

#### (a) Statement of Compliance and Principles of Consolidation

These condensed unaudited interim 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 the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The condensed unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2022. The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements.

These condensed unaudited interim 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%
Fobi AI Germany GmbH	Germany	Euros	100%

#### (b) Basis of Measurement

These condensed unaudited interim consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of these condensed unaudited interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## **Fobi AI Inc.**

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

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### **2. Basis of Presentation (continued)**

#### (b) Basis of Measurement (continued)

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities include the following:

- i) The useful life and recoverability of long-lived assets
- ii) The inputs used in the valuation of share-based payments
- iii) Revenue recognition for special contracts and projects
- iv) Incremental borrowing rate
- v) Allowance for credit losses

Significant areas of judgment include:

- i) Application of the going concern assumption
- ii) Application of IFRS 16
- iii) Deferred tax assets
- iv) Functional currency

#### (c) Going Concern

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of March 31, 2023, the Company had not yet generated significant revenue or positive cash flow from operations. The Company has a net loss of \$10,068,624 for the nine-month period ended March 31, 2023 and accumulated deficit of \$68,312,231 as at March 31, 2023. These factors, among others, may cast substantial doubt as to the ability of the Company to continue as a going concern. Management believes that the proceeds from additional equity financing activities that it is currently pursuing, combined with revenue that the Company expects to generate in subsequent periods, will provide the Company with sufficient working capital to satisfy its liabilities and commitments as they become due for the foreseeable future. There can be no assurances that sufficient equity can be raised on acceptable terms on a timely basis.

These unaudited condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these unaudited condensed interim consolidated financial statements. Such 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.

#### (d) Reclassifications

Certain reclassifications have been made to the comparative information presented to conform to the current period presentation on the unaudited condensed interim consolidated statements of financial position and comprehensive loss.

## Fobi AI Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

### 3. 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. 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 nine months ended March 31, 2023, the Company recorded amortization expense of \$115,035 (2022 - \$114,855) in connection with the customer relationships, developed technology and non-compete intangible assets. The Company also recorded an adjustment of \$28,725 (2022 - \$Nil) to goodwill to record the gain on the functional currency translation, which has been recorded within other comprehensive loss.

### 4. Amounts Receivable

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

		March 31, 2023		June 30, 2022
GST/VAT recoverable	\$	937,833	\$	886,989
Trade accounts receivable		936,231		354,972
	\$	1,874,064	\$	1,241,961



## Fobi AI Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

### 5. Inventory

	<b>March 31, 2023</b>	<b>June 30, 2022</b>
Electronic components	\$ 120,336	\$ 120,336

Inventory is comprised of electronic components purchased for resale.

### 6. Investments

- a) 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. During the nine months ended March 31, 2023, the Company sold all common shares of Azincourt for gross proceeds of \$113,495 and recorded a loss of \$219,838.
- b) On June 16, 2022, the Company purchased 223,214 Class A common shares of Turnium Technology Group Inc. ("Turnium") at \$0.56 per share for a total purchase price of \$125,000. During the nine months ended March 31, 2023, the Company sold all common shares of Turnium for gross proceeds of \$66,758 and recorded a loss of \$58,242.
- c) On January 18, 2023, the Company purchased to 840,000 units of Pangenomic Health Inc. ("Pangenomic") at \$0.15 per unit for a total purchase price of \$126,000. Each unit consists of one Class A common share and one Class A common share purchase warrant entitling the holder to purchase one additional share at a price of \$0.30 per share for a period of 24 months. At the time of purchase, the per unit cost is allocated in full to each common share. The value of the warrants is subsequently determined at the measurement date using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 3.78%; expected life of the warrants; volatility of 131%; forfeiture rate and dividend yield of nil; and the exercise price of the warrants.
- d) On March 16, 2023, the Company acquired 1,800,000 common shares of ParcelPal Logistics Inc. ("ParcelPal") at \$0.035 per share in consideration for services provided.

The Company had the following investments in public entities stated at fair value:

	<b>March 31, 2023</b>	<b>June 30, 2022</b>
Azincourt – shares	\$ –	\$ 91,667
Turnium – shares	–	71,428
Pangenomic – shares	75,600	–
Pangenomic – warrants	29,849	–
ParcelPal – shares	45,000	–
	<b>\$ 150,449</b>	<b>\$ 163,095</b>

The continuity of the Company's investments during the nine months ended March 31, 2023 is as follows:

	Cost	Proceeds from disposition	Realized losses	Accumulated unrealized losses	Fair Value March 31, 2023
	\$	\$	\$	\$	\$
Azincourt – shares	333,333	(113,495)	(219,838)	–	–
Turnium – shares	125,000	(66,758)	(58,242)	–	–
Pangenomic – shares	126,000	–	–	(50,400)	75,600
Pangenomic – warrants	–	–	–	29,849	29,849
ParcelPal – shares	63,000	–	–	(18,000)	45,000
	<b>647,333</b>	<b>(180,253)</b>	<b>(278,080)</b>	<b>(38,551)</b>	<b>150,449</b>

## Fobi AI Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

### 7. Loan receivable

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 9(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 9(b). On March 27, 2022, the Company and Qples entered into an amending agreement whereby the repayment period of the Loan should be extended to April 1, 2023. As at March 31, 2023, 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 increased to \$50,253, the Company has recorded an unrealized gain on loan receivable of \$3,997 to increase the carrying value of the loan receivable as at March 31, 2023.

### 8. Equipment

	Equipment
Cost:	
Balance, June 30, 2022	\$ 214,598
Additions	2,212
Balance, March 31, 2023	216,810
Accumulated amortization:	
Balance, June 30, 2022	100,874
Amortization	48,094
Balance, March 31, 2023	148,968
Carrying amounts:	
Balance, June 30, 2022	\$ 113,724
Balance, March 31, 2023	\$ 67,842

### 9. 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 acquisition, the Company issued to Locally 166,250 common shares. The 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 should be extended to April 1, 2023. As at March 31, 2023, Qples has not disposed of the SBA Pay-Out shares and the loan due to the Company is outstanding. The Company recognized an unrealized gain on loan receivable of \$3,997 resulting from the reduction in fair value of the SBA Pay-Out shares as at March 31, 2023.

**Fobi AI Inc.**

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

**9. Intellectual Property (continued)**

As additional consideration for the Purchased Assets, in the event the aggregate gross revenue generated directly from the Purchase Assets during the period January 1, 2022 to December 31, 2022 exceed \$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 March 31, 2023, Revenue Targets were not reached and no Earn-Out Shares were due to Qples.

- c) On November 8, 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 in cash and issued 301,480 common shares of the Company at fair market value of \$542,664.

	Digital2go \$	Qples \$	Quicket \$	Total \$
Cost:				
Balance, June 30, 2022	199,500	3,569,848	1,053,817	4,823,165
Balance, March 31, 2023	199,500	3,569,848	1,053,817	4,823,165
Accumulated amortization:				
Balance, June 30, 2022	94,208	853,064	229,530	1,176,802
Amortization	49,875	892,461	263,453	1,205,789
Balance, March 31, 2023	144,083	1,745,525	492,983	2,382,591
Carrying amounts:				
Balance, June 30, 2022	105,292	2,716,784	824,287	3,646,363
Balance, March 31, 2023	55,417	1,824,323	560,834	2,440,574

\* Intellectual property is amortized over the estimated useful life of three years on a straight-line basis.

**10. Right-of-use Assets**

	Right-of-Use Vehicle**
Cost:	
Balance, June 30, 2022	\$ 61,419
Balance, March 31, 2023	61,419
Accumulated amortization:	
Balance, June 30, 2022	24,648
Additions	15,355
Balance, March 31, 2023	40,003
Carrying amounts:	
Balance, June 30, 2022	\$ 36,771
Balance, March 31, 2023	\$ 21,416

\*\* Right-of-use vehicle was amortized using the straight-line basis until its lease expiration in May 2024.

## Fobi AI Inc.

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### 11. Intangible Assets

	Total \$
Cost:	
Balance, June 30, 2022	832,209
Balance, March 31, 2023	832,209
Accumulated amortization:	
Balance, June 30, 2022	184,607
Amortization	15,432
Balance, March 31, 2023	200,039
Carrying amounts:	
Balance, June 30, 2022	647,602
Balance, March 31, 2023	632,170

The Company reviews the carrying value of its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the nine months ended March 31, 2023, the Company did not identify any indicators of impairment.

### 12. Accounts Payable and Accrued Liabilities

	March 31, 2023		June 30, 2022	
Accounts payable	\$	1,044,638	\$	710,671
Accrued liabilities		1,047,501		1,091,356
	\$	<b>2,092,139</b>	\$	<b>1,802,027</b>

### 13. Related Party Transactions

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 nine months ended March 31, 2023. Short-term key management compensation during the nine months ended March 31, 2023 and 2022 consists of the following:

	March 31, 2023		March 31, 2022	
Salaries, wages and professional fees	\$	898,909	\$	1,023,852
Share-based payments		2,168,122		2,984,117
	\$	<b>3,067,031</b>	\$	<b>4,007,969</b>

As at March 31, 2023, the Company has a balance payable to its directors and officers totaling \$Nil (June 30, 2022 - \$Nil) which is included in accounts payable and accrued liabilities. The amounts payable to related parties are unsecured, non-interest bearing and due on demand.

## Fobi AI Inc.

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### 14. Lease Liabilities

	March 31, 2023		June 30, 2022	
Lease liability, beginning of period	\$	40,605	\$	39,130
Leases recognized during the period		–		29,626
Disposition of lease		–		(10,575)
Finance costs		4,285		8,675
Lease payments		(19,689)		(26,251)
Lease liability, end of period		<b>25,201</b>		<b>40,605</b>
Less current portion		22,956		21,014
Non-current portion	\$	2,245	\$	19,591

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

The Company's future minimum lease payments are as follows:

Fiscal year ended June 30, 2023	\$	6,562	\$	26,252
Fiscal year ended June 30, 2024		20,898		20,898
Total lease payments		27,460		47,150
Amounts representing interest over the term of the lease		(2,259)		(6,545)
Present value of net lease payments	\$	25,201	\$	40,605

### 15. Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

During the nine months ended March 31, 2023:

- The Company completed a non-brokered private placement offering of 3,681,595 units at \$0.35 per unit for gross proceeds of \$1,288,558. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at \$0.65 per share at any time on or before September 26, 2024. In connection with this private placement, the Company incurred share issuance costs of \$787.
- The Company completed a non-brokered private placement offering of 4,723,946 units at \$0.175 per unit for gross proceeds of \$826,691. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at \$0.30 per share at any time on or before January 24, 2025. In connection with this private placement, the Company incurred share issuance costs of \$21,875 and issued 125,000 finder's warrants with a fair value of \$13,655. The finder's warrants have the same terms as the common share purchase warrants issued from the private placement.
- The Company issued a total of 2,532,600 common shares pursuant to the exercise of stock options between \$0.11 to \$0.42 per share for gross proceeds of \$685,946. Contributed surplus of \$686,570 was reversed and included in the share capital.
- The Company issued a total of 1,257,600 common shares pursuant to the exercise of warrants at \$0.35 per share for gross proceeds of \$440,160.
- The Company issued a total of 510,045 common shares with a fair market value of \$226,970 to settle debt of \$226,970.

**Fobi AI Inc.**

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**15. Share Capital (Continued)**

During the nine months ended March 31, 2022:

- a) The Company issued 1,222,551 common shares with a fair value of \$3,962,867 pursuant to the acquisition of Purchased Assets from Qples as further described in Note 9b.
- 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 9c.
- c) The Company issued a total of 2,662,000 common shares pursuant to the exercise of stock options between \$0.11 to \$1.09 per share for gross proceeds of \$1,169,023. Contributed surplus in the amount of \$1,110,339 was reversed and included in the share capital.
- d) The Company issued a total of 7,135,000 common shares pursuant to the exercise of warrants between \$0.15 to \$0.35 per share for gross proceeds of \$1,510,250.

**16. Stock Options**

During the nine months ended March 31, 2023, the Company granted a total of 13,379,893 (2022 – 4,850,500) 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:

	Nine months ended March 31, 2023		Nine months ended March 31, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding – beginning of period	13,535,500	\$ 0.74	14,119,750	\$ 0.61
Granted	13,379,893	0.33	4,850,500	1.18
Exercised	(2,532,600)	0.27	(3,417,500)	0.44
Forfeited/Expired	(4,121,150)	0.79	(1,768,750)	0.96
Outstanding – end of period	20,261,643	\$ 0.52	13,784,000	\$ 0.76
Exercisable – end of period	17,064,143	\$ 0.54	12,013,000	\$ 0.69

**Fobi AI Inc.**

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**16. Stock Options (Continued)**

Share-based compensation expense is determined using the Black-Scholes option pricing model. During the nine months ended March 31, 2023, the Company recognized share-based compensation expense of \$4,149,106 (2022 - \$7,645,328), of which \$2,168,122 (2022 - \$2,279,907) 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:

	March 31, 2023	March 31, 2022
Exercise price	\$0.42	\$1.18
Risk-free interest rate	2.86%	1.30%
Dividend yield	0.00%	0.00%
Expected volatility	134%	145%
Expected life (years)	4.99	5.00

Additional information regarding options outstanding as at March 31, 2023, 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	16,985,393	4.29	13,812,893	4.19
\$1.00 - \$1.99	3,276,250	3.49	3,251,250	3.48
	20,261,643	4.16	17,064,143	4.06

**17. Warrants**

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

	Nine months ended March 31, 2023		Nine months ended March 31, 2022	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding – beginning of period	5,087,635	\$ 1.12	13,692,795	\$ 0.55
Issued	4,327,768	0.45	–	–
Exercised	(1,257,600)	0.35	(7,135,000)	0.21
Expired	(520,000)	0.15	–	–
Outstanding – end of period	7,637,803	\$ 0.93	6,557,795	\$ 0.89

**Fobi AI Inc.**

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**17. Warrants (Continued)**

Additional information regarding warrants outstanding as at March 31, 2023, is as follows:

<b>Exercise prices</b>	<b>Warrants Outstanding</b>	<b>Weighted Average Remaining Contracted Life (years)</b>
\$ 0.30	2,486,973	1.82
\$ 0.65	1,840,795	1.49
\$ 1.25	343,035	0.25
\$ 1.60	2,967,000	0.25
	<b>7,637,803</b>	<b>1.06</b>

**18. 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 the period ended March 31, 2023. The Company is not subject to externally imposed capital requirements.

**19. Financial Instruments**

The Company's financial instruments are comprised of cash, amounts receivable, loan 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.



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### 19. Financial Instruments (continued)

#### *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 loan 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	March 31, 2023
	\$	\$	\$	\$
Cash and cash equivalents	279,752	—	—	279,752
Loan receivable	50,253	—	—	50,253

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.

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.

**Fobi AI Inc.**

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**19. Financial Instruments (continued)**

## (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 March 31, 2023:

	US\$	Euro
Cash and cash equivalents	10,248	60,728
Amounts receivable	80,533	65,515
Loans receivable	37,134	–
Accounts payable and accrued liabilities	(63,285)	(99,181)
Net exposure	<b>64,630</b>	<b>27,062</b>
Canadian dollar equivalent	<b>87,464</b>	<b>39,802</b>

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>

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.

## (e) Funding Risk

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. A summary of the Company's obligations is as follows:

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	1 - 3 years \$
As at March 31, 2023				
Trade and other payables	2,092,139	2,092,139	2,092,139	–
Lease liabilities	25,201	27,460	23,085	4,375
	<b>2,117,340</b>	<b>2,119,599</b>	<b>2,115,224</b>	<b>4,375</b>

## Fobi AI Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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### 20. 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.

### 21. Supplemental Cash Flow Information

	Nine months ended March 31, 2023	Nine months ended March 31, 2022
<b>Non-cash activities:</b>		
Shares issued to settle debt	226,970	—
Acquisition of shares for services provided	63,000	—
Fair value of finder's warrant issued	13,655	—

### 22. Subsequent Events

- a) Subsequent to period end, the Company acquired 100% control over Passworks S.A. ("Passcreator"). Based in Portugal, Passworks is a European digital wallet and mobile marketing company. In consideration for the acquisition of Passcreator, the Company issued 1,674,264 common shares of the Company with a fair value of \$500,000. The Company acquired all the issued and outstanding common shares of Passworks. As the Company is the sole owner of all the common shares, in accordance with IFRS 10, the Company has control over Passworks. The investment in Passworks 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.
- b) Subsequent to period end, 74,000 stock options with an exercise price of \$0.39 were granted to employees of the Company.
- c) Subsequent to period end, 910,000 stock options with exercise prices between \$0.37 to \$0.385 were granted to consultants of the Company.
- d) Subsequent to period end, 325,000 stock options were exercised at \$0.24 per share for gross proceeds of \$78,000.
- e) Subsequent to period end, 449,000 stock options were exercised at \$0.39 per share for gross proceeds of \$175,110.
- f) Subsequent to period end, 550,000 stock options were exercised at \$0.37 per share for gross proceeds of \$203,500.
- g) Subsequent to period end, 518,750 stock options expired unexercised.