

TORCHLIGHT INNOVATIONS INC.

Financial Statements
For The Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Torchligh Innovations Inc.

Opinion

We have audited the accompanying financial statements of Torchligh Innovations Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing. As stated in Note 1, these events and conditions 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.

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 year. 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 auditor's report.

Other Information

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

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



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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Vancouver, Canada

Chartered Professional Accountants

April 5, 2024

TORCHLIGHT INNOVATIONS INC.

Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2023	December 31, 2022
Assets		
Current Assets		
Cash	\$ 136,860	\$ 209,507
Prepays	9,207	1,928
Total Assets	\$ 146,067	\$ 211,435
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 10,411	\$ 27,494
Shareholders' Equity		
Share capital (Note 6)	246,777	246,777
Contributed surplus (Note 6)	51,200	51,200
Deficit	(162,321)	(114,036)
Total Liabilities and Shareholders' Equity	\$ 146,067	\$ 211,435

Nature of business and continuing operations (Note 1)

Approved on Behalf of the Board on April 5, 2024:

"Fayyaz Alimohamed"
Fayyaz Alimohamed - CEO/CFO/Director

"Frederic Leigh"
Frederic Leigh - Director

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

TORCHLIGHT INNOVATIONS INC.

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

	2023	2022
Expenses		
Office and administration	\$ 3,145	\$ 2,637
Filing fee	11,037	1,070
Professional fees (Note 8)	34,103	35,128
Share based payments	-	40,700
Loss and comprehensive loss for the year	\$ 48,285	79,535
Weighted average number of common shares outstanding – basic and diluted (Note 7)	3,000,000	1,191,781
Basic and diluted loss per share (Note 7)	\$ (0.02)	\$ (0.07)

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

TORCHLIGHT INNOVATIONS INC.

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

	Share Capital		Contributed surplus	Deficit	Total Shareholders' Equity
	Number (Note 6)	Amount			
Balance, December 31, 2021	2,500,000	\$ 125,000	\$ -	\$ (34,501)	\$ 90,499
Common shares issued (Note 6)	3,000,000	300,000	-	-	300,000
Share issue costs	-	(178,223)	10,500	-	(167,723)
Share based payments	-	-	40,700	-	40,700
Loss for the year	-	-	-	(79,535)	(79,535)
Balance, December 31, 2022	5,500,000	\$ 246,777	\$ 51,200	\$ (114,036)	\$ 183,941
Loss for the year	-	-	-	(48,285)	(48,285)
Balance, December 31, 2023	5,500,000	\$ 246,777	\$ 51,200	\$ (162,321)	\$ 135,656

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

TORCHLIGHT INNOVATIONS INC.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

	2023	2022
Cash provided by (used in):		
Operating Activities:		
Loss for the year	\$ (48,285)	\$ (79,535)
Items not involving cash:		
Share based payments	-	40,700
Changes in working capital items:		
Prepays	(7,279)	(1,928)
Accounts payable and accrued liabilities	(17,083)	8,822
Net cash used in operating activities	(72,647)	(31,941)
Financing activities		
Shares issued for cash net of cash share issue costs	-	147,277
Cash provided by financing activities	-	147,277
Change in cash for the year	(72,647)	115,336
Cash, beginning of the year	209,507	94,171
Cash, end of the year	\$ 136,860	\$ 209,507
Supplemental information:		
Interest paid	-	-
Income taxes	-	-

The Company did not have and non cash investing or financing activities during the years ended December 31, 2023 and 2022.

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

TORCHLIGHT INNOVATIONS INC.

Statement of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

1. NATURE OF BUSINESS AND CONTINUING OPERATIONS

Torchlight Innovations Inc. (the “Company”) was incorporated on October 8, 2021, under the laws of British Columbia. The Company completed an Initial Public Offering (“IPO”) and is classified as a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (“TSX-V” or the “Exchange”) Policy 2.4.

Since incorporation on October 8, 2021, the Company had no active business operations. As a CPC, the Company’s business objective is to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction (“QT”), as defined in Exchange Policy 2.4 subject, in certain cases, to shareholder approval and acceptance by the TSX-V.

On August 8, 2022, the Company completed its IPO raising gross proceeds of \$300,000 pursuant to the Company’s prospectus dated May 12, 2022, by issuing an aggregate of 3,000,000 common shares in the capital of the Company at a price of \$0.10 per share (Note 6).

Pursuant to the agency agreement dated May 12, 2022, Research Capital Corporation (the “Agent”) acted as the agent for the offering. In connection with the offering, the Agent received a cash commission, a work fee and other costs totaling \$67,282, and an option to purchase up to 300,000 Shares at a price of \$0.10 per share until August 8, 2024 (Note 6).

The Company intends to use the net proceeds of the offering to identify and evaluate assets or businesses for acquisition with a view to completing a "Qualifying Transaction" under the policies of the Exchange. On August 4, 2022, the Exchange issued a bulletin announcing the listing of the common shares as of market open on August 8, 2022, and immediately halted trading pending completion of the Offering. The Shares resumed trading under the trading symbol "TLX.P" on August 10, 2022.

As a CPC, the proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Company. These restrictions will apply until completion of a QT by the Company as defined under the policies of the Exchange.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

1. NATURE OF BUSINESS AND CONTINUING OPERATIONS (continued)

The Company has an accumulated deficit of \$162,321 as at December 31, 2023 (December 31, 2022 - \$114,036). The Company's ability to continue its operations is dependent upon obtaining additional financing sufficient to cover its operating costs and finance any identified business acquisition. The Company will require additional financing to accomplish its long-term strategic objectives. All the preceding indicates the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

The head office, principal address and the records and registered office is located at 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5.

The financial statements of the Company for the year ended December 31, 2023 were approved and authorized for issue by the Board of Directors on April 5, 2024.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

3. BASIS OF PRESENTATION

The financial statements have been prepared on a historical cost basis, except for items classified as financial instruments at fair value through profit or loss, which are stated at their fair value. The financial statements are presented in Canadian dollars, which is also the Company's functional currency. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

4. MATERIAL ACCOUNTING POLICIES

(a) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

(b) Share capital

Common shares are classified as share capital. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. Any transaction costs incurred prior to the closing of a financing will be classified on the statement of financial position as deferred financing costs until the closing of the associated financing.

The proceeds from the issue of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to share capital based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

4. MATERIAL ACCOUNTING POLICIES (continued)

(c) Basic and diluted loss per share

The Company presents basic and diluted loss per share data 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.

Contingently issuable shares are not considered outstanding common shares and consequently are not included in basic and diluted loss per share calculations.

(d) Share-based payments

The Company has a share purchase option plan and accounts for share-based payments using a fair value-based method with respect to all share-based payments to directors, officers, employees, and service providers. 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 the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense with a corresponding increase in contributed surplus. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of profit or loss over the remaining vesting period.

Upon the exercise of the share purchase option, the consideration received, and the related amount transferred from contributed surplus recorded as share capital.

(e) Financial instrument measurement and valuation

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the 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 or liabilities; |
| Level 2 | Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and |
| Level 3 | Inputs that are not based on observable market data. |

The measurement of the Company's financial instruments is disclosed in Note 11 to these financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

4. MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instrument measurement and valuation (continue)

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) 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.

The Company’s accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realized and unrealized gains

and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of profit or loss in the period.

Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss) in which they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

4. MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instrument measurement and valuation (continue)

Financial liabilities and equity: Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) – This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Amortized cost – This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable and accrued liabilities are included in this category. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(f) Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the statement of financial position date and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgements

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has made appropriate disclosures regarding the going concern assumption (Note 1).

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

4. MATERIAL ACCOUNTING POLICIES (continued)

(f) Significant accounting judgements and estimates (continued)

Estimates

- i) 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 affected.
- ii) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share based compensation reserve. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

(g) Foreign currency translation

Transactions in foreign currencies are translated into the entity's functional currency at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the functional currency are translated using the exchange rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates in effect at the date of the underlying transaction, except for depreciation related to non-monetary assets, which is translated at historical exchange rates. Exchange differences are recognized in profit or loss in the year in which they occur.

(h) Standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, the IASB has not issued any new or revised standards expected to have a material impact on the results and financial position of the Company when adopted.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

As of December 31, 2023, \$Nil (December 31, 2022 - \$Nil) was due to related parties.

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has identified its directors and officers as its key management personnel and the compensation costs for key management personnel and companies related to them are recorded at their exchange amounts as agreed upon by transacting parties.

During the year ended December 31, 2023, \$Nil (2022 - \$40,700) was recorded as compensation costs for key management personnel and companies related to them.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

The Company did not issue common shares during the year ended December 31, 2023.

During the year ended December 31, 2022, the Company issued common as follows:

- On August 8, 2022, the Company closed its IPO and issued 3,000,000 common shares at a price of \$0.10 per share for gross proceeds of \$300,000. The Company paid a cash commission and other costs to the agent in the amount of \$67,283 and issued 300,000 compensation warrants valued at \$10,500 exercisable into common shares at a price of \$0.10 per common share for a period of 24 months from the date of issuance. The Company also paid issuance costs of \$100,440 consisting of legal and other fees. The fair value of the warrants of \$10,500 was calculated using Black-Scholes option pricing model with the following assumptions: stock price – \$0.10; exercise price – \$0.10; expected life – two years; volatility – 59%; dividend yield – \$nil; and risk-free rate – 3.24%.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

(c) Escrowed shares

In connection with the Company's IPO transaction (Note 1), 2,500,000 common shares issued at \$0.05 per share are held in escrow pursuant to the requirements of the Exchange. Twenty five percent of the escrowed common shares will be released from escrow on the issuance of the Final Exchange Bulletin (as defined in the policies of the Exchange) (the "Initial Release") and an additional twenty five percent will be released on each of the dates which are six, twelve and eighteen months following the Initial Release.

All common shares acquired on exercise of stock options granted to directors and officers of the Company prior to completion of the QT, must also be deposited in escrow until the Final Exchange Bulletin is issued.

All common shares acquired in the secondary market prior to completion of a QT by a Control Person (as defined in the policies of the Exchange), are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Company held by principals of the resulting issuer will also be subject to escrow.

(d) Stock options

During the year ended December 31, 2022, the Company's board of directors adopted a stock option plan (the "Stock Option Plan") whereby it can grant incentive stock options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued common shares of the Company at any time. The vesting period for all options is at the discretion of the Board of Directors. The exercise price will be set by the Board of Directors at the time of grant and cannot be less than the discounted market price of the Company's common shares.

The Stock Option Plan provides that the number of common shares that may be reserved for the issuance to any one individual upon exercise of all stock options held by such an individual may not exceed 5% of the issued common shares, if the individual is a director or officer, or 2% of the issued common shares, if the individual is a consultant or engaged in providing investor relations services, on a yearly basis. All options granted under the Stock Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from date of termination other than for cause; or (iii) one year from the date of death or disability. Options granted under the Stock Option Plan are not transferable or assignable other than by will or other testamentary instrument or pursuant to the laws of succession. All common shares acquired on exercise of stock options granted to directors and officers prior to the completion of a QT must be deposited in escrow until the final exchange bulletin relating to a QT is issued.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

(d) Stock options

On August 8, 2022, the Company granted 550,000 stock options to directors, officers and consultants of the Company. The stock options are exercisable at \$0.10 for a period of ten years. The fair value of the stock options of \$40,700 was calculated using Black-Scholes option pricing model with the following assumptions: stock price – \$0.10; exercise price – \$0.10; expected life – ten years; volatility – 66%; dividend yield – \$nil; and risk-free rate – 2.7%.

No stock options were granted during the year ended December 31, 2023.

As at December 31, 2023, the Company had 550,000 exercisable stock options with the life of 8.61 years outstanding.

(d) Share purchase warrants

On August 8, 2022, as part of the private placement the Company issued 300,000 compensation warrants exercisable into common shares at a price of \$0.10 per common share for a period of 24 months from the date of issuance. The fair value of the warrants of \$10,500 was calculated using Black-Scholes option pricing model with the following assumptions: stock price – \$0.10; exercise price – \$0.10; expected life – two years; volatility – 59%; dividend yield – \$nil; and risk-free rate – 3.24%.

As at December 31, 2023, the Company has 300,000 warrants with the life of 0.61 years outstanding.

7. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2023, was based on the loss attributable to common shareholders of \$48,285 (2022 - \$79,535) and the weighted average number of common shares outstanding of 3,000,000 (2022 – 1,191,781). The 2,500,000 common shares held in escrow became contingently returnable on completion of the IPO and accordingly are not considered to be outstanding shares for the purposes of loss per share calculations for the year ended December 31, 2023.

8. PROFESSIONAL FEES

The Company incurred \$34,103 in professional fees during the year ended December 31, 2023, which consists of \$10,053 in accounting and audit fees, and \$24,050 in legal fees. The Company incurred \$35,128 in professional fees during the year ended December 31, 2022, which consisted of \$15,835 in accounting and audit fees, and \$19,293 in legal fees.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	December 31, 2023	December 31, 2022
Loss before income taxes	\$ 48,285	\$ 79,535
Expected income tax recovery at statutory rates	(13,000)	(21,000)
Permanent difference	-	11,000
Share issue costs	-	(9,000)
Change in unrecognized deferred tax assets	13,000	21,000
Income tax expense (recovery)	\$ -	\$ -

Significant components of the Company's deferred income tax assets (liabilities) not recognized are shown below:

	December 31, 2023	Expiry Date Range	December 31, 2022	Expiry Date Range
Temporary differences				
Share issue costs	\$ 101,000	2024 to 2046	\$ 134,000	2023-2046
Non-capital losses available for future periods	\$ 189,000	2041 to 2043	\$ 107,000	2041-2042

10. MANAGEMENT OF CAPITAL

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Company. These restrictions apply until completion of a QT by the Company as defined under the policies of the Exchange. The Company's approach to capital management has not changed from the prior year.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

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11. FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Market Risk

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

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no financial instruments that are denominated in a currency other than Canadian dollars. As at December 31, 2023 the Company is not exposed to currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates relative to its cash balances is currently immaterial. The Company also has no long-term debt with variable interest rates, so it has no negative exposure to changes in the market interest rate.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company is not exposed to significant price risk.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits the exposure to credit risk by only keeping its cash with high-credit quality financial institutions. Management believes that the credit risk related to its cash is negligible.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2023 the Company has no sources of revenue and cash balance of \$136,860 to settle current liabilities of \$10,411. The Company's exposure to liquidity risk is currently negligible.

TORCHLIGHT INNOVATIONS INC.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

11. FINANCIAL INSTRUMENTS (continued)

The Company remains dependent upon the financial support of its shareholders and debtholders. All the Company's financial liabilities have contractual maturities of 30 days and subject to normal trade terms. Additionally, the Company has insufficient funds from which to finance any identified business acquisition and as such will require additional financing to accomplish the Company's long-term strategic objectives. Future funding may be obtained by means of issuing share capital or debt financing. There can be no certainty of the Company's ability to raise additional financing through these means. If the Company is unable to continue financing itself through these means, it is possible that the Company will be unable to continue as a going concern (Note 1).

Fair Value Measurements

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the 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 or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 – Inputs that are not based on observable market data.

As at December 31, 2023 the Company's financial instruments consist of cash, accounts payable and accrued liabilities. Cash and accounts payable and accrued liabilities are classified as amortized cost. The fair value of cash and accounts payable and accrued liabilities approximates its carrying value because of the short-term nature of the instruments.