



BEACN

**BEACN WIZARDRY AND MAGIC INC.
(Formerly “Germinate Capital Ltd.”)**

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

BEACN WIZARDRY AND MAGIC INC.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Beach Wizardry and Magic Inc. (formerly Germinate Capital Ltd.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Beach Wizardry and Magic Inc. (formerly Germinate Capital Ltd.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2021 and the period from incorporation on February 7, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the periods 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 ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has not generated any revenues from operations. As stated in Note 1, the Company's ability to continue as a going concern is dependent upon its ability to obtain necessary equity or other financing to continue operations, and/or to attain sufficient profitable operations. These matters, along with other matters as set forth in Note 1, indicate 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the consolidated financial statements and our auditor's report thereon.

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. 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 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 Group 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.

The engagement partner on the audit resulting in this independent auditor's report is G. Cameron Dong.



Chartered Professional Accountants

Vancouver, BC, Canada
May 2, 2022

BEACN WIZARDRY AND MAGIC INC.
(Formerly Germinate Capital Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Presented in Canadian Dollars)

	Note	December 31, 2021	December 31, 2020
Assets			
Current			
Cash and cash equivalents		\$ 2,039,515	\$ 335,780
Receivables		41,668	8,950
Inventory		537,026	14,410
Prepaid and deposits	5	423,704	6,150
		3,041,913	365,290
Non-current			
Property and equipment, net	6	321,948	96,614
		321,948	96,614
		\$ 3,363,861	\$ 461,904
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 269,567	\$ 28,590
Due to related parties		39,638	-
		309,205	28,590
Non-current			
Convertible loan	7	219,394	-
Promissory note	8	275,000	275,000
		494,394	275,000
Shareholders' equity			
Share capital	10	5,744,667	937,510
Reserves	10	308,547	-
Deficit		(3,492,952)	(779,196)
		2,560,262	158,314
		\$ 3,363,861	\$ 461,904

Events after the reporting period (Note 15)

These consolidated financial statements are approved by the Board on May 2, 2022

Approved by the Board of Directors:

"Sarah Weber"

Sarah Weber

"Mark T. Brown"

Mark T. Brown

See the notes to the consolidated financial statements

BEACN WIZARDRY AND MAGIC INC.*(Formerly Germinate Capital Ltd.)***CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Presented in Canadian Dollars)

	Note	Year ended December 31, 2021	For the Period from February 7 to December 31, 2020
General and administrative			
Advertising		\$ 52,188	\$ 4,264
Amortization	6	45,249	8,734
Consulting and marketing fees		193,270	92,252
Pre-production costs		36,498	-
Office, rent and miscellaneous		70,146	44,522
Professional fees	12	174,196	32,056
Prototype costs		91,116	29,923
Salaries and benefits	12	813,286	554,006
Share-based payments	10(c)	197,810	-
Supplies and other		15,548	12,235
Transfer agent, filing fees and shareholder communications		14,868	-
Travel and related costs		28,036	1,204
Loss from operations		1,732,211	779,196
Other items			
SR&ED tax credit	9	(283,021)	-
Listing expense pursuant to QT	11	1,242,396	-
Foreign exchange loss		463	-
Interest and accretion expense		21,707	-
		981,545	-
Net loss and comprehensive loss for the year		\$ 2,713,756	\$ 779,196
Basic and diluted loss per share		\$ 0.09	\$ 0.06
Weighted average number of common shares outstanding		31,834,302	12,937,405

See the notes to the consolidated financial statements

BEACN WIZARDRY AND MAGIC INC.*(Formerly Germinate Capital Ltd.)***CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Presented in Canadian Dollars)

	Note	Share Capital		Share-based payments	Warrants	Finders' Warrants	Conversion rights	Deficit	Total Shareholders' Equity
		Number of shares	Amount						
Balance, February 7, 2020		-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Seed shares	10(b)	21,751,000	937,510	-	-	-	-	-	937,510
Loss for the period		-	-	-	-	-	-	(779,196)	(779,196)
Balance, December 31, 2020		21,751,000	937,510	-	-	-	-	(779,196)	158,314
Private placements	10(b)	10,400,003	1,810,000	-	-	-	-	-	1,810,000
Shares issued on private placement	10(b),11	5,000,000	1,437,700	-	62,300	-	-	-	1,500,000
Shares issued pursuant to QT	11	4,800,000	1,440,000	-	-	-	-	-	1,440,000
Share issuance costs	10(b)	-	(120,160)	-	-	2,014	-	-	(118,146)
Convertible loan - Conversion rights	7	-	-	-	-	-	36,040	-	36,040
Conversion of convertible loan	7,10(b)	833,333	239,617	-	10,383	-	-	-	250,000
Share-based payments	10(c)	-	-	197,810	-	-	-	-	197,810
Loss for the year		-	-	-	-	-	-	(2,713,756)	(2,713,756)
Balance, December 31, 2021		42,784,336	\$ 5,744,667	\$ 197,810	\$ 72,683	\$ 2,014	\$ 36,040	\$(3,492,952)	\$ 2,560,262

See the notes to the consolidated financial statements

BEACH WIZARDRY AND MAGIC INC.
(Formerly Germinate Capital Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Presented in Canadian Dollars)

	Note	Year ended December 31, 2021	For the Period from February 7 to December 31, 2020
Cash provided by (used in):			
Operating activities			
Loss for the year		\$ (2,713,756)	\$ (779,196)
Items not affecting cash:			
Share-based payments		197,810	-
Amortization	6	45,249	8,734
Interest and accretion expense	7,8	21,707	-
Listing expense	11	1,242,396	-
Changes in non-cash working capital items:			
Receivables		(26,910)	(8,950)
Prepaid expense		(417,554)	(6,150)
Inventory		(522,616)	(14,410)
Accounts payable and accrued liabilities		169,802	28,590
Due to related parties		39,638	-
Net cash used in operating activities		(1,964,234)	(771,382)
Investing activities			
Cash acquired from the Qualifying Transaction	11	191,796	-
Property and equipment		(270,583)	(105,348)
		(78,787)	(105,348)
Financing activities			
Proceeds from issuance of common shares	10(b)	3,310,000	937,510
Promissory note		-	275,000
Convertible loan	7	500,000	-
Share issuance costs	10(b)	(63,244)	-
Net cash provided by financing activities		3,746,756	1,212,510
Change in cash and cash equivalents		1,703,735	335,780
Cash and cash equivalents, beginning of the year		335,780	-
Cash and cash equivalents, end of the year		\$ 2,039,515	\$ 335,780
Supplemental disclosure with respect to cash flows:			
Fair value of finders' warrants issued on QT		\$ 2,014	\$ -
Fair value of warrants issued on private placement		\$ 62,300	\$ -
Fair value of warrants on conversion of loan to shares		\$ 10,383	\$ -
Share issuance costs in accounts payable and accrued liabilities		\$ 54,902	\$ -

See the notes to the consolidated financial statements

BEACN WIZARDRY AND MAGIC INC.

(Formerly Germinate Capital Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Beacn Wizardry and Magic Inc. (formerly Germinate Capital Ltd.) (“Beacn” or the “Company”) was incorporated and domiciled in Canada under the Business Corporations Act (British Columbia) as a “Capital Pool Company” as defined in the TSX Venture Exchange’s (the “Exchange”) Listing Policy 2.4.

On October 29, 2021, the Company completed the share exchange transaction with Beacon Hill Innovations Ltd. (“Beacon”) (Note 11) which constituted the Company’s Qualifying Transaction (“QT”). Beacon was incorporated under the Business Corporations Act (British Columbia) in February 2020 and its principal business focus is be a supplier of tech peripherals for Gamers, YouTubers, Podcasters and anyone creating content on the internet. Upon completion of the QT, the Company began trading under its new name on the Exchange with the symbol “BECN” on November 2, 2021.

For accounting purposes, it has been determined that Beacn was the accounting acquiree and Beacon was the accounting acquirer since the shareholders of the former Beacon now control Beacn, based on the guidance of IFRS 10, “Consolidated Financial Statements”, and IFRS 3, “Business Combinations” and IFRS 2, “Share-based Payment”, to identify the accounting acquirer (Note 11). These audited consolidated financial statements are prepared as a continuation of the financial statements of Beacon, reflecting the equity instruments of Beacn. As a result, comparative information included herein is solely those of Beacon. For simplicity, transactions undertaken by Beacon are referred to as being undertaken by Beacn in these audited consolidated financial statements.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern basis, which implies the Company will continue to realize it assets and discharge it liabilities in the normal course of business. The Company incurred a net loss of \$2,713,756 for the year ended December 31, 2021. To December 31, 2021, the Company has not earned any revenue from operations. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity or other financing to continue operations, and/or to attain sufficient profitable operations.

There are material uncertainties that may cast significant doubt about the appropriateness of the going concern assumption. The current market conditions and volatility increase the uncertainly of the Company’s ability to continue as a going concern given the need to continue research and development, purchase inventory, establish profitable sales and raise additional funds. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds. The outcome of these matters cannot be predicted at the present time. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

In March 2020, the World Health Organization 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. It is not possible for the Company to 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.

The Company’s business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia’s military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts, of the pandemic and the war in the Ukraine, to the business to be limited, the indirect impacts on the economy and industries in general could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

BEACN WIZARDRY AND MAGIC INC.

(Formerly Germinate Capital Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

2. BASIS OF PREPARATION - STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related IFRS Interpretations Committee (“IFRICs”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

3. SIGNIFICANT ACCOUNTING POLICIES**(a) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

(b) Basic loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The effect of potential issuances of shares from the exercise of outstanding options and warrants, if any, would be anti-dilutive for the period presented and accordingly, basic and diluted losses per share are the same.

(c) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

The determination that the Company will continue as a going concern for the next year is a critical judgement that management has made in the process of applying accounting policies and that has the most significant effect on the amounts recognized in the consolidated financial statements.

(d) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income nor loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

BEACN WIZARDRY AND MAGIC INC.

(Formerly Germinate Capital Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

(d) Income taxes (cont'd)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(e) Foreign Currency

The functional currency and the presentation of these consolidated financial statements are presented in Canadian dollars. The company has and expects to continue incurring expenditures denominated in US dollars and expects to generate revenue in US dollars. Revenue and expenses are translated at the average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statements of income (loss) and comprehensive income (loss).

(f) Inventories

Parts and finished goods are stated at the lower of cost and net realizable value. Inventory cost includes all expenses directly attributable to the manufacture including shipping and handling. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or slow turnover. Actual net realizable value can vary from the estimate.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying cost of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the period in which they are incurred.

Amortization is calculated at 55% declining balance for products for testing, computer equipment and software and 20% for other equipment. Amortization for moulds used in manufacturing is calculated using a straight-line method and useful life of five years. Residual values, methods of amortization, and useful lives of the assets are reviewed annual and adjusted, if required.

BEACN WIZARDRY AND MAGIC INC.

(Formerly Germinate Capital Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

(h) Research and development expenditures

The Company anticipates it will qualify for certain investment tax credits related to its research and development activities in Canada. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when there is reasonable assurance that the ITCs will be received and all attached conditions will be complied with. Except as detailed in Note 9, the investment tax credits, if any, that may result from the research and development costs presented in these financial statements are not determinable as at the statement date.

(i) Financial instruments

Financial Assets - Classification

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income ("OCI"), or through profit or loss ("FVTPL"), and
- Those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and contractual terms of the cash flows. For assets measured at fair value, gains or losses are recorded in profit or loss or OCI.

The Company has classified cash and cash equivalents and receivables (excluding sales taxes) as subsequently measured at amortized cost.

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 fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. These are the measurement categories under which the Company classifies its financial assets:

- Subsequently measured at 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 is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through OCI ("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 amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.

BEACN WIZARDRY AND MAGIC INC.*(Formerly Germinate Capital Ltd.)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

(i) Financial instruments (cont'd)

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented in the statement of net loss and comprehensive loss in the period in which it arises.

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 of the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, 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 consolidated 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.

Financial Liabilities

The Company classifies its financial liabilities into the following categories: financial liabilities at FVTPL and amortized cost.

A financial liability is classified as FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest rate method. The Company classifies its accounts payable and accrued liabilities, due to related parties, convertible loan, and promissory note as financial liabilities held at amortized cost.

(j) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-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 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 to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model which incorporates all market vesting conditions. 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.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

BEACN WIZARDRY AND MAGIC INC.*(Formerly Germinate Capital Ltd.)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

(Presented in Canadian Dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair values of the Company's cash and accounts payable and accrued liabilities, due to related parties, convertible loan, and promissory note approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk and liquidity risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank account. The Company's bank account is held with a major bank in Canada; accordingly, the Company believes it is not exposed to significant credit risk.

b) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company controls liquidity risk by ensuring that it has sufficient cash resources to pay for its financial obligations. As at December 31, 2021, the Company had a cash balance of \$2,039,515 to settle current liabilities of \$309,205.

5. PREPAID EXPENSES

	December 31, 2021	December 31, 2020
Office and lease deposit	\$ 6,150	\$ 6,150
Insurance	5,625	-
Inventory deposit on purchase order	411,929	-
	<u>\$ 423,704</u>	<u>\$ 6,150</u>

6. PROPERTY AND EQUIPMENT

	Computer equipment and software	Moulds for Products	Total
Opening balance, February 7, 2020	\$ -	\$ -	\$ -
Additions	31,760	73,588	105,348
Amortization	(8,734)	-	(8,734)
Closing balance, December 31, 2020	23,026	73,588	96,614
Additions	79,883	190,701	270,584
Amortization	(33,986)	(11,263)	(45,249)
Balance, December 31, 2021	<u>\$ 68,923</u>	<u>\$ 253,026</u>	<u>\$ 321,949</u>

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7. CONVERTIBLE LOAN

On September 14, 2021, the Company entered into a \$500,000 convertible loan agreement (“Loan”) with two parties (“Lenders”). The Loan is convertible, at the option of the Lenders, into the units of the Company. Each unit is convertible into one common share of the Company and one-half of one share purchase warrant (“Warrant”) of the Company at a rate of \$0.30 per unit. Each Warrant is exercisable into a common share of the Company at \$0.60 for a period of 2 years. The Loan, if not converted, has a maturity date of April 29, 2023, is subject to an interest rate of 5% per annum, and a one-time setup fee of \$1,250. Upon completion of the QT, on October 29, 2021, \$250,000 of the convertible loan was converted into common shares (Note 10(b) and 11). The equity portion of the remaining convertible loan (\$36,040) has been allocated to conversion rights as a residual based on the estimated present value of the loan (\$213,960). During the year, \$5,434 in accretion expense was recorded.

8. PROMISSORY NOTE

During the year ended December 31, 2020, the Company entered into a promissory note (the “Note”) with a shareholder of the Company with a maturity date of December 31, 2024. The Note was without interest until December 31, 2020, and thereafter incurs interest at a rate of 4% per annum, and payable quarterly. The Company can repay all or part of the Note at any time without penalty. During the year, the Company paid \$11,000 (2020 - \$nil) in interest expense.

9. SR&ED TAX CREDIT

The Company recorded a SR&ED tax refund in the amount of \$283,021 (2020: \$Nil) related to research and development expenditures incurred during the period from February 7, 2020 to December 31, 2020.

10. SHARE CAPITAL

(a) Authorized:

At December 31, 2021, the authorized share capital was comprised of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Share issuances:

Fiscal 2021

On February 8, 2021, the Company closed a non-brokered private placement of 5,400,003 common shares at a price of \$0.15 per share for gross proceeds of \$810,000.

On June 25, 2021, the Company closed a non-brokered private placement of 5,000,000 common shares at a price of \$0.20 per share for gross proceeds of \$1,000,000.

On September 23, 2021, the Company completed its non-brokered private placement of 5,000,000 subscription receipts of the Company (the “Subscription Receipts”) at a price of \$0.30 per Subscription Receipt for gross proceeds of \$1,500,000 (the “Private Placement”). Each Subscription Receipt issued pursuant to the Private Placement is automatically convertible for no additional consideration into one unit of the Company (a “Unit”) upon satisfaction of the Escrow Release Conditions (Note 11). Each Unit is comprised of one common share in the capital of the Company (a “Share”) and one-half of one Share purchase warrant (each full warrant, a “Warrant”). Each Warrant is exercisable to acquire one Share at a price of \$0.60 for a period of two years from the date of issuance. The warrants were ascribed a value of \$62,300 under the Black-Scholes valuation model with the residual being allocated to share capital. The Company paid to certain arm’s length finders an aggregate cash finder’s fee in connection with the Private Placement of \$23,243 and 77,475 non-transferrable warrants (“Finder Warrants”) at the time of closing of the Transaction. Each Finder Warrant will entitle the holder to acquire one Share at a price of \$0.30 for a period of two years from closing of the Transaction.

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10. SHARE CAPITAL, (cont'd)**Fiscal 2021, (cont'd)**

On October 29, 2021, upon completion of the QT, 4,800,000 common shares at a price of \$0.30 per share were issued (Note 11).

On October 29, 2021, upon completion of the QT, \$250,000 worth of convertible loan was converted into 833,333 common shares and 416,666 warrants (Note 7). Each warrant is exercisable to acquire one share at a price of \$0.60 for a period of two years from the date of issuance. The warrants were ascribed a value of \$10,383 under the Black- Scholes valuation model with the residual being allocated to share capital.

Fiscal 2020

On May 27, 2020, the Company closed a non-brokered private placement of 13,751,000 common shares at a price of \$0.01 per share for gross proceeds of \$137,510.

On August 12, 2020, the Company closed a non-brokered private placement of 8,000,000 common shares at a price of \$0.10 per share for gross proceeds of \$800,000.

(c) Stock options:

The Company has established a stock option plan for its directors, officers, and technical consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company.

The continuity of options is as follows:

Expiry date	Exercise price	December 31, 2020	Issued	Exercised	Expired	December 31, 2021
October 29, 2023	\$ 0.10	-	112,500	-	-	112,500
October 29, 2026	\$ 0.30	-	3,150,000	-	-	3,150,000
April 20, 2031	\$ 0.10	-	337,500	-	-	337,500
Outstanding		-	3,600,000	-	-	3,600,000
Weighted average exercise price	\$	-	\$ 0.28	\$ -	\$ -	\$ 0.28

At December 31, 2021, the weighted average remaining life of the outstanding and exercisable options is 5.16 years (December 31, 2020 – Nil).

The fair value of options granted and expensed during the year ended December 31, 2021 was \$197,810 (from period on February 7, 2020 to December 31, 2020 - \$Nil).

The assumptions used in the Black Scholes Option Pricing Model to estimate the fair value of options were:

	2021	2020
Expected dividend yield	Nil	Nil
Expected stock price volatility	21.93% - 45.11%	Nil
Risk-free interest rate	1.30% - 1.74%	Nil
Forfeiture rate	Nil	Nil
Expected options life in years	5 - 10 years	Nil

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10. SHARE CAPITAL, (cont'd)

(d) Warrants:

Expiry date	Exercise price	December 31, 2020	Issued	Exercised	Expired	December 31, 2021
October 29, 2023	\$ 0.60	-	2,916,666	-	-	2,916,666
October 29, 2023	\$ 0.30	-	77,475	-	-	77,475
April 20, 2026	\$ 0.10	-	250,000	-	-	250,000
Outstanding		-	3,244,141	-	-	3,244,141
Weighted average exercise price	\$	-	\$ 0.55	\$	-	\$ 0.55

At December 31, 2021, the weighted average remaining life of the outstanding warrants is 2.02 years (December 31, 2020 - Nil).

The assumptions used in the Black Scholes Option Pricing Model to estimate the fair value of warrants were:

	2021	2021
Expected dividend yield	Nil	Nil
Expected stock price volatility	31.01% - 71.13%	Nil
Risk-free interest rate	0.55% - 1.28%	Nil
Forfeiture rate	Nil	Nil
Expected life of warrants	2 - 5 years	Nil

11. QUALIFYING TRANSACTION

On October 29, 2021, the Company and Beacon completed their previously announced QT. The QT was completed by way of share exchange pursuant to which the Company acquired all of the issued and outstanding shares in the capital of Beacon in exchange for the issuance of 32,151,003 common shares in the capital of the Company to the former shareholders of Beacon. The Company also issued 3,150,000 stock options to directors, officers, employees and consultants of the Company, which can be exercised at a price of \$0.30 per share until October 29, 2026.

The Subscription Receipts (see Note 10) converted automatically for no additional consideration into Units upon the occurrence of the following events (collectively, the "Escrow Release Conditions"): (i) all conditions to the Exchange's conditional approval of the Transaction having been satisfied or waived; (ii) all conditions to the Exchange's conditional approval for the listing of the Shares to be issued pursuant to the Private Placement and the Shares underlying the Warrants having been satisfied or waived; and (iii) the closing of the transactions contemplated by the Share Exchange Agreement.

In connection with the QT, the Company completed a concurrent financing (Note 10) totaling \$1,500,000.

In accounting for the acquisition as a reverse takeover, no goodwill or intangible asset in respect to the stock exchange listing has been recorded. For accounting purposes, Beacon, the legal subsidiary, has been treated as the accounting acquirer, and the Company, the legal parent, has been treated as the accounting acquiree in these consolidated financial statements. Beacon's assets and liabilities are included in these consolidated financial statements at their carrying values, which were considered to represent their current fair values.

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11. QUALIFYING TRANSACTION, (cont'd)

The QT did not constitute a business combination under IFRS 3. The QT is accounted for in these consolidated financial statements as a continuation of the financial statements of Beacon, subject to a deemed issuance of shares and re-capitalization of the resulting issuer's equity. The excess of the estimated fair value of Beacon's pre-transaction common shares over the current carrying value of its net identifiable assets was allocated to listing expense. The acquisition was measured based on the current fair value of Beacon's 4,800,000 common shares outstanding deemed reissued at \$0.30 per share, allocated to its net identifiable assets as follows:

Cash	\$ 191,796
Receivables	5,808
Total fair value of net assets acquired by Beacon	197,604
Listing expense	1,242,396
Fair value of Beacon's pre-transaction common shares	<u>\$ 1,440,000</u>

12. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the year ended December 31, 2021:

	Salaries and benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Craig Fraser Chief Executive Officer, Director	\$ 95,000	\$Nil	\$Nil	\$Nil	\$ 72,216	\$ 167,216
Daniel Davies Chief Technology Officer, Director	\$ 95,000	\$Nil	\$Nil	\$Nil	\$ 72,216	\$ 167,216
Robert Doyle Chief Financial Officer	\$ 28,500	\$Nil	\$Nil	\$Nil	\$ 21,979	\$ 50,479
Mark T. Brown Director	\$Nil	\$Nil	\$Nil	\$Nil	\$ 6,280	\$ 6,280
Sarah Weber, Director	\$Nil	\$Nil	\$Nil	\$Nil	\$ 6,280	\$ 6,280

Period from on February 7, 2020 to December 31, 2020:

	Salaries and benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Craig Fraser Chief Executive Officer, Director	\$ 80,385	\$Nil	\$Nil	\$Nil	\$ -	\$ 80,385
Daniel Davies Chief Technology Officer, Director	\$ 80,385	\$Nil	\$Nil	\$Nil	\$ -	\$ 80,385

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12. RELATED PARTY TRANSACTIONS, (cont'd)

Amounts due to:	Service	Year ended December 31, 2021	For the Period from February 7 to December 31, 2020	Balance due	
				As at December 31, 2021	As at December 31, 2020
Craig Fraser, officer and	Salaries and benefits	\$ 95,000	\$ 80,385	\$ -	\$ -
Daniel Davies, officer and	Salaries and benefits	95,000	80,385	-	-
Mark Brown, director	Expense reimbursement	-	-	1,838	-
Pacific Opportunity Capital Ltd., a company controlled by Mark T. Brown, a director	Accounting and management services	28,500	-	37,800	-
TOTAL:		\$ 218,500	\$ 160,770	\$ 39,638	\$ -

Amounts owing to/from related parties are non-interest bearing, unsecured, and have no fixed terms of repayment. The changes during the period were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Upon completion of the QT, on October 29, 2021, Pacific Opportunity Capital converted its \$250,000 convertible loan into common shares (Note 7 and 10(b)).

13. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

14. INCOME TAX

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

	December 31, 2021	December 31, 2020
Net loss for the year	\$ (2,713,756)	\$ (779,196)
Statutory tax rates	27.00%	27.00%
Expected income tax recovery	(732,700)	(210,400)
Non-deductible amounts	346,200	2,400
Net change in valuation allowance	386,500	208,000
Total income tax (recovery)	-	-

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14. INCOME TAX, (cont'd)

The components of the Company's deferred income tax assets and liabilities are estimated as follows:

Deferred income tax assets:			
Property and equipment	\$	7,200	\$ -
Non - capital loss carry forward		543,500	208,025
Share issue costs		44,000	-
Valuation allowance		(594,700)	(208,025)
Net deferred income tax assets		-	-

As at December 31, 2021, the Company has non-capital losses of \$2,013,000 (2020 - \$744,300) which will be available to reduce future taxable income earned in Canada. The non-capital losses will begin to expire in 2040.

15. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2021, 50,000 stock options expired unexercised.

Subsequent to December 31, 2021, 50,000 stock options were granted at an exercise price of \$0.32 per share until January 21, 2027.