

AUDREY CAPITAL CORPORATION

FINANCIAL STATEMENTS

**For the period from incorporation on March 9, 2021 to December 31, 2021 and year ended
December 31, 2022**

(Stated in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Audrey Capital Corporation

Opinion

We have audited the accompanying financial statements of Audrey Capital Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year ended December 31, 2022 and the period from incorporation on March 9, 2021 to December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, 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 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 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.

Key Audit Matters

Key audit matters ("KAMs") are those matters that in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate within 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 financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

March 16, 2023

AUDREY CAPITAL CORPORATION
STATEMENTS OF FINANCIAL POSITION
(Stated in Canadian dollars)

| | <i>Note</i> | December 31, 2022 | December 31, 2021 |
|---|-------------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | \$ 1,020,724 | \$ 954,550 |
| Receivables | | 495 | 3,042 |
| | | <u>\$ 1,021,219</u> | <u>\$ 957,592</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 5, 6 | \$ 14,205 | \$ 27,617 |
| | | <u>14,205</u> | <u>27,617</u> |
| Shareholders' equity | | | |
| Share capital | 4(a), 4(b) | 1,207,151 | 1,057,151 |
| Stock-based reserves | 4 (c) | 212,438 | 123,478 |
| Warrant reserves | 4(d) | 34,299 | 34,299 |
| Deficit | | <u>(446,874)</u> | <u>(284,953)</u> |
| | | <u>1,007,014</u> | <u>929,975</u> |
| | | <u>\$ 1,021,219</u> | <u>\$ 957,592</u> |

Corporate information and continuance of operations 1

Approved for issue by the Board of Directors on March 16, 2023:

Signed on the Company's behalf by:

"Ian Slater"
Ian Slater, Director

"Jay Sujir"
Jay Sujir, Director

The accompanying notes form an integral part of these financial statements.

AUDREY CAPITAL CORPORATION
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Stated in Canadian dollars)

| | <i>Note</i> | Year ended December 31, 2022 | From Incorporation on March 9, 2021 to December 31, 2021 |
|---|-------------------|------------------------------------|--|
| EXPENSES | | | |
| General & administrative | | \$ 37,234 | \$ 27,222 |
| Filing fees | | 17,447 | 113,450 |
| Professional fees | <i>4(c), 6(b)</i> | 18,280 | 20,803 |
| Share-based compensation | <i>6(b)</i> | 88,960 | 123,478 |
| Loss and comprehensive loss for the period | | \$ (161,921) | \$ (284,953) |
| Loss per share – basic and diluted | | \$ (0.03) | \$ (0.48) |
| Weighted average number of common shares outstanding – basic and diluted | | 6,471,233 | 589,266 |

The accompanying notes form an integral part of these financial statements.

AUDREY CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
(Stated in Canadian dollars)

| | <i>Note</i> | Year ended December 31, 2022 | From Incorporation on March 9, 2021 to December 31, 2021 |
|--|-------------|------------------------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss for the period | | \$ (161,921) | \$ (284,953) |
| <i>Adjustment for the Items not involving cash:</i> | | | |
| Share-based compensation | 4(c) | 88,960 | 123,478 |
| | | (72,961) | (161,475) |
| <i>Net changes in non-cash working capital items:</i> | | | |
| Receivables | | 2,547 | (3,042) |
| Accounts payable and accrued liabilities | | (13,412) | 27,617 |
| Net cash flows used in operating activities | | (83,826) | (136,900) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Shares issued, net of issue costs | 4(b) | 150,000 | 1,091,450 |
| Net cash flows from financing activities | | 150,000 | 1,091,450 |
| Net increase in cash and cash equivalents during the period | | 66,174 | 954,550 |
| Cash and cash equivalents, beginning of the period | | 954,550 | - |
| Cash and cash equivalents, end of the period | | \$ 1,020,724 | \$ 954,550 |

The accompanying notes form an integral part of these financial statements.

AUDREY CAPITAL CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY
(Stated in Canadian dollars)

| | <i>Notes</i> | Number of Shares | Share Capital | Stock-Based Reserves | Warrant Reserves | Deficit | Total |
|-----------------------------------|--------------|---------------------|---------------------|-------------------------|---------------------|---------------------|---------------------|
| Balance, March 9, 2021 | | - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Common shares issued | 4(b) | 18,500,000 | 1,175,000 | - | - | - | 1,175,000 |
| Share issue costs | 4(b) | - | (83,550) | - | - | - | (83,550) |
| Share-based payments | 4(c) | - | - | 123,478 | - | - | 123,478 |
| Value of warrants issued | 4(d) | - | (34,299) | - | 34,299 | - | - |
| Loss for the period | | - | - | - | - | (284,953) | (284,953) |
| Balance, December 31, 2021 | | 18,500,000 | \$ 1,057,151 | \$ 123,478 | \$ 34,299 | \$ (284,953) | \$ 929,975 |
| Common shares issued | 4(b) | 1,500,000 | 150,000 | - | - | - | 150,000 |
| Share-based payments | 4(c) | - | - | 88,960 | - | - | 88,960 |
| Loss for the year | | - | - | - | - | (161,921) | (161,921) |
| Balance, December 31, 2022 | | 20,000,000 | \$ 1,207,151 | \$ 212,438 | \$ 34,299 | \$ (446,874) | \$ 1,007,014 |

The accompanying notes form an integral part of these financial statements.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Audrey Capital Corporation (the “Company”) was incorporated on March 9, 2021 under the Business Corporations Act of British Columbia. The Company completed an Initial Public Offering (the “IPO”), after which it became a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4. As a CPC, the Company’s objective will be to identify and acquire either operating assets or a business, subject to regulatory approval, that meet the criteria of a Qualifying Transaction as defined by the TSX-V. Until such time that a Qualifying Transaction is completed, the Company will have no significant revenue and will incur expenses primarily for Qualifying Transaction investigation, TSX-V filing requirements, professional services, and office facilities and administration, subject to certain restrictions under TSX-V Policy 2.4. Additional discussion on these restrictions is included in Note 8.

The Company’s registered office address and principal place of business is Suite 905 – 1111 West Hastings Street, Vancouver, BC, Canada, V6E 2J3.

As at December 31, 2022, the Company had cash of \$1,020,724, which the Company’s management believes is sufficient to pay its operating costs for the next 12 months.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and their effect on the Company’s business or ability to raise funds.

AUDREY CAPITAL CORPORATION**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

2. BASIS OF PRESENTATION**a) Statement of Compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The financial statements have been prepared using the accounting policies set out in Note 3.

These financial statements were authorized for issue by the Board of Directors on March 16, 2023.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company’s functional currency. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. SIGNIFICANT ACCOUNTING POLICIES**Financial instruments**

The Company’s accounting policies for financial assets are as follows:

Financial assets – Classification

Financial assets are classified at initial recognition as either measured at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in either earnings or loss, or other comprehensive income or loss (“OCI”). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets – Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in earnings or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies debt instruments:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in earnings or loss when the asset is derecognized or impaired. Interest income from those financial assets is included in interest and finance (expense) income using the effective interest rate method.
- FVTPL – Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in earnings or loss and presented net in the statement of loss and other comprehensive loss within other gains (losses) in the period in which it arises.
- FVOCI – Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains and losses which are recognized in earnings or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to earnings or loss and recognized in other gains (losses). Interest income from these financial assets is included in interest and finance (expense) income using the effective interest rate method. Foreign exchange gains and losses are presented in foreign exchange (loss) gain and impairment expenses in other expenses.

Changes in the fair value of financial assets at FVTPL are recognized in profit or loss as applicable.

Impairment of financial assets

The Company assesses, on a prospective basis, the expected credit losses associated with any debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**Financial liabilities*

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. The Company's financial liabilities comprise accounts payable and accrued liabilities, which are classified at amortized cost.

Financing costs

Costs incurred to obtain equity financing are deducted from the value assigned to shares issued. When costs are incurred prior to the closing of a financing arrangement, these amounts are presented as a deferred asset until the financing has been closed. When an expected financing arrangement does not occur, any deferred costs are recorded as an expense.

Share-based compensation

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees, and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or when the individual provides services similar to those performed by an employee.

Stock options granted to directors, officers and employees are measured at their fair values determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options on a graded basis. Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from those parties, or at their Black-Scholes fair values if the fair value of goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

When stock options are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

Income taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax assets or liabilities arise from temporary differences between the tax and accounting values of assets and liabilities and are recorded based on tax rates expected to be enacted when those differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and therefore is 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 as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

(Loss) earnings per share

Basic (loss) earnings per share is calculated by dividing net (loss) earnings by the weighted average number of common shares outstanding during the period.

Diluted (loss) earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options, as if their dilutive effect were at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of “in-the-money” stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period. In periods that the Company reports a net loss, any stock options or warrants outstanding are excluded from the calculation of diluted loss per share as their inclusion would be anti-dilutive.

Use of estimates and measurement uncertainties

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the measurements of assets, liabilities, revenues, expenses, and certain disclosures reported in these financial statements. Significant estimates made by management include the following:

Income taxes

Provisions for income and other taxes are based on management’s interpretation of taxation laws, which may differ from the interpretation by taxation authorities. Such differences may result in eventual tax payments differing from amounts accrued. Reported amounts for deferred tax assets and liabilities are based on management’s expectation for the timing and amounts of future taxable income or loss, as well as future taxation rates. Changes to these underlying estimates may result in changes to the carrying value, if any, of deferred income tax assets and liabilities.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Stock-based compensation and valuation of warrants

The fair value pricing of stock options and warrants issued are subject to the limitations of the Black-Scholes Option-Pricing Model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes Option-Pricing Model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Going concern presentation

Management has determined that the going concern presentation of the financial statements, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due as discussed in Note 1, is appropriate.

Accounting standards and interpretations issued but not yet effective

There are no new accounting standards or interpretations which apply to the Company at December 31, 2022 which have not been applied in the preparation of these financial statements.

4. SHAREHOLDERS' EQUITY

a) Authorized Share Capital

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

b) Share Issuance

At December 31, 2022, the Company had 20,000,000 common shares issued and outstanding.

On March 31, 2021, the Company closed a private placement for 13,100,000 shares at a price of \$0.05 per share for total proceeds of \$655,000 and closed another private placement on August 4, 2021, for 400,000 shares at a price of \$0.05 per share for total proceeds of \$20,000. Collectively, the shares issued under these two private placements are referred to as the "Seed Shares".

On November 26, 2021, the Company completed its initial public offering ("IPO"), where it issued 5,000,000 common shares at a price of \$0.10 per share for gross proceeds of \$500,000. The Company incurred cash share issue costs of \$83,550.

On January 7, 2022, the Company closed a non-brokered private placement for 1,500,000 common shares at a price of \$0.10 per share for total proceeds of \$150,000.

The Seed Shares have been transferred to escrow and will be released ratably over an 18-month period following the completion of a Qualifying Transaction.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

4. SHAREHOLDERS' EQUITY (continued)**c) Stock Options**

On May 12, 2021, the Board of Directors adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Corporation may, from time to time in its discretion and in accordance with TSX-V regulations, grant to directors, officers, employees, or Management Company employees and consultants to the Corporation, non-transferrable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of the grant. Vesting terms will be determined at the time of grant by the Board of Directors.

During the year ended December 31, 2022, the Company granted 500,000 stock options to directors and officers of the Company, exercisable at a price of \$0.10 for a five-year period following the date of their grant.

The stock option continuity for the year ended December 31, 2022, is as follows:

| Number Outstanding December 31, 2021 | Granted | Exercised | Expired/Cancelled | Number Outstanding December 31, 2022 | Exercise Price per Share | Expiry Date | Weighted Avg Remaining Contractual Life (in years) |
|--------------------------------------|----------------|-----------|--------------------|--------------------------------------|--------------------------|--------------|--|
| 1,800,000 | 500,000 | - | 300,000 | 2,000,000 | \$ 0.10 | Nov 26, 2026 | 3.91 |
| 1,800,000 | 500,000 | | Exercisable | 2,000,000 | \$ 0.10 | | 3.91 |

During the period ended December 31, 2021, the Company granted 1,800,000 stock options to directors and officers of the Company, exercisable at a price of \$0.10 for a five-year period following the date of their grant.

The stock option continuity for the year ended December 31, 2021, is as follows:

| Number Outstanding March 9, 2021 | Granted | Exercised | Expired/Cancelled | Number Outstanding December 31, 2021 | Exercise Price per Share | Expiry Date | Weighted Avg Remaining Contractual Life (in years) |
|----------------------------------|------------------|-----------|--------------------|--------------------------------------|--------------------------|--------------|--|
| - | 1,800,000 | - | - | 1,800,000 | \$ 0.10 | Nov 26, 2026 | 4.91 |
| | 1,800,000 | | Exercisable | 1,800,000 | \$ 0.10 | | 4.91 |

As at December 31, 2022, 2,000,000 of the outstanding stock options were vested and exercisable, with a weighted average exercise price of \$0.10. The stock options have been transferred to escrow and will be released rateably over an 18-month period following the completion of a Qualifying Transaction

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

4. SHAREHOLDERS' EQUITY (continued)**Stock-Based Compensation**

The fair value of each option granted to employees, officers, and directors was estimated on the date of the grant using the Black-Scholes Option-Pricing Model.

The assumptions used in the Black-Scholes Option-Pricing Model for the relative fair value allocation were an expected life of 5 years, expected dividend of \$nil, and:

| | Feb 13, 2022 | Jan 07, 2022 | Nov 26, 2021 |
|-------------------------|--------------|--------------|--------------|
| Risk-free interest rate | 1.72% | 1.31% | 1.39% |
| Expected volatility | 88.0% | 88.0% | 88.0% |
| Fair value | \$ 0.25 | \$ 0.07 | \$ 0.07 |

During the year ended December 31, 2022, the Company recognized share-based compensation of \$88,960 (2021 – 123,478) in connection with the options granted.

d) Share Purchase Warrants

In conjunction with its IPO, the Company granted 500,000 agent warrants exercisable into common shares of the Company at \$0.10 per share with an expiry date of November 26, 2026.

The share purchase warrant continuity for the year ended December 31, 2022 is as follows:

| Number Outstanding December 31, 2021 | Granted | Exercised | Expired/Cancelled | Number Outstanding December 31, 2022 | Exercise Price per Share | Expiry Date | Weighted Avg Remaining Contractual Life (in years) |
|--------------------------------------|---------|-----------|-------------------|--------------------------------------|--------------------------|--------------|--|
| 500,000 | - | - | - | 500,000 | \$ 0.10 | Nov 26, 2026 | 3.91 |

The share purchase warrant continuity for the year ended December 31, 2021 is as follows:

| Number Outstanding March 9, 2021 | Granted | Exercised | Expired/Cancelled | Number Outstanding December 31, 2021 | Exercise Price per Share | Expiry Date | Weighted Avg Remaining Contractual Life (in years) |
|----------------------------------|---------|-----------|-------------------|--------------------------------------|--------------------------|--------------|--|
| - | 500,000 | - | - | 500,000 | \$ 0.10 | Nov 26, 2026 | 4.91 |

The assumptions used in the Black-Scholes Option-Pricing Model for the relative fair value allocation were an expected life of 5 years, expected dividend of \$nil, risk-free interest rate of 1.39%, expected volatility of 88%, and a fair value of \$0.07.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company are due for professional fees and are payable within the next 12 months.

| As at | December 31, 2022 | December 31, 2021 |
|---------------------|-------------------|-------------------|
| Accounts payable | \$ 3,705 | \$ 19,117 |
| Accrued liabilities | 10,500 | 8,500 |
| TOTAL | \$ 14,205 | \$ 27,617 |

6. RELATED PARTY TRANSACTIONS

Related party transactions are measured at the amounts agreed upon by the parties. Related party transactions for the year ended December 31, 2022 and period from incorporation on March 9, 2021 to December 31, 2021, are as follows:

- a) A company owned by a Director, Ian Slater, recharged costs in the amount of \$36,000 (2021 - \$27,000) for the year ended December 31, 2022. In which, \$3,705 (2021 - \$nil) is owed to Slater Corporate Services Corporation as at December 31, 2022.
- b) Farris LLP, in which two of the Directors, Jay Sujir and Peter Roth, are partners provided legal services to the Company in the amount of \$6,683 (2021 - \$99,644) for the year ended December 31, 2022. In which, \$nil (2021 - \$19,117) is owed to Farris LLP as at December 31, 2022.
- c) Compensation of directors and members of key management personnel through stock option grants totalled \$88,960 (2021 - \$123,478) as share-based compensation for the year ended December 31, 2022.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has designated its cash as a financial asset at amortized cost.

a) Fair Value

Management assessed those fair values of cash and accounts payable approximate their carrying amounts, largely due to the short-term maturity of these instruments. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values.

The 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 that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

b) Financial Risk Management

Credit Risk

Credit risk is the risk of loss arising from a customer or third party to a financial instrument failing to meet its contractual obligations. The Company's credit risk is attributable to its liquid financial assets including cash. The Company limits exposure to credit risk by maintaining its cash with a major Canadian financial institution.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital to meet short-term business requirements, taking into consideration cash flows from operations and the Company's holdings of cash, as well as anticipated proceeds from equity financing. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding may be required to meet long-term requirements. As at December 31, 2022, the Company had cash of \$1,020,724 to settle current liabilities of \$14,205. The Company's financial liabilities include trade payables that have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices. The Company does not currently hold and does not expect to hold interest-bearing financial instruments other than cash, assets or liabilities denominated in a foreign currency, and marketable securities or other financial instruments subject to fluctuations in equity prices, it currently does not have and is not expected to have exposure to these market risks.

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

8. CAPITAL MANAGEMENT

Capital is composed of the Company's shareholders' equity and any debt that it may issue. As at December 31, 2022, the Company's shareholders' equity was \$1,007,014 and it had current liabilities of \$14,205. The Company's objectives when managing capital are to maintain financial viability and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness, and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements, and internally determined capital guidelines and calculated risk management levels.

The Company's current capital was received from the issuance of common shares. The net proceeds raised to date will only be sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction.

The Company is not subject to any externally imposed capital requirements other than the expenditure restrictions applicable under Policy 2.4, which apply on completion of the IPO. These expenditure restrictions limit the aggregate amount that the Company is permitted to spend on reasonable general and administrative costs of the Company not exceeding in aggregate of \$3,000 per month, and reasonable expenses incurred related to a Qualifying Transaction

AUDREY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON MARCH 9, 2021 TO DECEMBER 31, 2021 AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Stated in Canadian dollars)

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the period from incorporation on March 9, 2021 to December 31, 2021 and year ended December 31, 2022 is as follows:

| | Year ended December 31, 2022 | From Incorporation on March 9, 2021 to December 31, 2021 |
|--|------------------------------------|--|
| Loss before income taxes | \$ (161,921) | \$ (284,953) |
| Expected income tax (recovery) | (44,000) | (77,000) |
| Changes in statutory, foreign tax, foreign exchange rates, and other | 1,000 | 1,000 |
| Permanent differences | 24,000 | 33,000 |
| Share issue costs | - | (23,000) |
| Adjustment to prior years provision versus statutory tax returns | (5,000) | - |
| Changes in unrecognized deductible temporary differences | 24,000 | 66,000 |
| Total income tax expense (recovery) | \$ - | \$ - |

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

| | Year ended December 31, 2022 | From Incorporation on March 9, 2021 to December 31, 2021 |
|--|------------------------------------|--|
| Deferred tax assets (liabilities) | | |
| Share issue costs | 16,000 | 18,000 |
| Non-capital losses | 74,000 | 48,000 |
| Net deferred tax liability | \$ 90,000 | \$ 66,000 |

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

| | 2022 | Expiry Date Range | 2021 | Expiry Date Range |
|------------------------------|---------|----------------------|---------|----------------------|
| Temporary Differences | | | | |
| Share issue costs | 59,000 | 2045 | 67,000 | 2045 |
| Non-capital losses | 273,000 | 2041 to 2042 | 178,000 | 2041 |
| Canada | 275,000 | 2041 to 2042 | 178,000 | 2041 |

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