



**BEACN**

**BEACN WIZARDRY AND MAGIC INC.**

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

# **BEACN WIZARDRY AND MAGIC INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
BEACN Wizardry and Magic Inc.

### *Opinion*

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

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

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of \$2,281,917 during the year ended December 31, 2023. 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.

### *Other Matters*

The consolidated financial statements of BEACN Wizardry and Magic Inc. for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2023.

### *Key Audit Matters*

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

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.



## Sales

As described in Note 14 to the consolidated financial statements, during the year ended December 31, 2023, the Company recognized net sales of \$2,933,180. As detailed in Note 3 to the consolidated financial statements, the Company recognizes revenue when it satisfies its performance obligation, that is, when the customer obtains control of the product.

Sales are generated primarily through various third-party service organizations and consist of a large volume of low-value transactions.

Due to the significance of revenue for the Company's consolidated financial statements, use of third-party sales platforms, and the large volume of transactions, we consider this to be a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Reviewing operating documents and gaining an understanding of the Company's controls over the revenue cycle including use of complimentary user entity controls for the third-party service organizations.
- Reviewing the Company's accounting policy for revenue recognition for compliance with IFRS.
- Obtaining and assessing the report certifying the effectiveness of internal controls implemented by service organizations used by the Company to record revenues.
- On a test basis, tracing sales transactions to source documents and cash receipts to assess that revenues have been recognized at appropriate prices and in the correct accounting period.

## ***Other Information***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Vancouver, Canada

Chartered Professional Accountants

May 24, 2024

**BEACN WIZARDRY AND MAGIC INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Presented in Canadian Dollars)

|  | Note   | December 31,<br>2023 | December 31,<br>2022 |
|--|--------|----------------------|----------------------|
| <b>Assets</b>                            |        |                      |                      |
| <b>Current</b>                           |        |                      |                      |
| Cash                                     |        | \$ 226,230           | \$ 1,287,295         |
| Accounts receivable                      | 5      | 217,888              | 221,963              |
| Taxes receivable                         |        | 122,600              | 138,587              |
| Inventory                                | 6      | 884,145              | 1,554,763            |
| Prepaid and inventory deposits           | 7      | 1,101,024            | 941,223              |
|  |        | 2,551,887            | 4,143,831            |
| <b>Non-current</b>                       |        |                      |                      |
| Property and equipment, net              | 8      | 257,686              | 252,400              |
| Right-of-use asset                       | 11     | 35,873               | 61,196               |
|  |        | 293,559              | 313,596              |
|  |        | \$ 2,845,446         | \$ 4,457,427         |
| <b>Liabilities</b>                       |        |                      |                      |
| <b>Current</b>                           |        |                      |                      |
| Accounts payable and accrued liabilities |        | \$ 237,103           | \$ 364,969           |
| Deferred revenue                         |        | \$ 41,680            | -                    |
| Due to related parties                   | 13     | 59,721               | 56,466               |
| Convertible loan                         | 9, 16  | -                    | 243,389              |
| Promissory note                          | 10, 16 | 277,750              | -                    |
| Current portion of lease liability       | 11, 16 | 26,695               | 24,650               |
|  |        | 642,949              | 689,474              |
| <b>Non-current</b>                       |        |                      |                      |
| Promissory note                          | 10, 16 | -                    | 175,000              |
| Lease liability                          | 11, 16 | 11,125               | 37,819               |
|  |        | 11,125               | 212,819              |
|  |        | \$ 654,074           | \$ 902,293           |
| <b>Shareholders' equity</b>              |        |                      |                      |
| Share capital                            | 12     | 7,141,325            | 6,549,672            |
| Reserves                                 | 12     | 1,240,030            | 949,568              |
| Deficit                                  |        | (6,189,983)          | (3,944,106)          |
|  |        | 2,191,372            | 3,555,134            |
|  |        | \$ 2,845,446         | \$ 4,457,427         |

These consolidated financial statements are approved by the Board on May 24, 2024  
Approved by the Board of Directors:

*"Sarah Weber"*

Sarah Weber

*"Scott Christopher"*

Scott Christopher

See the notes to the consolidated financial statements

**BEACN WIZARDRY AND MAGIC INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Presented in Canadian Dollars)

|   | Note       | Years ended        |                   |
|---|------------|--------------------|-------------------|
|   |            | December 31        |                   |
|   |            | 2023               | 2022              |
| Sales, net  | 14         | \$ 2,933,180       | \$ 4,325,458      |
| Cost of sales   |            | 1,853,305          | 2,688,771         |
| <b>Gross profit</b>   |            | <b>1,079,875</b>   | <b>1,636,687</b>  |
| <b>Expenses</b>   |            |                    |                   |
| Advertising and marketing   |            | 557,920            | 355,143           |
| Consulting fees   |            | 210,612            | 155,794           |
| Depreciation of property and equipment  | 8          | 90,494             | 119,795           |
| Depreciation of right-of-use asset  | 11         | 25,322             | 14,772            |
| Office, supplies, and miscellaneous   |            | 286,355            | 212,668           |
| Professional fees   | 13         | 215,596            | 113,080           |
| Prototype and pre-production costs  |            | 78,522             | 18,629            |
| Research and development  |            | 175,721            | -                 |
| Rent and operating costs  | 11         | 45,080             | 40,989            |
| Salaries and benefits   | 13         | 1,513,987          | 1,128,554         |
| Share-based payments  | 12(c)      | 44,018             | 122,614           |
| Transfer agent, filing fees and shareholder communications                      |            | 27,035             | 26,078            |
| Travel and related costs  |            | 44,883             | 53,457            |
| <b>Total expenses</b>   |            | <b>3,315,545</b>   | <b>2,361,573</b>  |
| <b>Operating loss</b>   |            | <b>(2,235,670)</b> | <b>(724,886)</b>  |
| <b>Other items</b>  |            |                    |                   |
| SR&ED, net of professional fees   | 17         | -                  | 272,275           |
| Foreign exchange gain (loss)  |            | (18,467)           | 51,785            |
| Interest and accretion expense  | 9,10,11,16 | (27,780)           | (50,328)          |
|   |            | (46,247)           | 273,732           |
| <b>Net loss and comprehensive loss for the year</b>                             |            | <b>(2,281,917)</b> | <b>(451,154)</b>  |
| <b>Basic and diluted loss per share</b>   |            | <b>\$ (0.05)</b>   | <b>\$ (0.01)</b>  |
| <b>Weighted average number of common shares outstanding - basic and diluted</b> |            | <b>50,344,918</b>  | <b>43,356,391</b> |

See the notes to the consolidated financial statements

**BEACN WIZARDRY AND MAGIC INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Presented in Canadian Dollars)

|  | Note  | Share Capital     |                     | Reserves             |                   |                   |                   | Total Shareholders' Equity |                     |
|--|-------|-------------------|---------------------|----------------------|-------------------|-------------------|-------------------|----------------------------|---------------------|
|  |       | Number of shares  | Amount              | Share-based payments | Warrants          | Finders' Warrants | Conversion rights |                            | Deficit             |
| <b>Balance, December 31, 2021</b>            |       | <b>42,784,336</b> | <b>\$ 5,744,667</b> | <b>\$ 197,810</b>    | <b>\$ 72,683</b>  | <b>\$ 2,014</b>   | <b>\$ 36,040</b>  | <b>\$ (3,492,952)</b>      | <b>\$ 2,560,262</b> |
| Shares issued on private placement           | 12(b) | 5,600,000         | 918,490             | -                    | 481,510           | -                 | -                 | -                          | 1,400,000           |
| Shares issued on exercise of options         | 12(b) | 112,500           | 15,036              | (3,786)              | -                 | -                 | -                 | -                          | 11,250              |
| Share issuance costs                         | 12(b) | -                 | (128,521)           | -                    | -                 | 40,683            | -                 | -                          | (87,838)            |
| Share-based payments                         | 12(c) | -                 | -                   | 122,614              | -                 | -                 | -                 | -                          | 122,614             |
| Net loss and comprehensive loss for the year |       | -                 | -                   | -                    | -                 | -                 | -                 | (451,154)                  | (451,154)           |
| <b>Balance, December 31, 2022</b>            |       | <b>48,496,836</b> | <b>6,549,672</b>    | <b>316,638</b>       | <b>554,193</b>    | <b>42,697</b>     | <b>36,040</b>     | <b>(3,944,106)</b>         | <b>3,555,134</b>    |
| Shares issued on private placement           | 12(b) | 4,450,000         | 607,516             | -                    | 282,484           | -                 | -                 | -                          | 890,000             |
| Share issuance costs                         | 12(b) | -                 | (15,863)            | -                    | -                 | -                 | -                 | -                          | (15,863)            |
| Share-based payments                         | 12(c) | -                 | -                   | 44,018               | -                 | -                 | -                 | -                          | 44,018              |
| Convertible loan - Conversion rights         |       | -                 | -                   | -                    | -                 | -                 | (36,040)          | 36,040                     | -                   |
| Net loss and comprehensive loss for the year |       | -                 | -                   | -                    | -                 | -                 | -                 | (2,281,917)                | (2,281,917)         |
| <b>Balance, December 31, 2023</b>            |       | <b>52,946,836</b> | <b>\$ 7,141,325</b> | <b>\$ 360,656</b>    | <b>\$ 836,677</b> | <b>\$ 42,697</b>  | <b>\$ -</b>       | <b>\$ (6,189,983)</b>      | <b>\$ 2,191,372</b> |

See the notes to the consolidated financial statements

**BEACN WIZARDRY AND MAGIC INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Presented in Canadian Dollars)

|  |            | <b>Years ended</b> |                     |
|--|------------|--------------------|---------------------|
|  |            | <b>December 31</b> |                     |
|  | Note       | <b>2023</b>        | <b>2022</b>         |
| <b>Cash provided by (used in):</b>           |            |                    |                     |
| <b>Operating activities</b>                  |            |                    |                     |
| Net loss for the year                        |            | \$ (2,281,917)     | \$ (451,154)        |
| Items not affecting cash:                    |            |                    |                     |
| Depreciation property and equipment          | 8          | 90,494             | 119,795             |
| Depreciation of right-of-use asset           | 11         | 25,322             | 14,772              |
| Share-based payments                         | 12(c)      | 44,018             | 122,614             |
| Interest and accretion expense               | 9,10,11,16 | 24,987             | 50,328              |
| Changes in non-cash working capital items:   |            |                    |                     |
| Accounts receivables                         |            | 4,075              | (221,963)           |
| Taxes receivable                             |            | 15,987             | (96,919)            |
| Prepaid and deposits                         |            | (159,801)          | (517,519)           |
| Inventory                                    |            | 670,618            | (1,017,737)         |
| Deferred revenue                             |            | 41,680             | -                   |
| Accounts payable and accrued liabilities     |            | (161,334)          | 150,303             |
| Due to related parties                       |            | 3,255              | 7,863               |
| <b>Net cash used in operating activities</b> |            | <b>(1,682,616)</b> | <b>(1,839,617)</b>  |
| <b>Investing activities</b>                  |            |                    |                     |
| Property and equipment                       |            | (62,312)           | (50,247)            |
| <b>Net cash used in investing activities</b> |            | <b>(62,312)</b>    | <b>(50,247)</b>     |
| <b>Financing activities</b>                  |            |                    |                     |
| Proceeds from promissory note                | 10,16      | 200,000            | -                   |
| Payment of lease liability                   | 11,16      | (24,649)           | (13,498)            |
| Interest paid                                | 9,10,11,16 | (15,625)           | (26,333)            |
| Proceeds from issuance of common shares      | 12(b)      | 890,000            | 1,400,000           |
| Proceeds from options exercised              |            | -                  | 11,250              |
| Payment of convertible loan                  | 9          | (250,000)          | -                   |
| Payment of promissory note                   | 10         | (100,000)          | (100,000)           |
| Share issuance costs                         | 12(b)      | (15,863)           | (133,775)           |
| <b>Net cash used in financing activities</b> |            | <b>683,863</b>     | <b>1,137,644</b>    |
| <b>Change in cash</b>                        |            | <b>(1,061,065)</b> | <b>(752,220)</b>    |
| <b>Cash, beginning of the year</b>           |            | <b>1,287,295</b>   | <b>2,039,515</b>    |
| <b>Cash, end of the year</b>                 |            | <b>\$ 226,230</b>  | <b>\$ 1,287,295</b> |

See the notes to the consolidated financial statements

**BEACN WIZARDRY AND MAGIC INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECMEBER 31, 2023 AND 2022**  
**(Presented in Canadian Dollars)**

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**1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS**

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

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards (“IFRS”) applicable to a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of \$2,281,917 for the year ended December 31, 2023. To December 31, 2023, even though the Company has earned revenue from operations, the continuation of the Company as a going concern is dependent upon the ability of the Company to attain sufficient profitable operations and/or obtain necessary equity or other financing to continue operations.

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

**2. BASIS OF PREPARATION - STATEMENT OF COMPLIANCE**

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

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

**3. MATERIAL ACCOUNTING POLICIES**

(a) Principles of consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity where it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of loss and comprehensive loss, statement of changes in shareholders’ equity and statement of financial position respectively.

As at December 31, 2023, the Company’s only subsidiary was the wholly-owned Canadian company Beacon Hill Innovations Ltd. Its principal business focus is to be a supplier of tech peripherals for Gamers, YouTubers, Podcasters and anyone creating content on the internet.

**BEACN WIZARDRY AND MAGIC INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECMEBER 31, 2023 AND 2022**  
**(Presented in Canadian Dollars)**

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"), being the CEO. The Company's CODM does not separately evaluate the performance of its individual products and therefore has not identified a reportable segment related to the Company's products. The CODM has identified two reportable geographic segments: North America and Other.

(c) Significant accounting judgments and estimates

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

The critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- the determination that the Company will continue as a going concern for the next year;
- the assessment of an impairment to inventory and related determination of the Net Realizable value of inventory and write-down of inventory if applicable;
- the assessment of the timing of recognition of revenue;
- the assessment of potential liabilities for warranties and product refunds or returns;
- the measurement of the fair value of share-based payments; and
- the determination that lease payments under the extension term (one option of three years) are not reasonably certain because the extension is subject to a condition that is not under the landlord's control. Accordingly, the extension term of the lease has not been included in the initial measurement of the lease liability.

(d) Foreign currency

The functional and presentation currency of these consolidated financial statements is the Canadian dollar. Revenue and expenses are translated at the average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. Other foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statements of loss and comprehensive loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. As at December 31, 2022 and 2021, the Company did not have any cash equivalents.

**BEACN WIZARDRY AND MAGIC INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECMEBER 31, 2023 AND 2022**  
**(Presented in Canadian Dollars)**

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(f) Trade receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

(g) Inventories

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

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

(h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the period in which they are incurred.

Amortization is calculated at 55% declining balance for computer equipment and software. Amortization for moulds used in manufacturing, furniture and fixtures, and leasehold improvements is calculated using a straight-line method and useful life of five years.

Residual values, methods of amortization, and useful lives of the assets are reviewed annually and adjusted, if required. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(j) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(j) Leases (cont'd)

- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

(k) Financial instruments

*Financial Assets - Classification*

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

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

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

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

*Financial Assets - Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

- Subsequently measured at amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(k) Financial instruments (cont'd)

- Fair value through OCI ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented in the statement of net loss and comprehensive loss in the period in which it arises.

*Financial Liabilities*

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

A financial liability is classified as FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred.

The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

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

(l) Income taxes

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

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

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income nor loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(l) Income taxes (cont'd)

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

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

(m) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Management's best estimate is that there is no expenditure anticipated to be required to settle return or warranty obligations that may have existed at December 31, 2023.

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year. The Company generally offers 24-month warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. With respect to the year ended December 31, 2023 Management estimates the liability for warranty claims to be \$nil and does not have sufficient historical claims information to estimate a future warranty claim liability, if any.

(n) Share capital

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

(o) Revenue recognition

The company is a supplier of tech peripherals to content creators, sales of which are broken into two groups, Internet Sales, including Shopify & Amazon ("B2C"), and Business to Business ("B2B").

Revenue from B2C sales is recognized at the point in time when control of the products is transferred to the customer which generally occurs upon shipment. For both Shopify and Amazon, the end customer has a right of return within 30 days, and any refunds have been deducted immediately by Amazon and/or Shopify before settlement with BEACN, are included in Net Sales, and therefore the estimated liability for returns from Shopify and Amazon is \$nil. The validity of this assumption and the estimated amount of returns will be reassessed at each reporting date.

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(o) Revenue recognition (cont'd)

Revenue from B2B sales is recognized at the time that control of the products transfers to the B2B customer and payment and return terms vary from one B2B customer to the next. B2B sales began in the fiscal year ended December 31, 2023 and therefore an estimate of any liability for returns will be recognized as a provision when management has sufficient historical information to estimate potential future returns. The validity of this assumption and the estimated amount of returns will be reassessed at each reporting date.

The Company's obligation, if any, to replace faulty products under the standard warranty terms will be recognized as a provision when management has sufficient historical information to estimate potential future warranty claims.

The Company's shipping and handling costs related to delivery of products to customers are included in the cost of sales.

(p) Share-based payments

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

(q) Research and development expenditures

The Company anticipates it will qualify for certain investment tax credits related to its research and development activities in Canada. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when there is reasonable assurance that the ITCs will be received and all attached conditions will be complied with. Except as detailed in Note 18, the investment tax credits, if any, that may result from the research and development costs presented in these financial statements are not determinable as at the statement of financial position date.

(r) Basic loss per share

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

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**3. MATERIAL ACCOUNTING POLICIES (cont'd)**

(s) New standards and interpretations not yet adopted

Amendments to IAS 1, regarding the disclosure of material accounting policies, have been adopted by the Company. Otherwise, certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the December 31, 2023 reporting period and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

**4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and accounts receivable. The Company's bank accounts are held with major banks in Canada and the United States. Accordingly, the Company believes it is not exposed to significant credit risk on its cash. Sales to retail customers are required to be settled using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off where there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

There was no loss allowance as at December 31, 2023 and no change in the loss allowance during the year then ended.

b) Interest rate risk

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

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company controls liquidity risk by ensuring that it has sufficient cash resources to pay for its financial obligations.

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**4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

d) Equity market risk

The Company is exposed to price risk with respect to equity market prices. There is a potential adverse impact on the Company's ability to raise equity financing due to adverse movements in the Company's equity price or general movements in the level of the stock market. The Company monitors the movements of its equity price and the general stock market to determine the most beneficial course of action to be taken by the Company.

e) Currency risk

The Company operates internationally, resulting in exposure to changes in exchange rates which impact sales and purchases that are denominated in a currency other than the Canadian dollar. The Company currently does not use derivative instruments to hedge its exposure to those risks. The majority of the Company's manufacturing expenses are incurred in United States dollars and the Company establishes its product prices relative to its manufacturing cost, thus mitigating some of its exposure to currency fluctuations.

The Company's risk management is predominantly controlled by Management with oversight by the board of directors.

**5. ACCOUNTS RECEIVABLE**

|                   | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|-------------------|------------------------------|------------------------------|
| Trade receivables | \$ 217,888                   | \$ 221,963                   |
|                   | <u>\$ 217,888</u>            | <u>\$ 221,963</u>            |

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional.

**6. INVENTORY**

|                 | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|-----------------|------------------------------|------------------------------|
| Parts and other | \$ 7,233                     | \$ 42,674                    |
| Finished goods  | 792,701                      | 1,427,706                    |
| Shipping        | 84,211                       | 84,383                       |
|                 | <u>\$ 884,145</u>            | <u>\$ 1,554,763</u>          |

The costs of individual items of inventory are determined using weighted average costs. Inventories recognized as an expense during the year ended December 31, 2023 amounted to \$1,389,006 (2022 - \$1,950,003). These are included in cost of sales. Write-downs of inventories to net realizable value due to shrinkage, damage and obsolescence of parts amounted to approximately \$58,000 (2022 - \$140,000) which is included in cost of sales. Prepaids (Note 7) include parts and finished goods inventory that had not been shipped to the Company by the manufacturer at December 31, 2023.

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**7. PREPAID EXPENSES**

|                                     | <b>December 31,</b> | <b>December 31,</b> |
|-------------------------------------|---------------------|---------------------|
|                                     | <b>2023</b>         | <b>2022</b>         |
| Inventory deposit on purchase order | \$ 1,090,195        | \$ 797,996          |
| Promotional                         | 10,829              | 100,000             |
| Shipping prepayment                 | -                   | 21,769              |
| Other                               | -                   | 21,458              |
|                                     | <u>\$ 1,101,024</u> | <u>\$ 941,223</u>   |

**8. PROPERTY AND EQUIPMENT**

|                            | <b>Computer equipment</b> | <b>Moulds for</b> | <b>Furniture and</b> | <b>Leasehold</b>    | <b>Total</b>      |
|----------------------------|---------------------------|-------------------|----------------------|---------------------|-------------------|
|                            | <b>and software</b>       | <b>Products</b>   | <b>Fixtures</b>      | <b>Improvements</b> |                   |
| Balance, December 31, 2021 | \$ 68,923                 | \$ 253,025        | \$ -                 | \$ -                | \$ 321,948        |
| Additions                  | 31,115                    | 2,291             | 7,495                | 9,346               | 50,247            |
| Depreciation               | (60,358)                  | (54,525)          | (2,185)              | (2,726)             | (119,794)         |
| Balance, December 31, 2022 | 39,680                    | 200,791           | 5,310                | 6,620               | 252,401           |
| Additions                  | 9,159                     | 82,417            | 1,214                | 2,989               | 95,779            |
| Depreciation               | (20,176)                  | (66,931)          | (1,732)              | (1,655)             | (90,494)          |
| Balance, December 31, 2023 | <u>\$ 28,663</u>          | <u>\$ 216,277</u> | <u>\$ 4,792</u>      | <u>\$ 7,954</u>     | <u>\$ 257,686</u> |

**9. CONVERTIBLE LOAN**

On September 14, 2021, the Company entered into a \$500,000 convertible loan agreement (“Loan”) with two parties (“Lenders”). The Loan was convertible, at the option of the Lenders, into the units of the Company. Each unit was convertible into one common share of the Company and one-half of one share purchase warrant (“Warrant”) of the Company at a rate of \$0.30 per unit. Each Warrant was exercisable into a common share of the Company at \$0.60 for a period of 2 years. The Loan, if not converted, had a maturity date of April 29, 2023, was subject to an interest rate of 5% per annum, and a one-time setup fee of \$1,250. On October 29, 2021, \$250,000 of the convertible loan was converted into common shares. The equity portion of the remaining convertible loan (\$36,040) was allocated to conversion rights as a residual based on the estimated present value of the loan (\$213,960). During the year ended December 31, 2023, \$9,736 (2022 - \$36,495) in accretion expense was recorded.

On April 14, 2023, pursuant to the second amending agreement, the maturity date of the Loan was amended to August 29, 2023 and a \$6,500 extension fee was paid as consideration. The Company had the right to repay the Loan without penalty prior to the maturity date as extended.

On August 29, 2023, the Company repaid the convertible loan including the accrued interest.

**10. PROMISSORY NOTE**

During the year ended December 31, 2020, the Company entered into a promissory note (the “Note”) with a shareholder of the Company with a maturity date of December 31, 2024. The Note was without interest until December 31, 2020, and thereafter incurs interest at a rate of 4% per annum, and payable quarterly. The Company can repay all or part of the Note at any time without penalty. During the year ended December 31, 2022, the Company repaid \$100,000 of the \$275,000. During the year ended December 31, 2023, the Company was advanced an additional amount of \$200,000, repaid \$100,000 and incurred \$9,000 (2022 - \$10,667) in interest expense.

Subsequently (note 21) an additional \$100,000 was advanced on the promissory note.

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## **11. RIGHT-OF-USE ASSET AND LEASE LIABILITY**

The Company leases an office under a non-cancellable lease which terminates on May 31, 2025. Additions to the right-of-use asset during the year ended December 31, 2023 were \$nil (2022 – \$75,968); see Note 16. The consolidated statements of loss and comprehensive loss disclose the following amounts relating to leases:

- Depreciation charge of right-of-use assets – \$25,322 (2022 – \$14,772);
- Interest expense (included in interest and accretion expense) – \$3,916 (2022 – \$3,166);
- Minimum lease payments to the termination date (May 31, 2025) are \$39,826.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case, the Company's incremental borrowing rate is used, being the rate that it would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate (8% per annum), the Company investigated borrowing rates at its Canadian bank at that time.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option and are included in rent and operating costs.

## **12. SHARE CAPITAL**

### (a) Authorized:

At December 31, 2023, the authorized share capital was comprised of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

As at December 31, 2023, 6,125,550 common shares of the Company were being held in escrow pursuant to three escrow agreements. These shares will be released from escrow on April 29, 2024 (2,062,650), and October 29, 2024 (4,062,900).

### (b) Share issuances:

#### **Fiscal 2023**

On October 3, 2023, the Company completed a non-brokered private placement (the "Offering") of 4,450,000 units of the Company (the "Units") at a price of \$0.20 per Unit for gross proceeds of \$890,000. Each Unit is comprised of one common share (a "Share") and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional share for a period of three years from the closing of the Offering for \$0.45. The warrants were ascribed a value of \$282,484 using a relative fair value approach. In connection with the financing, the Company incurred \$15,863 in share issuance costs.

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**12. SHARE CAPITAL (cont'd)**

**Fiscal 2022**

On October 28, 2022, the Company received \$11,250 upon the exercise of stock options.

On November 29, 2022, the Company closed a non-brokered private placement by issuing 5,600,000 units (the "Units") at a price of \$0.25 per Unit for gross proceeds of \$1,400,000. Each Unit is comprised of one common share (a "Share") and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional Share for a period of three years from the closing of the offering for \$0.45.

The warrants were ascribed a value of \$481,510 using a relative fair value approach. In connection with the financing, the Company incurred \$87,838 in share issues cost, including \$47,875 as a cash finder's fee and 191,100 as finders' warrants that may be exercised at \$0.25 for two years from the issuance date.

The finders' warrants were ascribed a value of \$40,683 under the Black-Scholes valuation model.

(c) Stock options

The Company has established a stock option plan for its directors, officers, and technical consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company, at a price not less than the Market Price on the date of granting, and exercisable over periods of up to ten years as determined by the Board.

The continuity of options is as follows:

| Expiry date               | Exercise price | December 31, 2021 |           |           | December 31, 2022 |           |         | December 31, 2023 |           |           |
|---------------------------|----------------|-------------------|-----------|-----------|-------------------|-----------|---------|-------------------|-----------|-----------|
|                           |                | Granted           | Exercised | Expired   | Granted           | Exercised | Expired | Granted           | Exercised | Expired   |
| October 29, 2022          | \$ 0.10        | 112,500           | -         | (112,500) | -                 | -         | -       | -                 | -         | -         |
| October 29, 2026          | \$ 0.30        | 3,150,000         | -         | -         | (50,000)          | 3,100,000 | -       | (25,000)          | -         | 3,075,000 |
| January 22, 2027          | \$ 0.32        | -                 | 50,000    | -         | -                 | 50,000    | -       | -                 | -         | 50,000    |
| May 2, 2027               | \$ 0.32        | -                 | 100,000   | -         | -                 | 100,000   | -       | -                 | -         | 100,000   |
| May 17, 2027              | \$ 0.35        | -                 | 450,000   | -         | -                 | 450,000   | -       | -                 | -         | 450,000   |
| September 27, 2027        | \$ 0.265       | -                 | 50,000    | -         | -                 | 50,000    | -       | -                 | -         | 50,000    |
| October 17, 2027          | \$ 0.26        | -                 | 50,000    | -         | -                 | 50,000    | -       | (50,000)          | -         | -         |
| September 23, 2028        | \$ 0.20        | -                 | -         | -         | -                 | -         | 950,000 | -                 | -         | 950,000   |
| April 20, 2031            | \$ 0.10        | 337,500           | -         | -         | -                 | 337,500   | -       | -                 | -         | 337,500   |
| Outstanding               |                | 3,600,000         | 700,000   | (112,500) | (50,000)          | 4,137,500 | 950,000 | (75,000)          | -         | 5,012,500 |
| Weighted average exercise | \$             | 0.27              | \$ 0.33   | \$ 0.10   | \$ 0.30           | \$ 0.29   | \$ 0.20 | \$ 0.27           | \$        | 0.27      |

As at December 31, 2023 4,676,500 stock options were exercisable, and the weighted average remaining life for the outstanding and exercisable options is 3.56 years (December 31, 2022 – 4.09 years).

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**12. SHARE CAPITAL (cont'd)**

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

|                                 | 2023    | 2022            |
|---------------------------------|---------|-----------------|
| Expected dividend yield         | Nil     | Nil             |
| Expected stock price volatility | 85.41%  | 58.14% - 70.71% |
| Risk-free interest rate         | 1.80%   | 1.30% - 1.74%   |
| Forfeiture rate                 | Nil     | Nil             |
| Expected options life in years  | 5 years | 5 years         |

(d) Warrants

| Expiry date                      | Exercise price | December 31, 2021 | Issued    | December 31, 2022 | Issued    | Amended    | Expired  | December 31, 2023 |
|----------------------------------|----------------|-------------------|-----------|-------------------|-----------|------------|----------|-------------------|
| October 29, 2023                 | \$ 0.60        | 2,916,666         | -         | 2,916,666         | -         | -2,916,666 | -        | -                 |
| October 29, 2023                 | \$ 0.30        | 77,475            | -         | 77,475            | -         | -          | (77,475) | -                 |
| November 29, 2024                | \$ 0.25        | -                 | 191,100   | 191,100           | -         | -          | -        | 191,100           |
| November 29, 2025 <sup>(a)</sup> | \$ 0.45        | -                 | 5,600,000 | 5,600,000         | -         | 2,916,666  | -        | 8,516,666         |
| April 20, 2026                   | \$ 0.10        | 250,000           | -         | 250,000           | -         | -          | -        | 250,000           |
| July 25, 2026                    | \$ 0.45        | -                 | -         | -                 | 3,950,000 | -          | -        | 3,950,000         |
| September 29, 2026               | \$ 0.45        | -                 | -         | -                 | 500,000   | -          | -        | 500,000           |
| Outstanding                      |                | 3,244,141         | 5,791,100 | 9,035,241         | 4,450,000 | -          | (77,475) | 13,407,766        |
| Weighted average exercise price  | \$             | 0.55              | \$ 0.44   | \$ 0.48           | \$ 0.45   | \$ -       | \$ 0.30  | \$ 0.44           |

<sup>(a)</sup> On June 9, 2023, the exercise price of the 2,916,666 warrants was amended from \$0.60 to \$0.45 and the expiry date was extended to November 29, 2025.

At December 31, 2023, the weighted average remaining life of the outstanding warrants is 2.13 years (December 31, 2022 – 2.85 years).

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

|                                 | 2023              | 2022             |
|---------------------------------|-------------------|------------------|
| Expected dividend yield         | Nil               | Nil              |
| Expected stock price volatility | 100.15% - 109.99% | 93.49% - 114.53% |
| Risk-free interest rate         | 1.91% - 2.17%     | 1.27% - 1.53%    |
| Forfeiture rate                 | Nil               | Nil              |
| Expected life of warrants       | 3 years           | 2 - 3 years      |

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**13. RELATED PARTY TRANSACTIONS**

The aggregate value of transactions and outstanding balances relating to key management personnel, the Company's officers and directors, and entities over which they have control or significant influence were as follows:

For the year ended December 31, 2023:

|   | Salaries and benefits | Accounting and management services | Other long-term benefits | Share-based payments | Total      |
|---|-----------------------|------------------------------------|--------------------------|----------------------|------------|
| Craig Fraser<br>Chief Executive Officer,<br>Former Director | \$ 118,000            | \$ -                               | \$ -                     | \$ -                 | \$ 118,000 |
| Daniel Davies<br>Chief Technology Officer,<br>Director      | \$ 118,000            | \$ -                               | \$ -                     | \$ -                 | \$ 118,000 |
| Pacific Opportunity<br>Capital Ltd. <sup>(1)</sup>          | \$ -                  | \$ 66,400                          | \$ -                     | \$ -                 | \$ 66,400  |
| Kevin Alexander,<br>Director                                | \$ -                  | \$ 15,560                          | \$ -                     | \$ 3,135             | \$ 18,695  |
| Scott Christopher,<br>Director                              | \$ -                  | \$ -                               | \$ -                     | \$ 3,135             | \$ 3,135   |
| Sarah Weber,<br>Director                                    | \$ -                  | \$ -                               | \$ -                     | \$ 3,135             | \$ 3,135   |

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**13. RELATED PARTY TRANSACTIONS (cont'd)**

For the year ended December 31, 2022:

|  | Salaries and benefits | Accounting and management services | Other long-term benefits | Share-based payments | Total      |
|--|-----------------------|------------------------------------|--------------------------|----------------------|------------|
| Craig Fraser<br>Chief Executive Officer,<br>Director   | \$ 111,896            | \$ -                               | \$ -                     | \$ -                 | \$ 111,896 |
| Daniel Davies<br>Chief Technology Officer,<br>Director | \$ 111,896            | \$ -                               | \$ -                     | \$ -                 | \$ 111,896 |
| Pacific Opportunity<br>Capital Ltd. <sup>(1)</sup>     | \$ -                  | \$ 92,939                          | \$ -                     | \$ -                 | \$ 92,939  |
| Kevin Alexander,<br>Director                           | \$ -                  | \$ -                               | \$ -                     | \$ 37,134            | \$ 37,134  |
| Scott Christopher,<br>Director                         | \$ -                  | \$ -                               | \$ -                     | \$ 37,134            | \$ 37,134  |
| Sarah Weber,<br>Director                               | \$ -                  | \$ -                               | \$ -                     | \$ 9,284             | \$ 9,284   |

<sup>(1)</sup> Robert Doyle, former CFO, is a Senior Vice President at and shareholder of Pacific Opportunity Capital Ltd.

| Amounts due to:   | Service                               | Year ended<br>December 31,<br>2023 | Year ended<br>December 31,<br>2022 | Balance due                   |                               |
|---|---------------------------------------|------------------------------------|------------------------------------|-------------------------------|-------------------------------|
|   |                                       |                                    |                                    | As at<br>December 31,<br>2023 | As at<br>December 31,<br>2022 |
| Craig Fraser, officer   | Salaries and benefits                 | \$ 118,000                         | \$ 111,896                         | \$ -                          | \$ -                          |
| Daniel Davies, officer and<br>director  | Salaries and benefits                 | 118,000                            | 111,896                            | -                             | -                             |
| Robert Doyle, former CFO  | Expense reimbursement                 | -                                  | -                                  | -                             | 8,965                         |
| Pacific Opportunity Capital<br>Ltd., a company, of which<br>Robert Doyle, former CFO<br>is a shareholder <sup>(a)</sup> | Accounting and<br>management services | 66,400                             | 92,939                             | 59,721                        | 47,501                        |
| <b>TOTAL:</b>   |                                       | <b>\$ 302,400</b>                  | <b>\$ 316,731</b>                  | <b>\$ 59,721</b>              | <b>\$ 56,466</b>              |

At December 31, 2023 Robert Doyle was due \$nil (2022 - \$8,956) with respect to expense reimbursement and Pacific Opportunity Capital Ltd. was due \$59,721 (2023 - \$47,501) with respect to accounting and management fees. Amounts owing to/from related parties are non-interest bearing, unsecured, and have no fixed terms of repayment. The changes during the period were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

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**14. SALES**

|                           | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|---------------------------|------------------------------|------------------------------|
| <b>Geographic region:</b> |                              |                              |
| North America             | \$ 2,651,329                 | \$ 3,541,250                 |
| Other                     | 281,851                      | 784,208                      |
|                           | <u>\$ 2,933,180</u>          | <u>\$ 4,325,458</u>          |

**15. CAPITAL MANAGEMENT**

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

**16. DEBT RECONCILIATION**

This section sets out an analysis of debt and the movements in debt for each of the periods presented.

|                  | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|------------------|------------------------------|------------------------------|
| Convertible loan | \$ -                         | \$ 243,389                   |
| Promissory note  | 277,750                      | 175,000                      |
| Lease liability  | 37,820                       | 62,469                       |
| Total debt       | <u>\$ 315,570</u>            | <u>\$ 480,858</u>            |

|   | <b>Convertible<br/>Loan</b> | <b>Promissory<br/>Note</b> | <b>Lease<br/>Liability</b> | <b>Total</b>      |
|---|-----------------------------|----------------------------|----------------------------|-------------------|
| Debt as at December 31, 2021                          | \$ 219,394                  | \$ 275,000                 | \$ -                       | \$ 494,394        |
| New lease   | -                           | -                          | 75,967                     | 75,967            |
| Financing cash flows                                  | -                           | (100,000)                  | (13,498)                   | (113,498)         |
| Accretion expense                                     | 36,495                      | -                          | -                          | 36,495            |
| Interest expense                                      | -                           | 10,667                     | 3,166                      | 13,833            |
| Interest payments (presented as financing cash flows) | (12,500)                    | (10,667)                   | (3,166)                    | (26,333)          |
| Debt as at December 31, 2022                          | <u>243,389</u>              | <u>175,000</u>             | <u>62,469</u>              | <u>480,858</u>    |
| Financing cash flows                                  | (250,000)                   | 100,000                    | (24,649)                   | (174,649)         |
| Accretion expense                                     | 6,611                       | -                          | -                          | 6,611             |
| Interest expense                                      | 6,250                       | 9,000                      | 3,916                      | 19,166            |
| Interest payments (presented as financing cash flows) | (6,250)                     | (6,250)                    | (3,916)                    | (16,416)          |
| Debt as at December 31, 2023                          | <u>-</u>                    | <u>\$ 277,750</u>          | <u>\$ 37,820</u>           | <u>\$ 315,570</u> |

Subsequently (note 21) an additional \$100,000 was advanced on the promissory note.

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**17. SR&ED TAX CREDIT**

The Company received a SR&ED tax credit in the amount of \$nil (2022 - \$272,275) net of professional fees of \$nil (2022 - \$45,606) related to research and development expenditures incurred.

**18. INCOME TAX**

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

|   | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|---|------------------------------|------------------------------|
| Net loss for the year                                   | \$ (2,281,917)               | \$ (451,154)                 |
| Statutory tax rates                                     | 27.00%                       | 27.00%                       |
| Expected income tax recovery                            | (616,000)                    | (121,800)                    |
| Permanent differences                                   | 13,000                       | 47,700                       |
| Share issue cost  | (4,000)                      | -                            |
| Adjustment to prior year provision versus statutory tax | (121,000)                    | -                            |
| Net change in valuation allowance                       | 728,000                      | 74,100                       |
| <b>Total income tax (recovery)</b>                      | <b>-</b>                     | <b>-</b>                     |

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

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Deferred income tax assets:           |             |             |
| Property and equipment                | \$ 237,000  | \$ 146,800  |
| Non-capital loss carry forward        | 4,097,000   | 1,882,700   |
| Right-of-Use assets/Lease Liability   | 2,000       | -           |
| Investment tax credits                | 152,000     | -           |
| Share issue costs                     | 147,000     | 174,900     |
| Valuation allowance                   | (4,635,000) | (2,204,400) |
| <b>Net deferred income tax assets</b> | <b>-</b>    | <b>-</b>    |

As at December 31, 2023, the Company has non-capital losses of \$4,097,000 (2022 - \$1,883,000) which will be available to reduce future taxable income earned in Canada. The non-capital losses will begin to expire in 2040.

**19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

|   | <b>December 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|---|------------------------------|------------------------------|
| Fair value of warrants issued on private placement          | \$ 282,484                   | \$ 481,510                   |
| Fair value of finders' warrants issued on private placement | -                            | 40,683                       |
| Fair value of options exercised                             | -                            | 3,787                        |
| Share issuance costs in due to related parties              | -                            | 8,965                        |
| PP&E additions in AP  | 33,468                       | -                            |

**20. SUBSEQUENT EVENTS**

On January 26, 2024 an additional \$100,000 was advanced by way of the promissory note on the same terms and conditions as the existing promissory note (see note 10).