INEO Tech Corp.

Consolidated Financial Statements

As at and for the years ended June 30, 2023, and 2022

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
INEO Tech Corp.

Opinion

We have audited the accompanying consolidated financial statements of INEO Tech Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no other key audit matters to communicate in our auditor's report.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Zachary Faure.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 25, 2023

INEO Tech Corp.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
As at

	Notes	June 30, 2023	June 30, 2022
Assets			
Current assets			
Cash		**$ 362,510**	$ 1,706,048
Accounts receivable	*5*	**252,599**	205,068
Inventory	*4, 6*	**263,962**	155,013
Prepaid expenses	*7*	**96,380**	254,456
Notes Receivable	*8*	**25,393**	-
GST recoverable		**14,415**	16,769
		1,015,259	2,337,354
Non-current assets			
Equipment	*9*	**1,509,388**	780,709
Right-of-use asset	*19*	**51,753**	82,805
Intangibles	*4*	**3,254**	5,423
		1,564,395	868,937
Total assets		**$ 2,579,654**	$ 3,206,291
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**$ 674,537**	$ 481,269
Loans payable	*11*	**181,250**	168,750
Government grant	*13*	**111,380**	111,382
Current portion of lease liability	*20*	**36,352**	31,316
Interest payable	*12*	**13,973**	-
Due to related parties	*16*	**9,950**	1,595
		1,027,442	794,312
Non-current liabilities			
Notes Payable	*12*	**856,112**	-
Non-current portion of lease liability	*20*	**27,266**	63,618
		883,378	63,618
Total liabilities		**1,910,820**	857,930
Shareholders' equity			
Share capital	*14*	**14,968,979**	13,535,082
Reserves	*14*	**945,182**	727,115
Deficit		**(15,245,327)**	(11,913,836)
		668,834	2,348,361
Total liabilities and shareholders' equity		**$ 2,579,654**	$ 3,206,291

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

Nature and continuance of operations (Note 1)

Approved on behalf of the Board on October 25, 2023:

Steve Matyas - Director

Eugene Syho – Director

INEO Tech Corp.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		For the years ended June 30	
	Notes	**2023**	2022
Sales	*22*	**$ 1,509,008**	$ 1,245,095
Cost of Sales	*22*	**(1,135,702)**	(741,163)
Gross Profit		**373,306**	503,932
Expenses			
General and administrative expenses	*15*	**1,628,828**	1,559,820
Selling	*15*	**1,158,789**	1,511,101
Research and development	*15*	**803,161**	718,513
		3,590,778	3,789,434
Net loss before other income (expenses)		**(3,217,472)**	(3,285,502)
Other Income (Expenses)			
Other income	*8*	**393**	25,053
Foreign exchange loss		**(400)**	(4,324)
Interest expense, net	*11, 12, 13*	**(114,012)**	(27,926)
		(114,019)	(7,197)
Loss and comprehensive loss		**$ (3,331,491)**	$ (3,292,699)
Weighted average number of common shares outstanding - basic and diluted		**70,024,531**	60,190,138
Basic and diluted loss per share		**(0.05)**	(0.05)

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

INEO Tech Corp.

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Notes	Number of shares	Amount	Reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2021		60,145,768	$ 13,518,831	$ 505,918	$ (8,621,137)	$ 5,403,612
Stock-based compensation		-	-	221,923	-	221,923
Warrants exercised	*14*	44,370	16,251	(726)	-	15,525
Loss and comprehensive loss		-	-	-	(3,292,699)	(3,292,699)
Balance, June 30, 2022		60,190,138	13,535,082	727,115	(11,913,836)	2,348,361
Share issuance during the year:						
Private placement	*14*	**14,525,000**	**1,743,000**	**-**	**-**	**1,743,000**
Bonus Shares	*14*	**1,428,571**	**171,429**	**-**	**-**	**171,429**
Stock-based compensation		**-**	**-**	**156,564**	**-**	**156,564**
Share issuance costs	*14*	**-**	**(419,029)**	**-**	**-**	**(419,029)**
Warrants issued for Short Form prospectus	*14*	**-**	**(61,503)**	**61,503**	**-**	**-**
Loss and comprehensive loss		**-**	**-**	**-**	**(3,331,491)**	**(3,331,491)**
Balance, June 30, 2023		**76,143,709**	**$ 14,968,979**	**$ 945,182**	**$(15,245,327)**	**$ 668,834**

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

INEO Tech Corp.

Consolidated Statements of Cash Flow
(Expressed in Canadian dollars)

	For the years ended June 30	
	2023	2022
Cash flows used in operating activities:		
Loss for the year	**$ (3,331,491)**	$ (3,292,699)
Items not involving cash:		
Depreciation and amortization on property, equipment, and intangible asset	**191,467**	128,399
Interest expense	**132,755**	41,657
Stock-based compensation	**156,564**	221,923
Amortization of right-of-use asset	**31,052**	31,052
Income from remeasurement of CEBA loan	**(8,619)**	-
Interest income on notes receivable	**(393)**	-
Bad Debts Expense	**-**	8,937
Change in non-cash operating working capital:		
Accounts receivable	**(47,531)**	(105,247)
Prepaid expenses	**158,076**	(201,880)
Inventory	**(108,949)**	(18,674)
Accounts payable and accrued liabilities	**193,268**	112,938
Due to related parties	**8,355**	(8,155)
GST recoverable	**2,354**	3,532
	(2,623,092)	(3,078,217)
Cash flows used in investing activities:		
Purchase of equipment	**(917,977)**	(346,049)
Notes receivable issued	**(25,000)**	-
Acquisition of Vittage assets	**-**	(43,939)
	(942,977)	(389,988)
Cash flows provided by (used in) financing activities:		
Proceeds from the issuance of shares	**1,743,000**	-
Loan received	**1,000,000**	-
Share issuance costs	**(419,029)**	-
Interest paid	**(60,000)**	-
Payments for lease obligations	**(41,440)**	(40,600)
Proceeds from the exercise of warrants	**-**	15,525
	2,222,531	(25,075)
Change in cash	**(1,343,538)**	(3,493,280)
Cash, beginning of year	**1,706,048**	5,199,328
Cash, end of year	**$ 362,510**	$ 1,706,048

Supplemental cash flow information (Note 21)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

INEO Tech Corp. (the “Company” or “INEO”) is a Canadian company incorporated under the laws of the Province of British Columbia on March 4, 2008. The Company’s shares trade on the TSX Venture Exchange (“TSX-V”) under the symbol ‘INEO.’ The Company’s corporate head office and records office are located at 105 – 19130 24 Avenue, Surrey, BC, V3Z 3S9.

INEO is the inventor and operator of the *INEO Media Network* for retailers, which provides retail analytics and targeted advertising through its cloud-based IoT (Internet of Things) and AI (Artificial Intelligence) technology. The Company operates the *INEO Media Network* using a SaaS-based model for retail stores.

These consolidated financial statements, including comparatives (the ’Financial Statements’), have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue operations for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities depends upon the Company obtaining the necessary financing and, ultimately, upon its ability to achieve profitable operations.

For significant expenditures, the Company will depend on external capital. Such external capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company’s operating commitments and development plans. The issuance of additional equity securities by the Company may result in the dilution of current shareholders’ equity interests.

The Company’s future capital requirements will depend on many factors, including the cash flows from its operating activities, costs of research and developing its products, operating costs, the current capital market environment, and global market conditions.

The continued operations of the Company are dependent on its ability to generate revenues, develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, and ultimately generate profitable operations in the future. The Company has no assurance that it will be successful in its efforts. If the Company cannot obtain financing in the amounts and on terms deemed acceptable, the business's future success could be adversely affected. These matters result in material uncertainties, which may cast significant doubt on whether the Company will continue as a going concern.

In March 2020, the World Health Organization (WHO) declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. On May 5, 2023, the WHO declared that COVID-19 no longer qualifies as a global emergency. However, the Company can't predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

2. BASIS OF CONSOLIDATION AND PREPARATION

The Financial Statements, including comparatives, have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments, measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for the cash flow information.

These Financial Statements were authorized for issue by the Board of Directors on October 25, 2023.

These Financial Statements, except as otherwise stated, are presented in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries, each having a Canadian functional currency.

Entity	Parent	Country of Incorporation	Effective Interest
INEO Solutions Inc.	INEO Tech Corp.	Canada	100%
FG Manufacturing Inc. ("FG")	INEO Solutions Inc.	Canada	100%

These Financial Statements include the accounts of the Company and its subsidiaries of which it has control. All intercompany balances, transactions, and any unrealized gains and losses arising from intercompany transactions have been eliminated.

Use of estimates and judgments

The preparation of these Financial Statements requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues, and expenses. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors, including other sources that are believed to be reasonable under the circumstances but are not necessarily readily apparent or recognizable when such estimate or assumption is made. Actual results may differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing the Financial Statements is as follows:

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories) and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business, less the estimated completion costs and costs necessary to make the sale. Provisions are made in profit or loss in the period for any difference between book value and net realizable value.

Equipment

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management uses its experience with the same or similar assets and may review industry practices for similar pieces of equipment and apply statistical methods to assist in its determination of useful life.

2. BASIS OF CONSOLIDATION AND PREPARATION (CONTINUED)

Use of estimates and judgments (continued)

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves assessing when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets and the amounts recognized in profit or loss in the year in which the change occurs.

Share-based compensation

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 3. The fair value of stock options granted is measured using the Black-Scholes option pricing model, which was created to estimate the fair value of freely tradable, fully transferable options. The Company's stock options have characteristics significantly different from those of traded options, and changes in the highly subjective input assumptions can materially affect the calculated values. The fair value of stock options granted using the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

The information about significant areas of judgment considered by management in preparing these Financial Statements is as follows:

Going concern

The assessment of the Company's ability to continue as a going concern, as discussed in Note 1, involves judgment regarding future funding available for its operations and working capital requirements.

Business combinations

Business combinations require management to exercise judgment in determining whether a group of assets constitutes a business and measuring the fair value of assets acquired and liabilities and contingent liabilities incurred or assumed. Judgment is also required in determining what qualifies as part of consideration paid.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and deposits, which are readily convertible to cash with original maturities of 3 months or less. Cash and cash equivalents are held with Canadian financial institutions. As at June 30, 2023, and 2022, there were no cash equivalents.

Inventory

The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases, net of vendor allowances, plus other costs, such as transportation, that are directly incurred to bring the inventories to their present location and condition. The Company uses the first in, first out ("FIFO") method to determine the cost of inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold while taking into consideration the estimated selling costs. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain inventory sales costs are expensed in the period incurred.

Financial instruments

<u>Classification</u>

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial instruments:

Cash	FVTPL
Accounts receivable	Amortized cost
Notes receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Government grant	Amortized cost
Loans payable	Amortized cost
Notes payable	Amortized cost
Interest payable	Amortized cost
Due to related parties	Amortized cost

<u>Measurement</u>

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value, and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in the statements of loss and comprehensive loss.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. Suppose at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition. In that case, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire or when it transfers the financial assets and substantially all associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss. However, gains and losses on the derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, canceled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

These Financial Statements are presented in Canadian dollars, the Company's and its subsidiaries' functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the transaction date. Foreign currency monetary items are re-translated at the year-end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the transaction date. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange gains and losses arising on translation are recognized in profit or loss.

Equipment

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in profit or loss.

The amortization rates applicable to each category of property and equipment are as follows:

Furniture and equipment	- 20-50% declining balance
Computer hardware	- 55% declining balance
Motor vehicle	- 20% declining balance
Installed units	- 5-year straight line

Share capital

The Company records proceeds from the issuance of its common shares as equity. Proceeds received on the issuance of common shares are allocated to the common share component. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement was determined to be the most easily measurable component and were valued at their fair value, as determined by the closing quoted price on the issuance date. The remaining proceeds, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. Management does not expect to record a value to the warrant in most equity issuances as unit private placements are commonly priced at the market or at a permitted discount to market. If the warrants are issued as share issuance costs, the fair value of the agent's warrants is measured using the Black-Scholes Option Pricing Model and recognized in equity as a deduction from the proceeds.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital (continued)

The related amount is reclassified as share capital if the warrants are exercised. If the warrants expire unexercised, the related amount remains in warrant reserve.

Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

Stock-based payments

Stock-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Stock-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded in the stock-based payment reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Net loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of options, warrants, and convertible securities and that the assumed proceeds from the exercise of options, warrants, and convertible securities are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the fully diluted number of common shares outstanding. No exercise or conversion is assumed during the periods in which a net loss is incurred as the effect is anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Parties are also considered related if they are subject to common control, and related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Revenue recognition

The Company derives revenues from the sales of consumable loss prevention products, electronic article surveillance (“EAS”) systems, installation services for CCTV systems, advertising, and computer control router (“CNC”) cutting services. The installation and CNC services are provided as separate services per customer request and billed by hours based on the Company’s rates. No service contracts are attached to the sale of the consumable loss prevention products and EAS systems. All products and services are sold on a standalone basis.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company’s activities as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from the sales of consumable loss prevention products and the EAS system is recognized when the products are shipped, all significant contractual obligations have been satisfied, and no unfulfilled obligation could affect the customer's acceptance of the products.
Once products are delivered to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Since installation and CNC services are provided separately per customer request, the revenue related to these services is recognized upon completion, and all significant contractual obligations have been satisfied.

Revenue from advertising is recognized throughout the contract based on agreed milestones for campaigns run on the INEO *Welcoming Networks*. Campaigns are based on negotiated agreements. Contracts are for a pre-determined period of time with a pre-agreed number of advert airings per campaign or based on a number of advertisements run on the INEO *Welcoming Networks*.

Warranties
The warranty costs include the cost of labor, material, and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. There were $16,557 warranty expenditures during the years ended June 30, 2023 (2022 - $6,200) which is included in the cost of sales.

Income taxes
Income tax is recognized in profit or loss except to the extent that it relates to equity items, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting profit (loss) nor taxable profit (loss); and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be met. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the necessary period to match the grant systematically to the costs it intends to compensate. Where the grant relates to an asset, it reduces its carrying amount. Government assistance relating to future expenses is deferred and deducted against the related expenditures once incurred.

New accounting standards adopted during the year:

The Company did not adopt any new accounting standards during the year ending June 30, 2023.

New accounting standards issued but not effective

The following new and amended standards and interpretations will become effective in a future year. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective and are not expected to have a significant impact on these consolidated financial statements:

(a) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current:

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1), to improve the information a company provides about long-term debt with covenants. The Amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect liability classification as at that date.

The amendments are effective for annual periods beginning on or after January 1, 2024.

(b) Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments clarify that on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction and after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains. The amendments need to be applied retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2024.

(Expressed in Canadian dollars)

4. VITTAGE ASSET ACQUISITION

On December 22, 2021, the Company acquired all of the assets of Vittage Ltd. in exchange for US$35,000 in cash. The purpose of the acquisition was primarily to acquire the Securitytags.com domain name and its inventories for resale.

In accordance with IFRS 3, using the asset concentration test, the acquisition met the definition of an asset acquisition as substantially all of the fair value is in the inventories.

The following table summarizes the fair value of the consideration transferred and the fair values assigned to each asset acquired on the acquisition date:

Consideration transferred	
Cash	**$43,939**
Identifiable assets required	
Inventories	$37,431
Intangible assets	$ 6,508
Total identifiable assets acquired	**$43,939**

Intangible assets acquired include domain names, websites, social media accounts, and customer listings, which are amortized over their estimated useful life of 3 years. During the year ended June 30, 2023, the Company recognized $2,169 (2022 - $1,085) in amortization related to the intangible assets.

5. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2023, amounted to $252,599 (June 30, 2022 – $205,068). The Company generally does not hold any collateral as security for accounts receivables. During the year ended June 30, 2023, the Company recognized expected credit losses of $Nil (June 30, 2022 - $8,937). As of June 30, 2023, cumulative expected credit losses totalled $10,448 (2022 - $10,448).

6. INVENTORY

Inventory of finished goods held by the Company as at June 30, 2023, was $263,962 (June 30, 2022 - $155,013). Finished goods inventory consists of EAS products held for resale. INEO has not made a provision for the inventory write-down, as the Company expects to sell all inventory on hand.

During the year ended June 30, 2023, the Company recognized $603,715 of inventory in cost of sales (2022 - $473,520).

(Expressed in Canadian dollars)

7. PREPAID EXPENSES

The components of prepaid expenses are as follows:

	June 30, 2023	June 30, 2022
Prepaid Insurance	**$ 31,861**	$ 8,983
Security deposit	**615**	615
Other prepaid	**63,904**	244,858
Total	**$ 96,380**	$ 254,456

Other prepaid consist of vendor prepayments for goods and supplies delivered subsequent to the year-end.

8. NOTES RECEIVABLE

Notes receivable include a promissory note made by a third party on May 3, 2023. The unsecured promissory note bears an annual interest rate of 12% in the first year of the commitment period and 15% after that. During the year ended June 30, 2023, the interest income accrued from the notes receivable amounted to $393 (2022 - $Nil).

			Balance as at June 30, 2023
	Maturity Date	**Interest rate**	**Current portion**
Note Receivable	April 4, 2024	12.00%	$ 25,000
Accrued Interest			393
Total			**$ 25,393**

The reconciliation of opening and closing balances of notes receivable follows:

	Amount
Balance, June 30, 2022 and 2021	$ -
Notes Receivable during the year	25,000
Interest Accrued	393
Balance, June 30, 2023	**$ 25,393**

(Expressed in Canadian dollars)

9. EQUIPMENT

The movements in the balance of equipment follows:

	Furniture and Equipment	Computer Hardware	Motor Vehicle	Welcoming Pedestals - Installed Units	WIP Installed Units	Total
Costs:						
Balance, June 30, 2021	$ 102,134	$ 70,651	$ 9,500	$ 479,331	$ 129,621	$ 791,237
Additions	6,000	8,605	4,300	-	327,144	346,049
Transfer of WIP to Installed units	-	-	-	142,336	(142,336)	-
Balance, June 30, 2022	108,134	79,256	13,800	621,667	314,429	1,137,286
Additions	43,796	1,071	-	447,972	425,138	917,977
Transfer of WIP to Installed units	-	-	-	455,695	(455,695)	-
Balance, June 30, 2023	**151,930**	**80,327**	**13,800**	**1,525,334**	**283,872**	**2,055,263**
Accumulated Depreciation:						
Balance, June 30, 2021	89,700	55,534	2,020	82,009	-	229,263
Amortization	5,436	4,338	2,185	115,355	-	127,314
Balance, June 30, 2022	95,136	59,872	4,205	197,364	-	356,577
Amortization	5,381	3,943	1,773	178,201	-	189,298
Balance, June 30, 2023	**100,517**	**63,815**	**5,978**	**375,565**	**-**	**545,875**
Net Book Value:						
June 30, 2022	$ 12,998	$ 19,384	$ 9,595	$ 424,303	$ 314,429	$ 780,709
June 30, 2023	**$ 51,413**	**$ 16,512**	**$ 7,822**	**$ 1,149,769**	**$ 283,872**	**$ 1,509,388**

(Expressed in Canadian dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities are as follows:

	June 30, 2023	June 30, 2022
Accounts payable	**$ 394,529**	$ 228,137
Accrued liabilities	**280,008**	253,132
Total	**$ 674,537**	$ 481,269

Accounts payable are generally non-interest bearing and are settled on 30 to 60-day payment terms.
Accrued liabilities include accruals for remuneration and benefits, other expenses billed, and collections received from customers for sales delivered after the reporting date. Accrued liabilities are generally settled within 12 months from year-end.

11. LOANS PAYABLE

On December 16, 2016, INEO received $100,000 as a loan, bearing an annual interest rate of 12.5% from a related party. This loan is due on demand and unsecured. The loan balance as at June 30, 2023, amounted to $181,250 (June 30, 2022 - $168,750). During the year ended June 30, 2023, the Company incurred $12,500 in interest expense (June 30, 2022 – $12,500).

The reconciliation of opening and closing balances of loan payable follows:

	Amount
Balance, June 30, 2021	$ 156,250
Interest accrued	12,500
Balance, June 30, 2022	168,750
Interest accrued	**12,500**
Balance, June 30, 2023	**$ 181,250**

12. NOTE PAYABLE

On November 17, 2022, INEO received a $1,000,000 unsecured promissory note bearing an annual interest rate of 12.0% from Pathfinder Asset Management Limited. Repayment of this note is due November 17, 2025. In connection with the note, the Company issued 1,428,571 common shares with a fair value of $171,429 (Note 14). The shares issued were considered debt issuance costs resulting in a discount and amortized using the effective interest method over the credit term of three (3) years with an effective annual interest rate of 19.6%. During the year ended June 30, 2023, the Company incurred $101,513 in interest expense (June 30, 2022 – $Nil).

The details of the outstanding note as at June 30, 2023, are as follows:

			Balance as at June 30, 2023		
	Maturity date	**Interest rate**	**Current portion**	**Long-term portion**	**Total**
Note - $1,000,000	17-Nov-25	12.00%	$ -	$ 1,000,000	$ 1,000,000
Accrued Interest			13,973	-	13,973
Discount on Notes Payable			-	(143,888)	(143,888)
Total			**$ 13,973**	**$ 856,112**	**$ 870,085**

(Expressed in Canadian dollars)

12. NOTE PAYABLE (CONTINUED)

The Company did not have any outstanding notes payable during the year ended June 30, 2022. The reconciliation of opening and closing balances of note payable follows:

	Note Payable	Accrued Interest	Total
Balance, June 30, 2022, and 2021	$ -	$ -	$ -
Proceeds	1,000,000	-	1,000,000
Debt issuance cost	(171,428)	-	(171,428)
Interest Expense	27,540	73,973	101,513
Interest paid	-	(60,000)	(60,000)
Balance, June 30, 2023	**$ 856,112**	**$ 13,973**	**$ 870,085**

13. GOVERNMENT GRANT

Due to the global outbreak of the Novel Coronavirus ("COVID-19"), the federal government of Canada introduced the Canada Emergency Business Account ("CEBA"). CEBA provides eligible businesses an interest-free loan ("CEBA Loan") of $40,000. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which the CEBA Loan remains interest-free—repayment of $30,000 by December 31, 2022, results in a $10,000 loan forgiveness. If the balance is not paid before December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly, effective January 1, 2023. The entire balance must be repaid by December 31, 2025. On May 6, 2020, INEO Solutions and FG Manufacturing each received $40,000 in loans from the Government as part of the CEBA.

On December 4, 2020, the federal government of Canada expanded CEBA, and eligible businesses facing financial hardship due to the pandemic could access a second loan of up to $20,000. Half of this additional financing, up to $10,000, will be forgivable if the loan is repaid by December 31, 2022. If the balance is not paid before December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly, effective January 1, 2024. The entire balance must be repaid by December 31, 2026. On April 7, 2021, INEO Solutions and FG Manufacturing each received an additional $20,000 in loans from the Government as part of CEBA.

Under *IAS 20, Accounting for Government Grant and Disclosure of Government Assistance*, the benefit of a government loan at a below-market rate is treated as a government grant and measured in accordance with *IFRS 9, Financial Instruments*. The benefit of below-market-rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of each initial CEBA loan at $26,880 and additional loans at $15,408, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest-free component. The difference will be accreted to each CEBA loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss.

On January 12, 2022, the government extended the loan repayment deadline to December 31, 2023. If the loan balance remains unpaid after December 31, 2023, the outstanding loans will convert to two-year term loans with an interest of 5% per annum commencing on January 1, 2024, with the loans entirely due by December 31, 2025. The Company has estimated the new carrying value of the CEBA loan at $103,381, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest-free component. Furthermore, the Company has estimated that the loan remeasurement resulted in a gain of $8,620. The difference will be accreted to each CEBA loan liability over the term of the CEBA Loan and offset to other income (expenses) on the statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

13. GOVERNMENT GRANT (CONTINUED)

During the year ended June 30, 2023, the total interest expense recognized for the CEBA grants amounted to $8,618 (June 30, 2022 - $15,425). The reconciliation of opening and closing balances of government grants follows:

	June 30, 2023	June 30, 2022
Beginning balance	**$ 111,382**	$ 95,957
Interest accrued	**8,618**	15,425
Discount on loan due to remeasurement	**(8,620)**	-
Ending balance	**$ 111,380**	$ 111,382

14. SHARE CAPITAL AND RESERVES

Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value.

Shares held in escrow

On January 24, 2023, all common shares held in escrow were released to shareholders. As of June 30, 2023, nil shares were held in escrow. (June 30, 2022 – 5,515,578 shares held in escrow).

Issued share capital

<u>During the year ended June 30, 2023, the Company had the following capital stock transactions</u>:

On November 17, 2022, the Company completed a brokered short-form prospectus offering (the 'Offering'), issuing 14,525,000 units for $0.12 per unit for aggregate proceeds of $1,743,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company at an exercise price of $0.19 per common share for a period of 36 months from the date of issuance. The warrants were allocated a value of $nil using the residual value allocation method. In connection with the Offering, the Company incurred $419,029 in share issuance cost and issued 923,721 broker warrants with a fair value of $61,503. The broker warrants were valued using the Black Scholes option pricing model with the following assumptions: volatility rate of 83.04%, risk-free rate of 3.86%, weighted average life of 3 years. Each broker warrant entitles the holder to purchase one common share at a price of $0.12 per share for a period of three years. The Company also issued 1,428,571 bonus shares in connection with a non-brokered private placement of the $1,000,000 unsecured promissory note. The bonus shares have a fair value of $171,429 and were considered debt issuance costs (Note 12).

<u>During the year ended June 30, 2022, the Company had the following capital stock transactions</u>:
The Company issued 44,370 common shares by exercising 44,370 broker warrants for $0.35 for aggregate proceeds of $15,525. In connection with the exercise, $726 was transferred from reserves to share capital.

Stock options
The Company has adopted a stock option plan that allows the Company to issue options to certain directors, officers, employees, and consultants to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option cannot be less than the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years. Stock options granted under the plan vest subject to vesting terms, which may be imposed at the directors' discretion.

(Expressed in Canadian dollars)

14. SHARE CAPITAL AND RESERVES (CONTINUED)

Stock options (continued)

The summary of changes in stock options during the years ended June 30, 2023, and 2022 are as follows:

	June 30, 2023		June 30, 2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning	**4,350,863**	**$ 0.262**	4,175,863	$ 0.263
Options granted	**2,855,000**	**0.120**	475,000	0.260
Options forfeited/expired	**(275,000)**	**0.260**	(300,000)	0.283
Options outstanding, ending	**6,930,863**	**0.204**	4,350,863	0.262
Options exercisable, ending	**2,732,113**	**$ 0.261**	1,807,113	$ 0.254

Details of options outstanding as at June 30, 2023, are as follows:

Expiry date	Number of options	Weighted average exercise price	Weighted average contractual life	Number of Options exercisable
January 23, 2025	175,863	0.089	1.57	175,863
April 15, 2030	2,325,000	0.260	6.80	1,743,750
April 15, 2030	500,000	0.350	6.80	375,000
October 18, 2030	175,000	0.260	7.31	87,500
June 18, 2031	500,000	0.260	7.97	250,000
July 26, 2031	250,000	0.260	8.08	62,500
October 25, 2031	150,000	0.260	8.33	37,500
February 28, 2033	2,855,000	0.120	9.67	-
	6,930,863	**0.204**	**8.02**	**2,732,113**

During the year ended June 30, 2023, the Company recognized stock-based compensation related to stock options of $156,564 (June 30, 2022 - $221,923). The fair value of stock options granted was determined using the Black-Scholes Option Pricing Model using the following assumptions:

	June 30, 2023	June 30, 2022
Expected life of options	**10 years**	10 years
Annualized volatility	**106%**	106%
Risk-free interest rate	**3.33%**	1.22%
Dividend rate	**0%**	0%
Weighted average fair value per option granted	**$ 0.11**	$ 0.28
Stock Price	**$ 0.12**	$ 0.31

(Expressed in Canadian dollars)

14. SHARE CAPITAL AND RESERVES (CONTINUED)

Warrants

	June 30, 2023		June 30, 2022	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	**11,209,508**	**$ 0.52**	11,461,211	$ 0.52
Warrants issued	**7,262,500**	**0.19**	-	-
Broker Warrants issued	**923,721**	**0.12**	-	-
Warrants expired	**(11,209,508)**	**0.52**	(207,333)	0.35
Warrants exercised	-	-	(44,370)	0.35
Warrants outstanding, ending	**8,186,221**	**0.18**	11,209,508	0.52
Warrants exercisable, ending	**8,186,221**	**$ 0.18**	11,209,508	$ 0.52

Details of warrants outstanding as at June 30, 2023, are as follows:

Expiry date	**Number of warrants**	**Exercise price**	**Number of warrants exercisable**
November 17, 2025	7,262,500	$ 0.19	7,262,500
November 17, 2025	923,721	0.12	923,721
	8,186,221		8,186,221

15. BREAKDOWN OF EXPENSES

General and administrative expenses are composed of the following:

	For the years ended June 30	
	2023	2022
Remuneration and benefits (Note 16)	**$ 728,969**	$ 629,304
Office expenses	**311,305**	243,651
Accounting and legal	**178,088**	251,252
Amortization and depreciation (Note 4, 9,19)	**222,519**	159,451
Stock-based compensation (Note 14,16)	**98,901**	139,264
Insurance	**39,889**	33,858
Rent (Note 19)	**39,033**	40,371
Lease interest (Note 20)	**10,124**	13,732
Management fees	**-**	40,000
Bad debt (Note 5)	**-**	8,937
Total	**$ 1,628,828**	$ 1,559,820

(Expressed in Canadian dollars)

15. BREAKDOWN OF EXPENSES (CONTINUED)

Selling and marketing expenses are composed of the following:

	For the years ended June 30	
	2023	2022
Remuneration and benefits (Note 16)	**$ 698,801**	$ 858,938
Investor Relations and Corporate Development	**238,261**	274,114
Travel	**102,648**	93,122
Marketing and research	**92,057**	240,325
Stock-based compensation (Note 14)	**27,022**	44,602
Total	**$ 1,158,789**	$ 1,511,101

Research and development expenses are composed of the following:

	For the years ended June 30	
	2023	2022
Remuneration and benefits (Note 16)	**$ 662,336**	$ 565,485
Consulting fees	**110,184**	114,971
Stock-based compensation (Note 14)	**30,641**	38,057
Total	**$ 803,161**	$ 718,513

16. RELATED PARTY TRANSACTIONS

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Related party transactions are in the ordinary course of operations and measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. Amounts due to or from related parties are non-interest-bearing and unsecured unless specified.

As at June 30, 2023, the Company has $9,950 due to an officer of the Company (June 30, 2022 - $1,595).

During the years ended June 30, 2023, and 2022, the Company incurred the following key management compensation:

	For the years ended June 30	
	2023	2022
Remuneration and benefits	**$ 551,407**	$ 396,309
Stock-based compensation	**78,798**	105,953
Accounting fees	**-**	10,150
Management fees	-	40,000
Total	**$ 630,205**	$ 552,412

17. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholders' equity. The Company's objectives when managing capital are to support the further advancement of the Company's business objectives and existing product lines, as well as to ensure that the Company can meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility, adjusting it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the Company's relative size, is reasonable. The approach to capital management has not changed since the prior year, and the Company is not subjected to externally imposed capital requirements.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value risk

The Company's financial instruments consist of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities due to related parties, loans payable, notes payable, interest payable, and government grants.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data

Cash under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities. Accounts receivable, notes receivable, accounts payable, and accrued liabilities due to related parties and loans payable approximate their fair value due to their short-term maturities. The fair value of notes payable, and government grant also approximates the carrying value due to the fact that they are discounted to fair value using market rates

b) Market risk

Market risk is the risk that a financial instrument's fair value or future cash flows will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk, and are disclosed as follows:

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company's exposure to the risk of changes in foreign exchange rates relates to its operational activities. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company's international sales in the United States (US) and Mexico and purchases of goods and services from foreign companies are denominated in US Dollars and are exposed to foreign exchange fluctuations. Due to these fluctuations, operating results may differ materially from expectations, resulting in significant gains and losses on the remeasurements associated with these transactions. As the company continues expanding in the US, the exposure to exchange rate fluctuations also increases.

As at June 30, 2023, and 2022, a summary of the quantitative information of the exposure due to foreign currencies is provided as follows:

	June 30, 2023	June 30, 2022
	in US Dollar	*in US Dollar*
Cash	**$ 36,381**	$ 66,980
Accounts receivable	**56,258**	70,213
Prepaid expenses	**47,805**	196,593
Accounts payable and accrued liabilities	**(157,812)**	(39,754)
Net assets denominated in foreign currency	**$ (17,368)**	$ 294,032

The most significant closing exchange rates and the approximate average exchange rates of Canadian Dollar per US dollar used in these Financial Statements were as follows:

	June 30, 2023		June 30, 2022	
Currency	**Closing**	**Average**	Closing	Average
U.S. Dollar	**1.32**	**1.34**	1.28	1.27

A 5% change in the U.S. dollar would have a nominal effect on the Company's profit or loss.

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate due to changes in market interest rates. The Company. has an acceptable level of interest rate risk with respect to its financial instruments as all of its debts and note receivable have fixed rate with an average period to maturity of 3 years or less. The Company believes that a 1% increase or decrease in the variable market interest rate would not affect its earnings.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company does not hold any securities or investments which could expose it to stock prices volatility.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

All of the Company's cash is held through Canadian chartered banks; accordingly, the Company's exposure to credit risk is limited. The Company's GST recoverable are refunds due from the Government of Canada, and the exposure to credit risk on these amounts is considered limited.

The Company's accounts receivable consist of amounts due from various customers. The maximum exposure to credit risk is equal to the carrying value of accounts receivable. The business models of the Company's respective segments require credit risk analysis specific to each business line. The Company's historic rate of bad debts is low.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits using the lifetime expected loss provision for all accounts receivable. To measure the expected credit losses, accounts receivable are assessed primarily on days past due combined with the Company's knowledge of past bad debts. During the year ended June 30, 2023, expected credit losses for the Company was $Nil (2022 - $8,937).

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At June 30, 2023, the Company has a cash balance of $362,510 (June 30, 2022 – $1,706,048) and current liabilities balance of $1,027,442 (June 30, 2022 – $794,312). The Company manages its liquidity risk by attempting to maintain sufficient cash balances to enable settlement of transactions on the due date. As the Company has limited sources of revenue, it may require additional financing to accomplish its long-term strategic objectives.

(Expressed in Canadian dollars)

19. RIGHT-OF-USE ASSET

On March 6, 2020, the Company entered into a 5-year lease agreement for leased premises in Surrey, British Columbia, commencing April 1, 2020, and ending on March 9, 2025. The minimum monthly base rent for years 1 to 5 of the 5-year lease is $3,290 for year 1, $3,360 for year 2, $3,430 for year 3, $3,500 for year 4, and $3,570 for year 5, respectively. In accordance with IFRS 16, the Company recognized a right-of-use asset of $155,260 as at March 6, 2020, equal to the present value of all remaining lease payments discounted at an incremental borrowing rate of 12.5%. The Company depreciates the right-of-use assets on a straight-line basis over the lease term.

Cost	**Amount**
Balance, June 30, 2021, 2022, and 2023	**$ 155,260**
Accumulated depreciation	
Balance, June 30, 2021	$ (41,403)
Additions	(31,052)
Balance, June 30, 2022	(72,455)
Additions	(31,052)
Balance, June 30, 2023	**(103,507)**
Net Book Value	
Balance, June 30, 2022	$ 82,805
Balance, June 30, 2023	**$ 51,753**

20. LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, using the effective interest method for the present value determination. As the rate implicit in the lease cannot be readily determined, the Company applied an average incremental borrowing rate. The Company used a discount rate of 12.5% to calculate the present value of its lease payments. Total interest expense on lease liabilities for the year ended June 30, 2023, was $10,124 (June 30, 2022 - $13,732). The following table represents the lease obligation for the Company:

	June 30, 2023	June 30, 2022
Current	**$ 36,352**	$ 31,316
Non-current	**27,266**	63,618
Total lease obligation	**$ 63,618**	$ 94,934

The following table shows the roll forward of lease obligations for the years ended June 30, 2023 and 2022:

	June 30, 2023	June 30, 2022
Beginning balance	**$ 94,934**	$ 121,802
Interest expense	**10,124**	13,732
Lease payments	**(41,440)**	(40,600)
Ending balance	**$ 63,618**	$ 94,934

(Expressed in Canadian dollars)

20. LEASE LIABILITY (CONTINUED)

The following table presents the contractual undiscounted cash flows for lease obligation for the years ended June 30, 2023, and 2022:

	June 30, 2023	June 30, 2022
Less than one year	**$ 42,280**	$ 41,440
One to five years	**28,560**	70,840
Total undiscounted lease obligation	**$ 70,840**	$ 112,280

During the year ended June 30, 2023, the Company expensed $39,033 in short-term and low-value leases (June 30, 2022 – $40,371).

21. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred the following non-cash financing transactions during the years ended June 30, 2023, and 2022:

	June 30, 2023	June 30, 2022
Non-Cash Financing activities :		
Bonus shares issued, net from notes payable	$171,429	-
Fair value of warrants	61,503	-
Transfer of reserves on the exercise of warrants	-	$726

22. SEGMENTED INFORMATION

The Company has the following reporting segments: corporate and administration, loss prevention, welcoming systems, and fabrication.

Reportable segments are defined as components of an enterprise for which separate financial information is available. They are evaluated regularly by the chief operating decision maker when deciding how to allocate resources and assess performance.

The reportable segments were determined based on the nature of the services provided and goods sold. Loss Prevention refers to sales of security technology, electronic article surveillance systems, and supplies. Fabrication specializes in precision CNC cutting, routing, and drilling for various industries and sectors.

(Expressed in Canadian dollars)

22. SEGMENTED INFORMATION (CONTINUED)

For the year ended June 30, 2023

	Loss Prevention	**Fabrication**	**Welcoming Systems**	**Corporate and administration**	**Total**
Sales	**$ 1,261,640**	**$ 116,371**	**$ 130,997**	**$ -**	**$ 1,509,008**
Cost of Goods Sold	**(1,055,860)**	**(62,961)**	**(16,881)**	**-**	**(1,135,702)**
Gross Profit	**205,780**	**53,410**	**114,116**	**-**	**373,306**
Operating Expenses	**(271,308)**	**(28,829)**	**(1,324,890)**	**(1,743,232)**	**(3,368,259)**
Interest expense, net and other	**(4,310)**	**(4,310)**	**-**	**(113,619)**	**(122,239)**
Income from the Remeasurement of CEBA Loan	**4,310**	**4,310**	**-**	**-**	**8,620**
Amortization	**(8,646)**	**(4,620)**	**(178,201)**	**-**	**(191,467)**
Amortization Right of Use	**(3,105)**	**-**	**(3,105)**	**(24,842)**	**(31,052)**
Foreign exchange gain	**(400)**	**-**	**-**	**-**	**(400)**
	(283,459)	**(33,449)**	**(1,506,196)**	**(1,881,693)**	**(3,704,797)**
Net Loss and comprehensive loss	**$ (77,679)**	**$ 19,961**	**$(1,392,080)**	**$ (1,881,693)**	**(3,331,491)**

For the year ended June 30, 2022

	Loss Prevention	Fabrication	Welcoming Systems	Corporate and administration	Total
Sales	$ 1,107,944	$ 109,120	$ 28,031	$ -	$ 1,245,095
Cost of Goods Sold	(665,875)	(72,280)	(3,008)	-	(741,163)
Gross Profit	442,069	36,840	25,023	-	503,932
Operating Expenses	(362,136)	(14,384)	(1,448,544)	(1,804,919)	(3,629,983)
Interest expense	(20,213)	(7,713)	-	-	(27,926)
Amortization	(8,622)	(4,389)	(115,355)	(33)	(128,399)
Amortization Right of Use	(3,105)	-	(3,105)	(24,842)	(31,052)
Other income (expenses)	-	-	-	25,053	25,053
Foreign exchange loss	(4,324)	-	-	-	(4,324)
	(398,400)	(26,486)	(1,567,004)	(1,804,741)	(3,796,631)
Net Loss and comprehensive loss	$ 43,669	$ 10,354	$ (1,541,981)	$ (1,804,741)	$(3,292,699)

*Operating expenses include Administration, Selling, Marketing, and Research and Development costs.

Loss Prevention has five customers, accounting for 20% of revenue (2022 – 4 customers accounting for 33%). Fabrication Operations has one customer, accounting for 41% of revenue (2022 – one customer accounting for 60%).

The Company's chief operation decision makers are the CEO, President, Corporate Secretary, and CFO. They review the operations and performance of the Company. All of the Company's assets are in Canada.

(Expressed in Canadian dollars)

22. SEGMENTED INFORMATION (CONTINUED)

Sales by geographical locations are as follows:

	For the years ended June 30	
	2023	2022
Canada	**$ 814,509**	$ 500,197
USA	**660,679**	718,046
Mexico	**33,820**	26,852
	$ 1,509,008	$ 1,245,095

23. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the years ended June 30	
	2023	2022
Net loss before income tax	**$ (3,331,491)**	$ (3,292,699)
Expected income tax (recovery)	**(900,000)**	(889,000)
Permanent differences	**46,000**	63,000
Share issue costs	**(111,000)**	-
Adjustments to prior years' provisions versus statutory tax returns and other	**161,000**	157,000
Change in unrecognized deductible temporary differences	**804,000**	669,000
Total income tax expense (recovery)	**$ -**	$ -

The significant components of the Company's deferred tax assets that have not been included in the consolidated statement of financial position are as follows:

	As at June 30	
	2023	2022
Deferred tax assets:		
Property and equipment	**$ 22,000**	$ 16,000
Intangible asset	**1,000**	-
Share issue costs	**213,000**	130,000
Debt with accretion	**8,000**	8,000
SRED pool	**22,000**	22,000
Non-capital losses available for future period	**2,288,000**	1,574,000
	2,554,000	1,750,000
Unrecognized deferred tax assets	**(2,554,000)**	(1,750,000)
Net deferred tax assets	**$ -**	$ -

(Expressed in Canadian dollars)

23. INCOME TAXES (CONTINUED)

The significant components of the Company's temporary differences, unused tax credits, and unused tax losses that have not been included in the consolidated statement of financial position are as follows:

	2023	Expiry Date Range	2022	Expiry Date Range
Temporary Differences				
Property and equipment	**$ 81,000**	**No expiry date**	$ 60,000	No expiry date
Intangible asset	**3,000**	**No expiry date**	-	No expiry date
Share issue costs	**788,000**	**2044 to 2047**	482,000	2043 to 2045
Debt with accretion	**31,000**	**No expiry date**	31,000	No expiry date
SRED pool	**81,000**	**No expiry date**	81,000	No expiry date
Non-capital losses available for future periods	**$ 8,477,000**	**2035 to 2043**	$ 5,830,000	2035 to 2042

Tax attributes are subject to review and potential adjustment by tax authorities.