Maritime Launch Services Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Month Period Ended September 30, 2023
(Unaudited)

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards established by the International Accounting Standards Board for a review of interim financial statements by an entity's auditor.

Maritime Launch Services Inc.
Condensed Interim Consolidated Financial Statements
For the Three and Nine month period ended September 30, 2023
(Unaudited)

Contents

Condensed Interim Consolidated Financial Statements

Maritime Launch Services Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

	Notes	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash		**$ 543,420**	$ 2,871,382
Short-term investment		**100,000**	100,000
Sales tax receivable		**234,234**	268,476
Prepaid expenses and deposits		**130,671**	122,786
Total current assets		**1,008,325**	3,362,644
Land, spaceport under construction, and equipment	5	**12,254,638**	8,056,629
Right-of-use assets	6	**187,901**	211,223
Total assets		**$ 13,450,864**	$ 11,630,496
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 3,935,242**	$ 1,080,614
Current portion of lease liabilities	6	**31,043**	32,625
Convertible debentures	7	**6,959,580**	7,391,634
Total current liabilities		**10,925,865**	8,504,873
Non-current liabilities			
Lease liabilities	6	**146,851**	174,164
Total liabilities		**11,072,716**	8,679,037
Shareholders' equity			
Share capital	8	**14,443,564**	13,265,001
Warrants reserve	9	**686,982**	686,982
Contributed surplus		**5,504,760**	3,729,760
Deficit		**(18,257,158)**	(14,730,284)
Total shareholders' equity		**2,378,148**	2,951,459
Total liabilities and shareholders' equity		**$ 13,450,864**	$ 11,630,496

Going Concern Uncertainty (Note 2)
Commitments (Note 11)
Subsequent Events (Note 11)

Approved on behalf of the Board:

(signed) Stephen Matier **Director** *(signed) Sasha Jacob* **Director**

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

Maritime Launch Services Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

	Notes	Three month period ended September 30, 2023	Nine month period ended September 30, 2023	Three month period ended September 30, 2022	Nine month period ended September 30, 2022
Operating expenses					
Administration		$ 121,392	$ 400,444	$ 122,809	$ 263,728
Professional services		360,348	1,376,672	683,576	1,847,466
Stock based compensation	8	144,134	495,000	328,000	1,290,000
Amortization	5,6	9,300	28,392	9,052	25,120
Wages and salaries		369,320	1,125,958	474,259	1,094,473
Listing expenses	1	-	-	-	2,242,404
Fair value adjustment on derivatives	7	-	-	-	(1,075,000)
Loss from operations		(1,004,494)	(3,426,466)	(1,617,696)	(5,688,191)
Other income (expense)					
Loss on extinguishment of convertible debentures	7	-	-	-	(206,256)
Loss on settlement of debt	8	-	(106,563)	-	-
Interest and accretion income (expense)	6,7	3,202	21,165	(104,889)	(414,346)
Foreign exchange gain (loss)		(31)	(15,010)	15,274	20,782
		3,171	(100,408)	(89,615)	(599,820)
Loss and comprehensive loss for the period		$ (1,001,323)	$ (3,526,874)	$ (1,707,311)	$ (6,288,011)
Loss per share					
Weighted average shares outstanding		410,484,741	407,263,887	403,460,590	385,297,863
Basic and diluted loss per share		$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)

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

Maritime Launch Services Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

	Notes	Common Shares	Share Capital	Warrant Reserve	Contributed Surplus	Deficit	Total shareholders' equity
Balance, as at December 31, 2021		77,414,886	$ 4,828,720	$ 377,369	$ 114,760	$ (7,279,586)	$ (1,958,737)
Loss and comprehensive loss for the period		-	-	-	-	(6,288,011)	(6,288,011)
Shares issued in exchange for cash (net of issuance costs)	8	9,372,690	6,283,531	-	-	-	6,283,531
Split of common shares at the Exchange Ratio	1,8	303,756,515	-	-	-	-	-
Warrants issued	8	-	-	309,613	-	-	309,613
Stock based compensation	8	-	-	-	1,290,000	-	1,290,000
Derivative liability reclassified to contributed surplus	7	-	-	-	2,146,000	-	2,146,000
Common shares issued in Reverse Takeover Transaction ("RTO")	1	12,916,499	2,152,750	-	-	-	2,152,750
Stock options issued in RTO	1	-	-	-	62,000	-	62,000
Balance, as at September 30, 2022		403,460,590	$ 13,265,001	$ 686,982	$ 3,612,760	$ (13,567,597)	$ 3,997,146

	Notes	Common Shares	Share Capital	Warrant Reserve	Contributed Surplus	Deficit	Total shareholders' equity
Balance, as at December 31, 2022		403,460,590	$ 13,265,001	$ 686,982	$ 3,729,760	$ (14,730,284)	$ 2,951,459
Loss and comprehensive loss for the period		-	-	-	-	(3,526,874)	(3,526,874)
Shares issued to settle debt	8	2,875,000	566,563	-	-	-	566,563
Shares issued on conversion of interest payable on Convertible Debentures	7,8	4,149,151	612,000	-	-	-	612,000
Stock based compensation	8	-	-	-	495,000	-	495,000
Equity component recognized pursuant to the amendment of the Convertible Debentures	7,8	-	-	-	1,280,000	-	1,280,000
Balance, as at September 30, 2023		410,484,741	$ 14,443,564	$ 686,982	$ 5,504,760	$ (18,257,158)	$ 2,378,148

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

Maritime Launch Services Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

For the nine month period ended September 30	2023	2022
Cash flows used in operating activities		
Loss and comprehensive loss for the period	$ (3,526,874)	$ (6,288,011)
Adjustments for:		
Amortization	28,392	25,120
Interest and accretion expense	39,948	466,152
Stock-based compensation	495,000	1,290,000
Loss on settlment of debt	106,563	-
Loss on extinguishment of convertible debentures	-	206,256
Derivative liability - fair value adjustment	-	(1,075,000)
Listing expenses	-	2,242,404
Issuance of warrants for services	-	47,081
	(2,856,971)	(3,085,998)
Changes in non-cash working capital balances		
Sales tax receivable	34,242	78,486
Prepaid expenses and deposits	(7,885)	(127,061)
Accounts payable and accrued liabilities	912,325	69,519
	938,682	20,944
	(1,918,289)	(3,065,054)
Cash flows provided by (used in) investing activities		
Purchase of equipment	(1,070)	(5,837)
Costs paid for spaceport under construction	(362,844)	(2,465,173)
Cash assumed on RTO	-	67,953
Decrease in restricted cash	-	3,942,923
	(363,914)	1,539,866
Cash flows provided by (used in) financing activities		
Payments on lease liabilities	(45,759)	(49,588)
Proceeds from issuance of subscription receipts	-	3,086,045
Costs incurred related to issuance of subscription receipts	-	(482,905)
	(45,759)	2,553,552
Increase (decrease) in cash during the period	(2,327,962)	1,028,364
Cash, beginning of period	2,871,382	3,889,221
Cash, end of period	$ 543,420	$ 4,917,585

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

1. Nature of Business

Maritime Launch Services Inc. (the "Company"), formerly Jaguar Financial Corporation ("Jaguar"), was incorporated under the Business Corporations Act (Ontario) and previously a Canadian merchant bank generally making investments in certain targeted companies. On April 1, 2022, the Company completed a reverse takeover (the "RTO Transaction" or "RTO") with Maritime Launch Services Ltd. ("MLS") and changed its name to Maritime Launch Services Inc.

As described below, the Company completed the acquisition of MLS through an acquisition agreement whereby the Company acquired all of the issued and outstanding shares of MLS on April 1, 2022, with the former shareholders of MLS obtaining control of the Company.

MLS was incorporated under the Companies Act of Nova Scotia. MLS is in the process of constructing and operating Canada's first commercial spaceport ("Spaceport") for launching satellites into low earth orbit.

Following the RTO Transaction, the Company was controlled by MLS, and as such, the transaction has been accounted for as a reverse takeover of the Company by MLS for accounting purposes.

Certain historical figures for the period ended September 30, 2022 presented in these condensed interim consolidated financial statements represent those of MLS and its subsidiary. The acquired assets and liabilities and results of operations and cash flows of Jaguar are reflected only for periods after the acquisition date of April 1, 2022.

On April 27, 2022, the Company's shares were listed and commenced trading on the NEO Exchange under the symbol "MAXQ". On August 23, 2022, the Company received approval to trade on the OTCQB Venture Market under the symbol “MAXQF.” The address of the Company's registered head office is 1 Adelaide Street East, Suite 801, Toronto, Ontario, M4C 2V9.

Reverse Takeover Transaction

On April 1, 2022, the Company (Jaguar at the time) acquired all of the issued and outstanding securities of MLS in exchange for the issuance of securities of Jaguar, which resulted in MLS becoming a wholly-owned subsidiary of Jaguar.

As consideration for the acquisition, each issued and outstanding common share of MLS was cancelled and replaced with 4.5 common shares of Jaguar (the "Exchange Ratio"). Further, each option or warrant issued by MLS was exchanged for a corresponding option or warrant of Jaguar on substantially the same economic terms and conditions as the original option or warrant issued on the Exchange Ratio.

1. Nature of Business (Continued)

Immediately following completion of the RTO Transaction, the Company had 403,460,590 common shares issued and outstanding on a non-diluted basis with existing shareholders of Jaguar holding approximately 3% and MLS shareholders holding approximately 97% of the outstanding shares of the Company. As a result, the transaction is considered a reverse takeover of Jaguar by MLS. For accounting purposes, MLS is considered the acquirer and Jaguar the acquiree.

Jaguar's activities prior to the acquisition were limited to management of cash resources, and accordingly, did not constitute a business. As a result, the RTO Transaction is considered to be outside the scope of IFRS 3 Business Combinations and has been accounted for as an asset acquisition. Since MLS granted equity instruments as consideration for the acquisition, the arrangement has been accounted for under IFRS 2, Share-based Payments; accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by MLS to Jaguar. The share capital, reserves, and deficit of Jaguar at the time of the RTO Transaction were eliminated against the fair value of the consideration and the difference was recognized as a non-cash listing expense in the statement of loss and comprehensive loss for the period ended September 30, 2022. The capital structure recognized in the consolidated statement of financial position is that of the Company, but the dollar amount of the issued share capital prior to the RTO is that of MLS, including the value of the shares issued prior to the RTO Transaction.

In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity that the legal subsidiary, being MLS, would have issued to the legal parent entity, being Jaguar, for the shareholders of Jaguar to obtain the same percentage interest of approximately 3% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measure being the market price per share from the most recent MLS private placement to third party market participants.

The excess of the fair value of the RTO Transaction consideration to Jaguar over the fair value of the assets and liabilities of Jaguar acquired by MLS at April 1, 2022 and recorded in the Company’s financial statements for the period ended September 30, 2022 is as follows:

Fair value of consideration issued:	
MLS common shares issued (1)	$ 2,152,750
Jaguar options assumed (2)	62,000
	$ 2,214,750
Fair value of net assets (liabilities) acquired:	
Cash (3)	$ 67,953
Accounts payable and accrued liabilities (3)	(95,607)
Listing expenses	2,242,404
	$ 2,214,750

1. Nature of Business (Continued)

(1) This was calculated based on the number of Jaguar shares outstanding of 12,916,499 multiplied by the observable fair value of MLS's common shares, being the market price of $0.167 (on a post RTO Transaction basis) based on the most recent MLS private placement to third party market participants.

(2) The fair value of Jaguar's 1,010,039 outstanding options was estimated at $62,000 using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.00%
Expected volatility	90%
Expected dividend yield	0%
Expected forfeiture rate	0%
Fair value of resulting issuer common share	$0.167
Exercise price	$0.125
Estimated life	0.50 years

(3) The carrying value of Jaguar's assets and liabilities was assumed to approximate their fair values, due to their short-term nature.

(4) A non-cash listing expense of $2,242,404 was included in the statement of loss and comprehensive loss for the period ended September 30, 2022 to reflect the difference between the fair value of the amount paid and the fair value of the net assets received from Jaguar. In addition to listing expense noted above, the Company also incurred cash listing expenses of $460,467, which was recorded as professional service expenses.

2. Going Concern

The condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information, which is at least, but is not limited to, twelve months from the end of the reporting period.

At September 30, 2023, the Company had no source of operating cash flow. Operations have been funded from the issuance of share capital and convertible debentures and as such, the Company's ability to continue as a going concern is dependent upon the ability to obtain financing to be able to secure adequate bonding for future projects. It is not possible at this time to predict the outcome of these matters. The Company incurred a net comprehensive loss of $3,526,874 for the nine month period ended September 30, 2023 (2022 - total comprehensive loss of $6,288,011 for the nine month period ended September 30, 2022). As a result, there is material uncertainty that may cast significant doubt as to whether the Company will have the ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the material adjustments to carrying values of assets and liabilities, and the reported expenses, that would be necessary if the going concern assumption was inappropriate.

3. Basis of Consolidation and Preparation

Basis of Consolidation

The condensed interim consolidated financial statements of the Company include the accounts of Maritime Launch Services Ltd. and Maritime Launch USA Inc., a wholly owned subsidiary, in Delaware U.S. incorporated in November 2021. All transactions and balances between these companies have been eliminated on consolidation.

Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements in accordance with International Financial Reporting Standards and IAS as issued by the International Accounting Standards Board ("IASB") and Interpretations (collectively, "IFRSs") and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022.

Items included in these condensed interim consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). These condensed interim consolidated financial statements are presented in Canadian Dollars ("CDN"), which is also the functional currency of the Company and its subsidiary.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 14, 2023.

4. Critical Accounting Estimates and Judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates

Convertible Debentures

Estimates are required to be made by management in determining the fair value allocation for the host debt and conversion feature that are comprised within the convertible debentures on the date of initial recognition, as well as on subsequent re-valuation dates. The determination of the fair value of these instruments requires estimates to be made by management inclusive of the fair market interest rate of the Company, and the relevant inputs to the Barrier Option Pricing model including the Company's share price, expected share volatility, and the probability weighted scenarios.

Shares Issued in Exchange for Services

The Company has issued common shares in exchange for services received. In accordance with IFRS 2, in most instances such shares must be valued as the fair value of the services received. Significant judgment is required to determine the fair value of the services, which can include a comparison to similar services received which were settled in cash.

Depreciation and Amortization

Depreciation and amortization methods for equipment and right of use assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these judgments are based on industry standards, manufacturers' guidelines and Company specific history and experience.

Stock Based Compensation and Share Based Payments

Estimating fair value for share-based payment transactions requires judgment in determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires estimation of the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility, dividend yield and share price.

4. Critical Accounting Estimates and Judgements (Continued)

Determination of Incremental Borrowing Rate

When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

Judgments

Reverse Takeover Transaction

The determination of the accounting acquirer, whether the acquired entity is a business and the fair value of the consideration transferred required considerable judgment (Note 1).

Amendment of Convertible Debentures

Judgment was required to determine whether the amendment discussed in the Estimates and Judgements represented a significant modification that should be accounted for as an extinguishment of the original financial liability by estimating the present value of the amended liability, using the original effective interest rate, and comparing to the carrying value of the original liability at the amendment date to determine whether the 10% quantitative test was met.

Income Taxes

Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Capitalization of Property and Equipment

The capitalization of property and equipment under IFRS is based on management's judgment as to whether all criteria under IAS 16 have been met. Significant judgment is required to assess whether expenditures should be capitalized, particularly with regards to the assessment of the point in time when it becomes probable that the property and equipment under construction will generate future economic benefits that will ultimately flow into the Company.

5. Land, Spaceport under Construction, and Equipment

	Cost		
	Cost	Additions	Total
Land	$ 80,012	$ -	$ 80,012
Computer Equipment	15,852	1,070	16,922
Furniture and Equipment	19,373	-	19,373
Spaceport under Construction	7,953,970	4,202,009	12,155,979
	8,069,207	4,203,079	12,272,286

	Amortization		
	Accumulated Amortization	Amortization	Total
Land	$ -	$ -	$ -
Computer Equipment	(7,913)	(2,970)	(10,883)
Furniture and Equipment	(4,665)	(2,100)	(6,765)
Spaceport under Construction	-	-	-
	$ (12,578)	$ (5,070)	$ (17,648)

	Net Book Value	
	September 30, 2023	December 31, 2022
Land	**$ 80,012**	$ 80,012
Computer Equipment	**6,039**	7,939
Furniture and Equipment	**12,608**	14,708
Spaceport under Construction	**12,155,979**	7,953,970
	$ 12,254,638	$ 8,056,629

During the three and nine month periods ended September 30, 2023, the Company capitalized borrowing costs of $468,973 and $1,436,862 (three and nine month period ended September 30, 2022 - $245,000 and $577,000).

6. Right-of-Use Assets and Lease Liabilities

(a) The following table presents the right-of-use assets for the Company:

	September 30, 2023	December 31, 2022
Balance, January 1	$ 211,223	$ 93,494
Additions	-	143,646
Depreciation	(23,322)	(25,917)
Balance	$ 187,901	$ 211,223

The Company's leases are for office space, a vehicle, and land for operating and developing the Spaceport. The initial terms of the leases were 5.3 years, 5 years, and 20 years (with a renewal term of a further year 20 years), respectively. The Company has estimated an annual incremental borrowing rate of 18% on the office space and 17% on the land. The annual borrowing rate specified in the vehicle lease agreement was 8%. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option. The land lease can be cancelled by either the lessee or the lessor by providing 60 days written notice to the other party, and the annual rent is subject to adjustments by the lessor from time to time.

(b) The following table presents lease liabilities for the Company:

	September 30, 2023	December 31, 2022
Balance, January 1	$ 206,789	$ 105,742
Additions	-	143,646
Payments	(45,759)	(60,341)
Interest incurred	16,864	17,742
Balance	$ 177,894	$ 206,789
Current	31,043	32,625
Non-current	146,851	174,164
Total	$ 177,894	$ 206,789

(c) The following table presents the contractual undiscounted cash flows for lease liabilities as at September 30, 2023 and December 31, 2022:

	Total Undiscounted Lease Payments	
	2023	2022
Less than one year	$ 58,834	$ 56,744
Beyond one year	$ 604,754	639,103
Total undiscounted lease payments	$ 663,588	$ 695,847

Total cash outflow for the period ended September 30, 2023 was $45,759 (nine month period ended September 30, 2022 - $49,588).

7. Convertible Debentures

Issuance of Convertible Debentures

On May 7, 2021, the Company issued unsecured convertible debentures for proceeds of $7,500,000 initially bearing interest at 4% per annum, calculated, accruing, and compounded annually with principal and interest initially due on May 7, 2022 or such later date as may be mutually agreed. The debentures were initially convertible into common shares at a price of $0.75 per share ($0.167 on a post-RTO basis) on demand at any time by the holder and the debentures will convert at the election of the Company in the event of a Going Public Transaction where either (a) the Company has raised not less than $10M in equity at a price of not less than $1.00 per common share ($0.2222 on a post-RTO basis) or (b) the common shares trade at over $1.00 ($0.2222 on a post-RTO basis) for 10 consecutive trading days on a recognized exchange. In the event the Company did not complete a Going Public Transaction prior to December 31, 2021, the conversion price would be adjusted such that upon conversion the Company shall issue an additional 10% of the number of common shares, and a further 1% per month thereafter. Therefore, if the Company did not complete a Going Public Transaction, at the end of each month the conversion price would be adjusted such that upon conversion the Company shall issue an additional 1% of the number of common shares.

The conversion feature that provided the holder with the option to convert the debentures into common shares based on a price that is adjusted in the event that a Going Public Transaction did not occur by December 31, 2021 resulted in the conversion being accounting for as a Derivative Liability as a variable number of shares would be issued in the event of conversion. As a result, the convertible debenture was initially treated as a hybrid financial instrument. The liability component was accounted for as an Other Financial Liability and an effective interest rate of 15.7% was used to accrete the liability component.

Amendment 1 of the Convertible Debentures

On March 29, 2022, the Company amended the terms of the convertible debentures (“Amendment 1”) that were made in contemplation of the closing of the RTO (Note 1). The conversion price applicable to the debentures was amended from $0.75 ($0.167 on a post-RTO basis) per common share to $0.1475 per common share, on a post RTO basis, to reflect the impact and timing of the RTO Transaction. The maturity date of the debentures was extended by one year to May 7, 2023. The convertible debentures remained convertible at the option of the holder at any time up to and including the maturity date. At the election of the Company, the principal amount and any accrued interest outstanding on the debentures would convert into common shares at the conversion price if (a) a Going Public Transaction (i.e.; becoming a listed company) has occurred; and (b) either the Company has raised not less than $10 million in equity at a price not less than $0.2222 per common share, or the common shares trade at over $0.2222 per share for 10 consecutive trading days on a recognized exchange. If the Company had not completed a Qualified Transaction on or prior to April 30, 2022, then at that date and at the end of each month thereafter during which the Company did not complete a Qualified Transaction, the Conversion Price would be adjusted such that upon conversion, the Company shall issue an additional 1% of the number of common shares.

7. Convertible Debentures (Continued)

The amendments included in Amendment 1 were determined to be significant modifications of the terms of the convertible debentures; accordingly, Amendment 1 was accounted for as an extinguishment on April 1, 2022. The existing convertible debentures' liability and derivative liability components were derecognized and the convertible debentures' liability and derivative liability components were recorded at estimated fair value, resulting in a loss on extinguishment of $206,256 being recognized in the consolidated statement of loss and comprehensive loss for the period ended September 30, 2022.

Pursuant to Amendment 1, the derivative liability was measured on the date of extinguishment based on the difference between the fair value of the Company's common shares and the exercise price (the intrinsic value), quantified based on the number of common shares into which the convertible debentures would convert, if converted. On the date of Amendment 1, the derivative liability was measured using a Barrier Option Model with the following inputs: share price of $0.167, exercise price of $0.1475, barrier price of $0.2222, term of 1.10 years, volatility of 90% and a risk-free rate of 1.91%.

The liability component was fair valued based on a market interest rate for a debt instrument with the same rights, but with no conversion feature and was accounted for as an Other Financial Liability. An effective interest rate of 25% is being used to accrete the liability component.

There were no additional costs incurred or received as a part of Amendment 1.

The Going Public Transaction occurred April 27, 2022 such that number of common shares issuable on conversion of convertible debentures became fixed.

Subsequent to Amendment 1, the conversion feature that provided the holder with the option to convert the convertible debentures into common shares based on a price that was to be adjusted in the event that a Going Public Transaction did not occur by April 30, 2022 resulted in the conversion feature being accounted for as a derivative liability at the time of issuance. As at April 27, 2022 and upon the closing of the Going Public Transaction, the number of shares into which the amended convertible debentures converted was fixed such that there was no longer a derivative liability.

The derivative liability component was fair valued using the Barrier Option Model immediately prior to April 27, 2022, at which time it was reclassified to contributed surplus. The following inputs were utilized in the Barrier Option Model:

Share price	$0.1500
Exercise price	$0.1475
Barrier price	$0.2222
Term	1.02 years
Volatility	90%
Risk-free rate	2.38%.

7. Convertible Debentures (Continued)

Amendment 2 of the Convertible Debentures

On May 5, 2023, the Company further amended the terms of the convertible debentures (“Amendment 2”). The maturity date of the convertible debentures was extended by one year to May 7, 2024. The interest rate on the convertible debentures was increased to 9% and interest is now calculated, compounded and paid in cash semi-annually on June 30 and December 31, with the first payment due December 31, 2023. The holders may elect to receive all or part of the accrued interest in common shares of the Company at a price of $0.1475 per common share.

Also pursuant to Amendment 2, accrued interest of $612,000, representing all accrued interest owing through May 7, 2023, was converted by the holder into 4,149,151 common shares of the Company at a price of $0.1475 per common share (Note 8).

As noted, the convertible debentures are convertible into common shares at a price of $0.1475 on demand at any time by the holder and the convertible debentures will convert at the election of the Company in the event of either (a) the Company has raised not less than $10M in equity at a price of not less than $0.2222 per common share or (b) the common shares trade at over $0.2222 for 10 consecutive trading days on a recognized exchange. Pursuant to Amendment 2 and in reference to (a) in the preceding sentence, where common shares are issued with attached warrants (“Units”), the warrants will be valued, then the common shares will be valued by subtracting the value of the warrants from the value of the Units to determine the price of the common shares.

The amendments included in Amendment 2 were determined to be significant modifications of the terms of the convertible debentures; accordingly, Amendment 2 was accounted for as an extinguishment on May 5, 2023. On extinguishment, the fair value of the existing liability component was determined to be equal to the carrying value, resulting in no gain or loss being recognized on extinguishment of the liability component.

Pursuant to Amendment 2, on recognition of the convertible debentures, the liability component was fair valued by reference to the fair market interest rate of the Company, estimated to be 28% at the date of Amendment 2. Any residual between the fair value of the liability component under the original terms and the fair value of the liability component under the amended terms was recognized as a charge to contributed surplus, representing the incremental change in fair value of the conversion feature.

There were no additional costs incurred or received as a part of Amendment 2.

7. Convertible Debentures (Continued)

The following table outlines the continuity of the convertible debentures, derivative liability and residual component:

	Convertible Debentures	Contributed Surplus	Derivative Liability
Balance at December 31, 2021	**$ 7,308,007**	**$ -**	**$ 1,667,000**
Interest expense at 4%	75,000	-	-
Accretion of discount	217,257	-	-
Change in fair value of derivative liability	-	-	(657,000)
Balance immediately prior to extinguishment	7,600,264	-	1,010,000
Extinguishment of convertible debentures	(7,600,264)	-	(1,010,000)
Recognition of the convertible debentures per Amendment 1	6,252,520	-	2,564,000
Change in fair value of derivative liability	-	-	(418,000)
Reclassify derivative liability to contributed surplus	-	2,146,000	(2,146,000)
Accrued interest at 4%	-	-	-
Accretion of convertible debentures	738,040	-	-
Balance at September 30, 2022	**$ 6,990,560**	**$ 2,146,000**	**$ -**

7. **Convertible Debentures (Continued)**

	Convertible Debentures	Contributed Surplus
Balance at December 31, 2022	**$ 7,391,634**	**$ 2,146,000**
Interest expense at 4%	125,000	-
Accretion of discount	595,366	-
Settlement of interest payable through the issuance of common shares (Note 8)	(612,000)	-
Balance immediately prior to extinguishment	7,500,000	2,146,000
Extinguishment of convertible debentures	(7,500,000)	-
Recognition of the convertible debentures per Amendment 2	6,220,000	1,280,000
Accrued interest at 9%	273,699	-
Accretion of convertible debentures	465,881	-
Balance at September 30, 2023	**$ 6,959,580**	**$ 3,426,000**

Unless the convertible debentures are converted into common shares, the first interest payment at 9% per annum is due December 31, 2023 and the principal balance of $7,500,000 and all remaining accrued interest is due on May 7, 2024.

8. Share Capital

Authorized

An unlimited number of shares without par value of the following classes:

Common shares voting and participating.

(a) Issued and outstanding shares

The following table provides a continuity of share capital as presented in these financial statements:

	MLS Common Shares		Company Common Shares	
	Number	Amount	Number	Amount
Balance as at December 31, 2021	**77,414,886**	**$ 4,828,720**	**-**	**$ -**
Shares issued in exchange for cash (net of issuance costs)	9,372,690	6,283,531	-	-
Share for share exchange in RTO Transaction	(86,787,576)	(11,112,251)	390,544,091	11,112,251
Share capital of the Company at the date of the Reverse Takeover (Note 1)			12,916,499	2,152,750
Balance as at September 30, 2022 and December 31, 2022	**-**	**-**	**$ 403,460,590**	**$ 13,265,001**
Shares issued on conversion of interest payable on Convertible Debentures	-	-	4,149,151	612,000
Shares issued to settle accounts payable	-	-	2,875,000	566,563
Balance as at September 30, 2023	**-**	**-**	**410,484,741**	**$ 14,443,564**

Pursuant to the RTO Transaction and on December 30, 2021, MLS issued 5,256,025 subscription receipts (the "Subscription Receipts") for gross proceeds of $3,941,469 and on January 12, 2022, the Company issued 4,116,665 additional Subscription Receipts for gross proceeds of $3,087,499 for a total issuance of 9,372,690 Subscription Receipts for aggregate gross proceeds of $7,028,968. On June 30, 2022, the Subscription Receipts were converted on a one for one basis into common shares of MLS, resulting in the issuance of 9,372,690 common shares (the "Equity Financing"). Pursuant to the closing of the Equity Financing on March 31, 2022, MLS was obligated to pay finders fees of $457,905 (the "Finders Fees") and incurred other professional fees related to the Equity Financing of $25,000. In addition to the Finders Fees, the Company issued 610,540 finders warrants (the "Finders Warrants") (Note 9) which have been valued at $262,532. The Finders Fees, professional fees, and the Finders Warrants have been recorded as share issue costs.

Effective April 1, 2022, The Company’s share capital was consolidated at the Exchange Ratio resulting in 390,544,091 common shares issued and outstanding at the time of the RTO Transaction (Note 1).

8. Share Capital (Continued)

As described in Note 7 and pursuant the Amendment of the Convertible Debenture, on May 5, 2023, accrued interest of $612,000, being all accrued interest owing through until May 7, 2023, was converted into 4,149,151 common shares of the Company at the conversion price of $0.1475 per common share.

On May 5, 2023, the Company issued 2,875,000 common shares at a price of $0.16 to settle accounts payable of $460,000. In connection with the settlement, the common shares were valued at $566,563, based on the trading price of the common shares issued on the date of settlement, resulting in a recognized loss on settlement of debt totaling $106,563 in the condensed interim consolidated statement of loss and comprehensive loss for the three and nine month period ended September 30, 2023.

(b) Stock option plan

The Company has established a stock option plan. Under the plan, eligible directors, key employees, and consultants of the Company are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted. The Board is also authorized to determine the terms of the grant including the time or times when each option shall vest, the duration of the exercise period, and any performance vesting or other exercise conditions. The Board may make available a number of common shares it considers appropriate, not exceeding 10% of the common shares outstanding from time to time. In the event of a Going Public transaction, the Board may, in its sole and absolute discretion, permit the exercise prior to the Going Public transaction of any or all options held by optionees which are not by their terms exercisable in the manner and on the terms authorized by the Board.

The weighted average fair value of options granted during the nine month period ended September 30, 2023 was $0.11 (nine month period ended September 30, 2022 - $0.11) per option on a post-RTO basis, estimated using the Black-Scholes option pricing model. The expected life of the options is equivalent to the life of the options granted. Expected volatility is based on historical price volatility for comparable publicly traded companies over terms consistent with the expected life. The stock options granted during the periods vest based on a combination of certain performance and service conditions.

8. Share Capital (Continued)

The following assumptions were used to determine the fair value of the options granted in the nine month period ended September 30, 2023 and 2022:

	September 30, 2023	September 30, 2022
Weighted average grant date share price (post RTO basis)	**$0.160**	$0.158
Exercise price (post RTO basis)	**$0.167**	$0.167
Expected price volatility	**90%**	90%
Expected option life	**5 years**	5 years
Expected dividend yield	**0%**	0%
Risk-free interest rate	**1%**	1%
Forfeiture rate	**0%**	0%

The following table presents the stock option activity, on a post RTO basis, for the nine month period ended September 30, 2023 and 2022:

	September 30, 2023		September 30, 2022	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Balance, beginning of period	**29,025,000**	**0.167**	13,950,000	0.167
Granted	**2,700,000**	**0.167**	13,950,000	0.167
Jaguar options assumed in connection with RTO Transaction			1,010,039	0.125
Expired	**(1,125,000)**	**0.167**	-	-
Forfeited	**(2,250,000)**	**0.167**	-	-
Outstanding, end of period	**28,350,000**	**0.167**	28,910,039	0.166
Exercisable, end of period	**9,450,000**	**0.167**	7,872,539	0.162

Certain options granted during the nine-month periods ended September 30, 2023 and 2022 are subject to certain performance and service based vesting conditions. The weighted average remaining contractual life as at September 30, 2023 is 3.5 years (September 30, 2022 – 4.17 years). At September 30, 2023, 12,698,474 stock options remain available for future grants pursuant to the Company's stock option plan.

9. Warrants

Warrant activity, after converting for the Exchange Ratio, for the Nine months ended September 30, 2023 and 2022 was as follows:

	September 30, 2023		September 30, 2022	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Balance, beginning of period	**23,649,930**	**0.095**	20,430,000	0.087
Adjustment pursuant to the RTO			409,500	0.147
Granted	**-**	**-**	2,810,430	0.167
Outstanding, end of period	**23,649,930**	**0.095**	23,649,930	0.089
Exercisable, end of period	**23,649,930**	**0.095**	23,649,930	0.089

As a result of the Company completing its listing on the NEO Exchange on April 27, 2022, the Company completed its Going Public Transaction. As a result, all of the warrants issued and outstanding at the time expire 3 years from the Going Public Transaction on April 26, 2025.

In conjunction with the Equity Financing (Note 8), on April 1, 2022, the Company issued a total of 2,747,430 Finders Warrants. These warrants were issued with an exercise price of $0.167. The estimated fair value of the warrants was determined to be $0.096 per warrant, estimated using the Black-Scholes option pricing model and the total calculated value of the Finders Warrants of $262,532 was recorded as a share issue cost (Note 8).

In conjunction with the RTO Transaction (Note 1), on April 1, 2022, the Company issued 63,000 warrants to advisors with an exercise price of $0.1667 and the total calculated value of $47,081 was recorded as professional services expense.

On April 1, 2022 and as the result of an adjustment clause, an additional 409,500 warrants were issued having an exercise price of $0.1475.

The estimated fair value of the warrants issued on April 1, 2022 was determined to be $0.10 per warrant, calculated using the Black-Scholes option pricing model using the following assumptions:

Grant date share price	$0.167
Exercise price	$0.1475 - $0.167
Expected price volatility	90% - 92%
Expected warrant life	3.0 years
Expected dividend yield	0%
Risk-free interest rate	0.8% - 1.00%

10. Related Party Transactions

(a) The Company has entered into the following transactions with related parties:

		Three month period ended September 30, 2023		Three month period ended September 30, 2022
Operating expenses				
Management compensation attributable to the Chief Executive Officer and Chief Financial Officer	**$**	**128,804**	$	115,400
Non-cash stock-based compensation attributable to the Chief Executive Officer, Chief Financial Officer, and Directors	**$**	**54,884**	$	165,309

		Nine month period ended September 30, 2023		Nine month period ended September 30, 2022
Operating expenses				
Management compensation attributable to the Chief Executive Officer and Chief Financial Officer	**$**	**356,729**	$	347,854
Non-cash stock-based compensation attributable to the Chief Executive Officer, Chief Financial Officer, and Directors	**$**	**170,535**	$	835,113

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

(b) At the end of the period, the balances with related parties are as follows:

		September 30, 2023		December 31, 2022
Due to related parties				
Management	**$**	**28,650**	$	19,000

These balances are payable on demand and are unsecured and non-interest bearing.

11. Commitments

The Company has entered into a contract (the "Contract") with a supplier for the design, development, and documentation of certain technical elements of its Spaceport, pursuant to which it is committed to incur total capital expenditures of EURO €6,900,000. As of September 30, 2023, and pursuant to the Contract, the Company has made total payments of EURO €2,500,000 (September 30, 2022 - EURO €2,500,000), including EURO €nil during the nine month period ended September 30, 2023 (nine month period ended September 30, 2022 – EURO €1,200,000), and is required to make the remaining payments as follows:

Year-ended	EURO €
December 31, 2023	4,400,000

The remaining payment of EURO €4,400,000 is due in November 2023.

Subsequent to September 30, 2023, the Contract was amended such that the remaining payment of EURO €4,400,000 is now due as follows:

	EURO €
January 2024	440,000
April 2024	3,960.000