

Consolidated Financial Statements

Principal Technologies Inc.

For the years ended July 31, 2023 and 2022
(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Principal Technologies Inc.

Opinion

We have audited the consolidated financial statements of Principal Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

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

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the 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.

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

Vancouver

1500 - 1140 West Pender St.
Vancouver, BC V6E 4G1
604.687.4747

Surrey

200 - 1688 152 St.
Surrey, BC V4A 4N2
604.531.1154

Tri-Cities

700 - 2755 Lougheed Hwy
Port Coquitlam, BC V3B 5Y9
604.941.8266

Victoria

320 - 730 View St.
Victoria, BC V8W 3Y7
250.800.4694

Other Information

Management is responsible for the other information. The other information comprises the information included in 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 International Financial Reporting Standards, 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

A handwritten signature in black ink, appearing to read 'DMCL.', with a stylized initial 'D'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

November 30, 2023

Principal Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	July 31, 2023	July 31, 2022
		\$	\$
Current Assets			
Cash		156,194	348,777
Amounts receivable	5	165,890	65,689
Prepaid expense and deposit		51,367	10,706
		<u>373,451</u>	<u>425,172</u>
Long-Term Assets			
Investment	6	263,427	256,140
Property and equipment	7	90,255	77,381
Total Assets		<u>727,133</u>	<u>758,693</u>
Current Liabilities			
Accounts payable and accrued liabilities	9	446,931	233,707
Deferred revenue		8,238	-
Lease liabilities - current portion	14	22,193	13,444
		<u>477,362</u>	<u>247,151</u>
Long-Term Liabilities			
Lease liabilities	14	52,920	59,174
Total Liabilities		<u>53,282</u>	<u>306,325</u>
Shareholders' Equity			
Share capital	8	2,496,810	1,927,656
Equity reserves	8	609,714	429,347
Accumulated other comprehensive loss		(3,695)	(25,793)
Deficit		(2,954,121)	(1,922,151)
Total shareholders' equity attributable to the Company		<u>148,708</u>	<u>409,059</u>
Non-controlling interest	15	48,143	43,309
		<u>196,851</u>	<u>452,368</u>
Total Liabilities and Shareholders' Equity		<u>727,133</u>	<u>758,693</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
SUBSEQUENT EVENTS (Note 16)

Approved on behalf of the Board:

/s/ Gerald Trent

/s/ Leopold Specht

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

Principal Technologies Inc.

Consolidated Statement of Loss and Comprehensive Loss (Expressed in Canadian Dollars)

	Note	Years ended July 31,	
		2023	2022
		\$	\$
Revenue	10	425,632	339,345
Expenses			
Advisory and consulting	4, 9	306,559	628,867
Depreciation	7	29,579	24,666
Directors' fees	9	39,732	169,524
Interest expense	14	8,259	9,921
Marketing and advertisement		24,038	74,882
Professional fees		259,296	186,214
Regulatory and transfer agent		33,116	13,601
Office and administration		93,169	80,677
Salaries and benefits		241,042	193,608
Share-based compensation	8, 9	345,367	238,682
Travel		59,071	72,605
		(1,439,228)	(1,693,247)
Gain on acquisition of E&E	4	-	18,734
Fair value gain on investment	6	2,712	-
Foreign exchange gain (loss)		(7,987)	21,438
Finance income		3,053	1,151
		(2,222)	41,323
Net loss before income tax		(1,015,818)	(1,312,579)
Income tax expense	13	(13,062)	(36,323)
Net loss		(1,028,880)	(1,348,902)
Other comprehensive income (loss)			
Foreign exchange translation		23,842	(23,654)
Comprehensive loss		(1,005,038)	(1,372,556)
Net income (loss) attributable to:			
Shareholders of the company		(1,031,970)	(1,349,593)
Non-controlling interest		3,090	691
		(1,028,880)	(1,348,902)
Comprehensive loss attributable to:			
Shareholders of the company		(1,009,872)	(1,368,813)
Non-controlling interest		4,834	(3,743)
		(1,005,038)	(1,372,556)
Basic and diluted loss per share		(0.06)	(0.08)
Weighted average number of common shares outstanding - basic and diluted		18,734,913	17,827,605

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

Principal Technologies Inc.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Note	Number of shares	Share Capital	Equity Reserve	Foreign Exchange Translation Reserve	Deficit	Non-controlling Interest	Total Shareholders' Equity
			\$	\$	\$	\$	\$	\$
Balance at July 31, 2021		17,733,924	1,910,137	33,184	(6,573)	(572,558)	-	1,364,190
Exercise of share options	8(b)	100,000	17,519	(7,519)	-	-	-	10,000
Acquisition of non-controlling interest	4	-	-	-	-	-	41,851	41,851
Cash contribution by non-controlling interest	15	-	-	-	-	-	5,201	5,201
Share-based compensation	8(c)	-	-	238,682	-	-	-	238,682
Share-based remuneration	4	-	-	165,000	-	-	-	165,000
Net income (loss) for the year		-	-	-	-	(1,349,593)	691	(1,348,902)
Foreign translation adjustment		-	-	-	(19,220)	-	(4,434)	(23,654)
Balance at July 31, 2022		17,833,924	1,927,656	429,347	(25,793)	(1,922,151)	43,309	452,368
Private placement	8(b)	3,011,537	301,154	-	-	-	-	301,154
Shares issued for services	4,8(b)	1,000,000	165,000	(165,000)	-	-	-	-
Shares issued for debt replacement	8(b)	1,030,000	103,000	-	-	-	-	103,000
Share-based compensation	8(c)	-	-	345,367	-	-	-	345,367
Net income (loss) for the year		-	-	-	-	(1,031,970)	3,090	(1,028,880)
Foreign translation adjustment		-	-	-	22,098	-	1,744	23,842
Balance at July 31, 2023		22,875,461	2,496,810	609,714	(3,695)	(2,954,121)	48,143	196,851

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

Principal Technologies Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Years ended July 31	
	2023	2022
	\$	\$
Operating activities		
Net loss	(1,028,880)	(1,348,902)
Items not involving cash:		
Depreciation	29,579	24,666
Interest expense	8,259	9,921
Share-based compensation	345,367	238,682
Share-based remuneration	-	165,000
Fair value gain on investment	(2,712)	-
Gain on acquisition of E&E	-	(18,734)
Changes in non-cash working capital items:		
Amounts receivable	(100,201)	25,906
Prepaid expense and deposits	(40,661)	146,309
Deferred revenue	8,238	-
Amounts payable and accrued liabilities	310,460	116,808
	(470,551)	(640,344)
Investing activities		
Net cash used in acquisition of E&E	-	(6,873)
Purchase of investment	-	(256,140)
Purchase of property and equipment	(3,252)	(1,696)
	(3,252)	(264,709)
Financing activities		
Proceed from issuance of shares, net of share issuance costs	301,154	-
Proceeds from exercise of options	-	10,000
Lease payments	(39,201)	(23,527)
Capital contributed by non-controlling interests	-	5,201
	261,953	(8,326)
Effect of foreign exchange on cash	19,267	(27,699)
Change in cash	(192,583)	(941,078)
Cash, beginning	348,777	1,289,855
Cash, ending	156,194	348,777
Supplemental cash flow information:		
Cash paid during the year for interest	-	-
Cash paid during the year for taxes	13,062	36,323

During the year ended July 31, 2023, the Company reallocated \$Nil (2022: \$7,519) from reserves to share capital pursuant to the exercise of options.

During the year ended July 31, 2023 the Company recorded a right of use asset of \$39,201 (2022: \$90,428).

During the year ended July 31, 2023, the Company reallocated \$165,000 from reserves to share capital pursuant to shares issued for services (Note 4).

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

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is domiciled in Canada and was incorporated on April 3, 2018, under the laws of the Province of British Columbia. The address of the Company's registered and records office is 25th Floor, 700 West Georgia St., Vancouver, British Columbia, V7Y 1B3.

On August 4, 2021, the Company completed a qualifying transaction (the "Qualifying Transaction") pursuant to the policies of the TSX Venture Exchange ("TSXV") and commenced trading as a Tier 2 Life Sciences Issuer on the TSXV on August 6, 2021 under the ticker symbol "PTEC". The Company is currently building a diverse portfolio of investments in healthcare technology companies with a focus on those with global distribution potential which have intellectual property capable of enhancing medical treatment quality, cost efficiency, optimizations of the patient pathway, and implementation of point of care technologies.

These consolidated financial statements (the "financial statements") have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company had negative working capital of \$103,911 at July 31, 2023, and a deficit of \$2,954,121 on this date, creating significant doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on management's ability to identify additional sources of capital and to raise sufficient resources in order to fund on-going expenditures and the Company's investment plan. Although management has been successful in the past, there is no assurance these initiatives will be successful in the future. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

(a) *Statement of compliance*

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC").

The financial statements were authorized for issue by the Board of Directors on November 30, 2023.

(b) *Basis of measurement*

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

(c) *Functional and presentation currency*

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

The functional currency of the Company's subsidiaries: Principal Technologies Capital Management GmbH is the Euro and E&E CRO Consulting GmbH is the Euro.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)

(d) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

	Incorporation	Functional currency	Percentage owned
Principal Technologies Capital Management GmbH	Austria	Euro	100%
E&E CRO Consulting GmbH	Austria	Euro	80%

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Company's equity. The non-controlling interest consists of the non-controlling interest's portion of net assets and profit or loss.

(e) Significant accounting judgments and estimates

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical judgment

The preparation of these consolidated financial statements requires the Company to make judgments regarding the going concern of the Company as discussed in Note 1.

The classification of an acquisition as a business combination, an asset acquisition or other component requires the Company to make judgments as discussed in Note 4.

Key sources of estimation uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the Company's consolidated financial statements include:

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)

affected. The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

(f) *Recent accounting standards*

Certain new standards, interpretations, amendments and improvements to existing standards are periodically issued by the IASB or IFRIC. There are no new standards which the Company reasonably expects are applicable to the Company and will significantly impact the Company during the upcoming fiscal year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these consolidated financial statements are described below:

(a) *Cash*

Cash includes deposits held with banks that are available on demand.

(b) *Financial instruments*

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL.

For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income (loss) ("OCI"). On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. 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 statements of net (loss) income, 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.

(iv) De-recognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on de-recognition are generally recognized in profit or loss.

The following table shows the classification of the Company's financial instruments under IFRS 9:

Financial assets	
Cash	FVTPL
Amounts receivable	Amortized cost
Investment	FVTPL
Financial liabilities	
Accounts payable	Amortized cost

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Loss per share*

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

(d) *Revenue recognition*

Revenues from contracted services are generally recognized as the performance obligations are satisfied over time, and the related expenditures are incurred pursuant to the terms of the agreement. The Company recognizes revenue from its contracts on a monthly basis as it provides related services under each contract and collection is reasonably assured. Payments received prior to the completion of the performance obligation are recorded as deferred revenue.

(e) *Property and equipment*

Office furniture and equipment is carried at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes the acquisition cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property includes significant components with different useful lives, they are recorded and depreciated separately. Estimated useful lives are reviewed at the end of each reporting period.

Office furniture is depreciated on a 10% declining balance, IT equipment is depreciated on a 25% declining balance and assets under lease are depreciated straight line, over the lease term.

(f) *Income taxes*

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss. Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) *Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity. Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated to common shares and warrants on a relative fair value basis whereby the common shares are valued based on the quoted market price of the common shares at the time the units are priced, and the warrants are valued using the residual value approach.

(h) *Share based payments*

The Company's stock option plan allows Company employees, directors, officers, consultants and charities to acquire shares of the Company. The fair value of options granted is recognized as share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to consultants and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

(i) *Foreign exchange*

The Company's functional and reporting currency is the Canadian dollar. The functional currency of the Company's subsidiaries, Principal Technologies Capital Management GmbH is the Euro and E&E CRO Consulting GmbH is the Euro. Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at the date of the statement of financial position to reflect exchange rates prevailing at that date. Non-monetary assets and liabilities are translated at historical exchange rates. Gains and losses on translation are included in accumulated other comprehensive loss in shareholders' equity.

(j) *Leases*

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases are recognized as a right-of-use asset and a corresponding liability when the leased asset is available for use by the Company. Lease liabilities are initially measured at the net present value of the fixed lease payments and variable lease payments that are based on an index or a rate, discounted using the rate implicit in the lease, or if that cannot be determined, the Company's incremental borrowing rate.

Right-of-use assets are initially measured at cost, comprising of the amount of the initial measurement of the lease liability, any lease payments made at or before the lease commencement date, and restoration costs. Right of use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has elected to not recognize right-of-use assets and lease liabilities for leases with a term of less than 12 months and low value leases. The lease payments for these leases are recorded as expenses as they are incurred.

4. ACQUISITION OF E&E

On August 4, 2021, the Company acquired an 80% interest in E&E CRO Consulting GmbH ("E&E"). E&E is a global private contract research company based in Vienna, Austria that specializes in tailored project management of international scale clinical studies that are primarily related to medical-device technologies.

As consideration for the purchase, the Company paid the shareholder of E&E cash of EUR 100,000 (\$148,670) and agreed to issue common shares of the Company based on the attainment of certain financial milestones of E&E as follows:

- (i) 1,000,000 common shares of the Company if E&E earns EUR 125,000 in net profit before tax for the period from April 1, 2021 to March 31, 2022 (issued – Note 8); plus
- (ii) 250,000 common shares of the Company if E&E earns EUR 250,000 in net profit before tax for the period from April 1, 2021 to March 31, 2022; plus
- (iii) 250,000 common shares of the Company if E&E earns EUR 500,000 in net profit before tax for the period from April 1, 2022 to March 31, 2023.

E&E earned EUR 125,000 in net profit before tax to meet the financial milestone for the period from April 1, 2021 to March 31, 2022. Accordingly, 1,000,000 common shares of the Company were issued to the principal shareholder of E&E on March 31, 2023 pursuant to the acquisition agreement (Note 8). Under IFRS 2, these vesting conditions are performance conditions, based on a service condition and performance target, with a grant date of August 4, 2021.

The Company determined the remuneration of \$165,000 and has included the amount in advisory and consulting expense during the year ended July 31, 2022. No consideration was given to the remaining financial milestones as they were not met.

In accordance with IFRS 3, Business Combinations, the E&E acquisition does not meet the definition of a business combination nor as an asset acquisition. Rather, the acquisition was considered a means to obtain the services of the principal shareholder of E&E. Non-controlling interests ("NCI") are recognized at the NCI's proportionate share of E&E's net assets. The Company has control on overall operations of E&E and hence the results of E&E, from the date of acquisition, are included in the consolidated statements of net loss.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. ACQUISITION OF E&E (Continued)

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Consideration	Amount
	\$
Cash (Euro 100,000)	148,670
<hr/>	
Net assets acquired (liabilities assumed) as at date of acquisition August 4, 2021	
Cash	141,797
Amounts receivable	91,017
Deposit	8,816
Property and equipment	100,351
Amounts payable and accrued liabilities	(42,457)
Lease liability	(90,269)
Non-controlling interest	(41,851)
	<hr/>
	167,404
Gain on acquisition of E&E assets	(18,734)

5. AMOUNTS RECEIVABLE

	July 31, 2023	July 31, 2022
	\$	\$
Trade receivable	115,232	49,595
GST and VAT recoveries	42,049	15,817
Other receivables	8,609	277
	<hr/>	
	165,890	65,689

6. INVESTMENT

In March 2022, the Company completed an investment of US\$200,000 (\$234,702) in IFM Independent Fund Management AG – PE Capital V fund, of which the largest holding is Vision Surgery AI Inc., an artificial intelligence technology company (the “Investment”). As at July 31, 2023, the fair value of the Investment increased by \$2,712 to \$263,427 (July 31, 2022 - \$256,140), including a foreign exchange gain of \$4,575.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Furniture and office equipment	Right-of-use asset	Total
	\$	\$	\$
Cost			
As at July 31, 2021	-	-	-
Additions on acquisition of E&E (Note 4)	9,923	90,428	100,351
Additions	1,696	-	1,696
As at July 31, 2022	11,619	90,428	102,047
Additions	3,252	39,201	42,453
As at July 31, 2023	14,871	129,629	144,500
Accumulated depreciation			
As at July 31, 2021	-	-	-
Charge for the year	2,946	21,720	24,666
As at July 31, 2022	2,946	21,720	24,666
Charge for the year	4,839	24,740	29,579
As at July 31, 2023	7,785	46,460	54,245
Carrying Value			
As at July 31, 2022	8,673	68,708	77,381
As at July 31, 2023	7,086	83,169	90,255

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued and fully paid common shares

As at July 31, 2023, there is 22,875,461 (2022: 17,833,924) common shares issued and outstanding.

Shares issued during the year ended July 31, 2023

On July 5, 2023, the Company completed a non-brokered financing of 3,011,537 units at \$0.10 for gross proceeds of \$301,154. Each unit consists of one common share of the Company and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company at \$0.12 for a period of three (3) years from the date of closing. The fair value of the share purchase warrants issued was determined to be \$nil using the residual value approach.

On March 6, 2023, the Company agreed to settle outstanding debt owed by the Company to certain directors and consultants of the Company on account of unpaid director and consultant fees. The Company issued 630,000 common shares to directors and 400,000 common shares to a consultant. The common shares were issued at a price of \$0.10 per share.

On March 31, 2023, the Company issued 1,000,000 shares for services related to the acquisition of E&E (Note 4).

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

Shares issued during the year ended July 31, 2022

During the year ended April 30, 2022, 100,000 shares were issued pursuant to the exercise of 100,000 share options for proceeds of \$10,000. Accordingly, the Company reallocated \$7,519 from equity reserves to share capital.

(c) Share options

The Company has established a rolling Share Option Plan (the "Option Plan"). Under the Option Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The maximum term of each option shall not be greater than ten years. The exercise price of each option shall not be less than the market price of the Company's shares at the date of grant. Options granted to consultants performing investor relations activities shall vest over a minimum of 12 months with no more than 1/4 of such options vesting in any three-month period. All other share options vest at the discretion of the Board of Directors.

On July 11, 2023, the Company adopted a new 20% fixed share option plan (the "New Option Plan"). The New Option Plan is subject to the approval of shareholders and will replace the existing Option Plan. The New Option Plan will reserve for issuance 4,575,092 common shares of the Company under similar terms and conditions as the Option Plan.

During the year ended July 31, 2023

On July 10, 2023, the Company granted 2,925,000 share options to various directors, officers, advisors and consultants of the Company, of which 2,125,000 were granted to the CEO and is subject to shareholder approval. All options vested immediately and are exercisable at a price of \$0.12 per share until July 10, 2033. Using the Black-Scholes option pricing model, the grant date fair value was \$342,691, or \$0.12 per option. The following weighted average assumptions were used for the valuation of the share options: risk-free interest rate of 3.53%, expected life of 10 years, annualized volatility of 112% and dividend rate of 0.00%.

On July 10, 2023, the Company granted 200,000 share options to an investor relations consultant. The options vest over a 12-month period, and are exercisable at a price of \$0.12 per share until July 10, 2033. Using the Black-Scholes option pricing model, the grant date fair value was \$23,432, or \$0.12 per option. \$2,676 of share-based compensation expense related to the year ended July 31, 2023 in relation to this grant. The following weighted average assumptions were used for the valuation of the share options: risk-free interest rate of 3.53%, expected life of 10 years, annualized volatility of 112%, and dividend rate of 0.00%.

During the year ended July 31, 2022

In May 2022, the Company granted 250,000 share options to a consultant of the Company pursuant to the Plan. The options vested immediately and are exercisable at a price of \$0.14 per share until May 20, 2032. Using the Black-Scholes option pricing model, the grant date fair value was \$34,956, or \$0.13 per option. The following weighted average assumptions were used for the valuation of the share options: risk-free interest rate of 2.68%, expected life of 10 years, annualized volatility of 202% and dividend rate of 0.00%.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

In January 2022, the Company granted 100,000 share options to a consultant of the Company pursuant to the Plan. The options vested immediately and are exercisable at a price of \$0.16 per share until January 10, 2032. Using the Black-Scholes option pricing model, the grant date fair value was \$11,982, or \$0.11 per option. The following weighted average assumptions were used for the valuation of the share options: risk-free interest rate of 1.45%, expected life of 10 years, annualized volatility of 202% and dividend rate of 0.00%.

In December 2021, the Company granted 1,200,000 share options to various directors, officers and consultants of the Company pursuant to the Plan. The options vested immediately and are exercisable at a price of \$0.16 per share until December 2, 2031. Using the Black-Scholes option pricing model, the grant date fair value was \$191,744, or \$0.16 per option. The following weighted average assumptions were used for the valuation of the share options: risk-free interest rate of 1.13%, expected life of 10 years, annualized volatility of 202% and dividend rate of 0.00%.

A summary of the changes in share options is presented below:

	Number of Options	Weighted average exercise price
		\$
Balance, July 31, 2021	300,000	0.10
Exercised	(100,000)	0.10
Expired	(100,000)	(0.16)
Granted	1,550,000	0.16
Balance, July 31, 2022	1,650,000	0.15
Expired	(600,000)	0.14
Granted	3,125,000	0.12
Balance, July 31, 2023	4,175,000	0.13

The weighted average life of share options is 9.58 years.

The following table summarizes information about the share options outstanding and exercisable at July 31, 2023:

Outstanding	Exercisable	Exercise Price	Expiry date
		\$	
3,125,000	800,000	0.12	July 11, 2033
700,000	700,000	0.16	December 3, 2031
100,000	100,000	0.16	January 10, 2032
250,000	250,000	0.14	May 20, 2032
4,175,000	1,850,000		

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

(d) Warrants

A summary of the changes in warrants is presented below:

	Warrants outstanding	Weighted average exercise price
		\$
Balance, July 1, 2022 and 2021	-	-
Granted	3,011,537	0.12
Balance, July 31, 2023	3,011,537	0.12

The weighted average life of warrants is 2.90 years.

(e) Escrow shares

As at July 31, 2023, 700,000 shares issued to the principals of the Company, including shares issued to an investor are subject to escrow conditions required by applicable securities laws and the TSXV requirements.

(f) Foreign exchange translation reserve

The foreign exchange translation reserve contains the accumulated foreign exchange differences from the translation of the consolidated financial statements of the Company's foreign operations that are not considered integral to the operations of the parent company, arising when the Company's entities are consolidated.

(g) Equity reserve

Equity reserves record items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

9. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS (Continued)

Remuneration of key management personnel was as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Consulting and management fees	289,351	147,260
Directors fees	39,732	169,524
Share-based compensation	307,543	159,787
	636,626	476,571

As at July 31, 2023, there is \$233,586 (July 31, 2022: \$129,213) owing to key management personnel recorded in accounts payable and accrued liabilities. The amount consists of accrued director fees of \$154,243 (July 31, 2022: \$129,213) and amounts owing to the CEO and CFO for monthly services of \$79,343 (July 31, 2022: \$nil).

During the year ended July 31, 2023, the non-controlling interest shareholder of E&E contributed \$Nil (2022: \$5,201) to E&E (Note 15).

10. SEGMENTED INFORMATION

As at July 31, 2023, the Company operates in one reportable operational segment, being its operations in health-care technology including the project management of international scale clinical studies primarily related to medical- device technologies.

During the year ended July 31, 2023 and 2022, 100% of the Company's revenue was derived from clinical study services in Austria.

During the year ended July 31, 2023, revenue included 3 (2022 – 4) customers which represented 29%, 25% and 11% of total revenue (2022: 25%, 25%, 23%, and 16%).

As at July 31, 2023, one customer represented 87% of trade receivables.

11. FINANCIAL INSTRUMENTS

Financial Risk Management

Cash and the investment are recorded at fair value through profit and loss. Amounts receivable and amounts payable are recorded at amortized cost which approximates fair value due to the short-term nature of these instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and 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.

As at July 31, 2023, the Company did not have any financial assets and liabilities which are measured at fair value, other than cash and the Investment. There were no transfers between Level 1, 2 or 3 during the year.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (Continued)

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company is exposed to credit risk on cash and amounts receivable. The Company reduces its credit risk on cash by maintaining its bank accounts with large international financial institutions. The maximum exposure to credit risk is equal to the carrying value of its cash and amounts receivable. Credit risk is assessed as low.

Liquidity Risk

At July 31, 2023, the Company had cash of \$156,194 to settle current liabilities of \$477,362, and had negative working capital of \$103,911. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity issuances (Note 1). The Company manages its liquidity risk by forecasting cash flows required by operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments. Liquidity risk is assessed as high.

Currency risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Company's reporting currency, will fluctuate due to changes in exchange rates. As at July 31, 2023, the Company's investment of \$200,000 (2022: \$200,000) is recorded in U.S. dollars (Note 6). As a result, the Company will be affected by changes in the U.S. dollar relative to the Canadian dollar.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and equity prices:

Interest Rate Risk

Interest rate risk consists of two components:

- To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Due to the short-term nature of the Company's financial instruments fluctuations in market rates do not have a significant impact on estimated fair values as of July 31, 2023. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital and liquidity. Interest rate risk is assessed as low.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (Continued)

Equity Price Risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company is not exposed to price risk.

12. CAPITAL MANAGEMENT

The Company's primary source of funds comes from the issuance of share capital. The Company does not have sources of financing that require fixed payments of interest and principal as the Company does not generate cash flow from current operations. Accordingly, the Company is not subject to any externally imposed capital requirements.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this financing due to uncertain economic conditions (Note 1). The Company believes that it will be able to raise sufficient funds from share issuances to fund its working capital for the coming year. There have been no changes to the Company's approach to capital management during the period.

13. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	2023 \$	2022 \$
Net loss for the year	(1,028,880)	(1,348,902)
Expected income tax recovery	(271,677)	(355,365)
Non-deductible items	93,249	108,994
Other items	31,711	25,896
Changes in valuation allowance	159,779	256,798
Total income tax expense	13,062	36,323

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

	2023 \$	2022 \$
Non-capital losses	593,930	429,433
Share issue costs	829	5,547
	594,759	434,980
Valuation allowance	(594,759)	(434,980)
Net deferred tax asset	-	-

The Company has non-capital losses of approximately \$2,261,358 that may be carried forward and applied against taxable income in the future years. These losses, if not utilized, will expire through 2043. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

Principal Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

14. LEASE LIABILITY

Minimum lease payments in respect of lease liabilities for the right-of-use assets included in Property and Equipment (Note 7) and the effect of discounting are as follows:

	2023	2022
	\$	\$
Undiscounted minimum lease payments:		
Less than one year	28,420	20,104
Two to five years	57,794	58,636
	86,214	78,740
Effect of discounting at 12%	(11,101)	(6,122)
Present value of minimum lease payments - total lease liability	75,113	72,618
Less: Current portion	(22,193)	(13,444)
Long-term lease liability	52,920	59,174

15. NON-CONTROLLING INTEREST

The net change in non-controlling interests is as follows:

	\$
Balance, July 31, 2021	-
Acquisition of E&E (Note 4)	41,851
Capital contribution by non-controlling interest	5,201
Share of comprehensive loss for the year	(3,743)
Balance, July 31, 2022	43,309
Share of comprehensive income for the year	4,834
Balance, July 31, 2023	48,143

16. SUBSEQUENT EVENTS

- a) On August 21, 2023, the Company granted 15,000 share options to employees of the Company. The options vested immediately and are exercisable at a price of \$0.15 per share until August 21, 2033.
- b) On November 20, 2023, the Company closed the first tranche ("Tranche 1") of the Private Placement issuing a total of 2,336,500 common shares at \$0.15 per common share for gross proceeds of \$350,475.

In connection with the closing of Tranche 1, finder's fees of \$6,636 were paid in cash. In addition, a total of 44,240 non-transferable finder's warrants are issuable (the "Finder's Warrants"). Each Finder's Warrant entitles the finder to purchase one common share at an exercise price of \$0.20 per share for two years from the date of issue.

The Company has received approval from the TSXV for an extension to close the offering on, or before, December 21, 2023.

- c) On October 17, 2023, the Company granted 100,000 share options to an advisor of the Company. The options vested immediately and are exercisable at a price of \$0.15 per share until October 17, 2033.