# FORM 5

## QUARTERLY LISTING STATEMENT

Name of Listed Issuer: _AQUARIUS SURGICAL TECHNOLOGIES INC. (the "Issuer").

Trading Symbol: ASTI

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

**General Instructions**

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

**SCHEDULE A: FINANCIAL STATEMENTS**

**See Unaudited Interim Financial Statements annexed.**

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

## 1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
(b) A description of the transaction(s), including those for which no amount has been recorded.
(c) The recorded amount of the transactions classified by financial statement category.
(d) The amounts due to or from Related Persons and the terms and conditions relating thereto
(e) Contractual obligations with Related Persons, separate from other contractual obligations.
(f) Contingencies involving Related Persons, separate from other contingencies.

## 2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) summary of securities issued during the period,

| Date of Issue | Type of Security (common shares, convertible debentures, etc.) | Type of Issue (private placement, public offering, exercise of warrants, etc.) | Number | Price | Total Proceeds | Type of Consideration (cash, property, etc.) | Describe relationship of Person with Issuer (indicate if Related Person) | Commission Paid |
|---|---|---|---|---|---|---|---|---|
| None | | | | | | | | |

(b) summary of options granted during the period,

| Date | Number | Name of Optionee if Related Person and relationship | Generic description of other Optionees | Exercise Price | Expiry Date | Market Price on date of Grant |
|---|---|---|---|---|---|---|
| None | | | | | | |

**3. Summary of securities as at the end of the reporting period.**

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

**An unlimited number of special shares, issuable in series; and**
**An unlimited number of common shares**.

(b) number and recorded value for shares issued and outstanding,

**As at December 31, 2023:**
**Issued and outstanding**
**27,599,172 common shares with a recorded value of $19,953,307**

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value:

**As at December 31, 2023:**
**Options – 1,500,000 exercisable at $0.05 per share expiring November 15, 2027, vesting 250,000 every six months commencing November 15, 2022**

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

**None**

**4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.**

**<u>Directors</u>**

David J. Hennigar, Bedford, Nova Scotia Director, Chairman
Charlotte Janssen, Toronto, Ontario Director
Dr. Rajiv Singal, Toronto, Ontario Director
Dr. Stanley Swierzewski III, Holyoke, MA, USA Director

**<u>Corporate Officers</u>**

Michael Machika, Fonthill, Ontario, Interim Chief Executive Officer
Lorne S. MacFarlane, Dartmouth, Nova Scotia, Chief Financial Officer
Christopher H. Freeman, King City, Ontario, Secretary

## SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

**See Management's Discussion & Analysis annexed**.

**Certificate Of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated February 26, 2024.

Lorne S MacFarlane
Name of Director or Senior Officer

"Lorne S MacFarlane"
Signature

CFO
Official Capacity

<table>
<tr><td>Issuer Details<br>Name of Issuer<br><br>Aquarius Surgical Technologies Inc.</td><td>For Quarter Ended<br><br>December 31, 2023</td><td>Date of Report YY/MM/D<br><br>24/02/26</td></tr>
<tr><td colspan="3">Issuer Address<br><br>89 Scollard Street</td></tr>
<tr><td>City/Province/Postal Code<br><br><br>Toronto, ON M5R 1G4</td><td>Issuer Fax No.<br>(902) 484-7599</td><td>Issuer Telephone No.<br>(902) 496-7594</td></tr>
<tr><td>Contact Name<br><br>Michael Machika</td><td>Contact Position<br><br>Interim CEO</td><td>Contact Telephone No.<br><br>289.328.0268</td></tr>
<tr><td>Contact Email Address<br><br>mike@surgicallasersinc.com</td><td colspan="2">Web Site Address<br><br>http://www.surgicallasersinc.com/</td></tr>
</table>

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three and nine month periods ended December 31, 2023 and December 31, 2022**

**(expressed in Canadian dollars)**

**(UNAUDITED)**

**In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the nine month period ended December 31, 2023**

**Management's Responsibility for Financial Information**

The consolidated interim financial statements (the "Interim Financial Statements"), the notes thereto and other financial information contained in the management's discussion and analysis are the responsibility of management of Aquarius Surgical Technologies Inc. and have been approved by the Board of Directors.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, include amounts which reflect management's best estimates and judgments based on current available information. Aquarius Surgical Technologies Inc. maintains systems of internal accounting and administrative controls in order to provide reasonable assurance that the Corporation's assets are appropriately accounted for and adequately safeguarded, and that financial information is accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Interim Financial Statements and the accompanying management's discussion and analysis.

The Audit Committee reviews the Interim Financial Statements and the management's discussion and analysis of financial results and reports its findings to the Board of Directors for its consideration when approving the Financial Statements for issuance to the shareholders.

"*Michael Machika*"

Michael Machika
Interim Chief Executive Office

"*Lorne S. MacFarlane*"

Lorne S. MacFarlane
Chief Financial Officer

February 26, 2024

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2023**

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## Aquarius Surgical Technologies Inc.
## Consolidated Statements of Financial Position
## (Expressed in Canadian dollars)

| As at | 31-Dec-23 | 31-Mar-23 |
|---|---|---|
| **ASSETS** | **$** | $ |
| **Current Assets** | | |
| Cash and cash equivalent | **138,752** | 122,016 |
| Accounts receivable (Note 17) | **72,044** | 76,239 |
| Inventories (Note 4) | **16,825** | 43,709 |
| Prepaid expenses and deposits | **20,371** | 29,603 |
| | **247,992** | 271,567 |
| **Long-term investment** (Note 7) | **296,982** | 303,875 |
| **Equipment and right of use asset** (Note 5) | **85,920** | 104,702 |
| | **630,894** | 680,144 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **1,109,316** | 1,017,660 |
| Operating loan (Note 6(C)) | **258,825** | 194,710 |
| Current portion lease liability (Note 10) | **24,957** | 25,074 |
| Current portion long term debt (Note 10) | **450,131** | 276,726 |
| | **1,843,229** | 1,514,170 |
| | | |
| **Due to related party** (Note 6 (B)) | **3,113,546** | 2,683,802 |
| **Lease liability** (Note 10) | **60,301** | 80,068 |
| **Long term debt** (Note 10) | **-** | 250,000 |
| | **3,173,847** | 3,013,870 |
| | **5,017,076** | 4,528,040 |
| | | |
| **Shareholders' Deficiency** | | |
| Common Shares (Note 8) | **19,953,307** | 19,953,307 |
| Contributed surplus | **9,315,859** | 9,315,859 |
| Deficit | **(33,655,348)** | (33,117,062) |
| | **(4,386,182)** | (3,847,896) |
| | **630,894** | 680,144 |

*The accompanying Notes form an integral part of these consolidated financial statements*

*(See Note 2 - Going Concern, Note 15 - Commitments and Note 20 - Litigation)*

**Aquarius Surgical Technologies Inc.**

**Consolidated Interim Statement of Loss (Unaudited)**

**(Expressed in Canadian dollars unless otherwise indicated)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **31-Dec-23** | 31-Dec-22 | **31-Dec-23** | 31-Dec-22 |
| | $ | $ | $ | $ |
| **Sales** | | | | |
| Equipment | **-** | - | **47,313** | 64,424 |
| Fiber sales | **55,509** | 33,171 | **121,346** | 86,283 |
| Other | **546** | 5,791 | **1,833** | 16,112 |
| | **56,055** | 38,962 | **170,492** | 166,819 |
| **Cost of sales** | **25,982** | 32,037 | **56,613** | 99,221 |
| **Gross Margin** | **30,073** | 6,925 | **113,879** | 67,598 |
| **Expenses** | | | | |
| General and administrative (Note 12) | **123,256** | 203,677 | **441,001** | 560,700 |
| Interest and bank charges (Note 13) | **77,719** | 57,201 | **180,435** | 154,114 |
| Amortization (Note 5) | **7,737** | 833 | **23,139** | 2,498 |
| | **208,712** | 261,711 | **644,575** | 717,312 |
| **Net loss before other items** | **(178,639)** | (254,786) | **(530,696)** | (649,714) |
| **Other items:** | | | | |
| Interest income | **444** | 188 | **1,297** | 6,027 |
| Change in fair value of investment (Note 7) | **(6,602)** | (3,660) | **(6,894)** | 23,532 |
| **Net loss and comprehensive loss before taxes** | **(184,797)** | (258,258) | **(536,293)** | (620,155) |
| **Income taxes (Note 11)** | **-** | - | **1,993** | - |
| **Net loss and comprehensive loss for period** | **(184,797)** | (258,258) | **(538,286)** | (620,155) |
| **Loss per share, basic and diluted** | **($0.01)** | ($0.01) | **($0.02)** | ($0.03) |
| Weighted average number of shares outstanding, basic and diluted (Notes 8 and 14) | **27,599,172** | 24,488,737 | **27,599,172** | 23,950,008 |

*The accompanying Notes form an integral part of these consolidated financial statements*

*(See Note 2 - Going Concern, Note 15 - Commitments and Note 20 - Litigation)*

**(Expressed in Canadian dollars)**

| | Issued Capital | | Contributed | | |
|---|---|---|---|---|---|
| | Common Shares | Amount | Surplus | Deficit | Total |
| | | $ | $ | $ | $ |
| Balance March 31, 2022 | 23,679,172 | 19,874,907 | 9,315,859 | (32,393,622) | (3,202,856) |
| Issued for debt | 3,920,000 | 196,000 | - | - | 196,000 |
| Net loss for the period | - | - | - | (620,155) | (620,155) |
| Balance December 31, 2022 | 27,599,172 | 20,070,907 | 9,315,859 | (33,013,777) | (3,627,011) |
| **Balance March 31, 2023** | **27,599,172** | **19,953,307** | **9,315,859** | **(33,117,062)** | **(3,847,896)** |
| Net loss for the period | **-** | **-** | **-** | **(538,286)** | **(538,286)** |
| **Balance December 31, 2023** | **27,599,172** | **19,953,307** | **9,315,859** | **(33,655,348)** | **(4,386,182)** |

*The accompanying Notes form an integral part of these consolidated financial statements*

*(See Note 2 - Going Concern, Note 15 - Commitments and Note 20 - Litigation)*

**Aquarius Surgical Technologies Inc.**

**Consolidated Interim Statements of Cash Flows (unaudited)**

**(Expressed in Canadian dollars)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **31-Dec-23** | 31-Dec-22 | **31-Dec-23** | 31-Dec-22 |
| **Cash flows provided by (used in):** | | | | |
| | **$** | $ | **$** | $ |
| **Operating activities** | | | | |
| Net loss for the period | **(184,797)** | (258,261) | **(538,286)** | (620,155) |
| **Adjustments for non-cash items:** | | | | |
| Amortization (Notes 5) | **7,737** | 833 | **23,139** | 2,498 |
| Shares issued for debt | **-** | 196,000 | **-** | 196,000 |
| Change in fair value of investment (Note 7) | **6,602** | 3,660 | **6,894** | (23,532) |
| Stock based compensation | **-** | 12,000 | **-** | 12,000 |
| Foreign exchange due to related party | **(13,613)** | (6,999) | **(13,951)** | 44,085 |
| Interest on related party advances | **62,019** | 42,312 | **173,695** | 105,205 |
| Interest on financing | **11,860** | 10,330 | **36,951** | 31,311 |
| **Net change in non-cash working capital items** | | | | |
| Accounts receivable | **14,200** | (4,899) | **4,196** | 26,800 |
| Inventory | **8,072** | 422 | **26,884** | 917 |
| Prepaid expenses and deposits | **3,077** | 63,072 | **9,232** | 32,025 |
| Due from former related party (Note 6 (A)) | **-** | - | **-** | 265,391 |
| Accounts payable and accrued liabilities | **34,427** | (152,366) | **91,656** | 27,050 |
| | **(50,416)** | (93,896) | **(179,592)** | 102,575 |
| **Financing activities** | | | | |
| Proceed from due to related party (Note 6 (B)) | **92,000** | 130,000 | **270,000** | 229,000 |
| Repayment amounts due to related party (Note 6 (B)) | **-** | - | **-** | (270,863) |
| Proceeds from operating loan | **26,000** | - | **58,000** | 20,000 |
| Interest paid on convertible note | **(5,998)** | (6,052) | **(17,873)** | (18,094) |
| Repayment lease liability | **(8,510)** | - | **(27,200)** | - |
| Repayment of term loan | **(27,414)** | (27,414) | **(82,242)** | (82,242) |
| | **76,078** | 96,534 | **200,686** | (122,199) |
| **Investing activities** | | | | |
| Purchase of equipment | **-** | - | **(4,358)** | - |
| | **-** | - | **(4,358)** | - |
| **(Decrease) increase in cash during the period** | **25,663** | 2,638 | **16,736** | (19,624) |
| Cash and cash equivalent, beginning of period | **113,089** | 135,927 | **122,016** | 158,190 |
| Cash and cash equivalent, end of period | **138,752** | 138,566 | **138,752** | 138,566 |
| Interest paid in cash | **13,402** | 13,174 | **44,575** | 40,044 |
| Non-cash transactions: | | | | |
| Issuance common shares for debt | **-** | 196,000 | **-** | 196,000 |
| Issuance common shares for services | **-** | - | **-** | - |

*The accompanying Notes form an integral part of these consolidated financial statements*

*(See Note 2 - Going Concern, Note 15 - Commitments and Note 20 - Litigation)*

## 1. NATURE OF OPERATIONS

Aquarius Surgical Technologies Inc., 89 Scollard Street, Toronto, ON M5R 1G4 (the "Corporation" OR "ASTI") was incorporated under the *Business Corporations Act* (Ontario) on December 12, 1986. The Corporation trades on the Canadian Securities Exchange (CSE) under the symbol ASTI.

The Corporation is currently generating revenue from sales and service operations of its subsidiary Surgical Lasers Inc. ("SLI") which it acquired in March of 2017. The Corporation's primary focus is the development, sale, distribution, and marketing of technologies for use in surgical and other environments where health of patients and customers can be enhanced. The Corporation aims to build sales and service by building on its existing base and introducing additional value added services and technologies through organic growth and acquisition.

SLI is an international distributor, service, and support organization providing integrated laser-based solutions across multiple medical disciplines. These disciplines include urology, gynecology, ophthalmology, thoracic, ENT, cardiovascular, and neurosurgery, many of which are now considered the standard of care for treatment. SLI's focus has always been on efficacy, evidence-based research, proven technologies, and value. This approach allows the company to deliver practical solutions which not only enhances patient and customer care, but also introduces operational and financial benefits to its customer base.

## 2. GOING CONCERN

The consolidated interim financial statements (the "Interim Financial Statements") for the Corporation have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the years ended March 31, 2023 and March 31, 2022 the Corporation had operating revenues of $203,733 and $327,662, recorded losses of $723,440 and $859,196, respectively, and has not met sales targets to comply with its distribution agreements. For the years ended March 31, 2023 and March 31, 2022 the Corporation had cash flow from operations of $77,046 and negative cash flow of $112,156, respectively. At March 31, 2023 and March 31, 2022 the Corporation had negative working capital of $1,242,603 and $1,037,926 respectively. Also, at March 31, 2023 and March 31, 2022, the Corporation had a shareholders' deficiency of $3,847,896 and $3,214,856, respectively. In February, 2021, extensive fraudulent activity by certain individuals previously engaged in senior management positions was uncovered, leading to immediate removal of those persons. Management has concluded that the majority of the fraudulent activity has been accounted for by provisions made in the financial statements for the year ended March 31, 2021. Litigation has been commenced to seek recovery of losses. (See Note 20 – Litigation).

There is material uncertainty that may be considered to cast significant doubt on the ability of the Corporation to continue as a going concern. The Corporation is dependent on the support of its creditors and lenders, the ability to obtain additional financing, maintaining its distribution rights and ultimately, the attainment of profitable operations. The Corporation's distribution rights is dependent on achievement of certain annual targets agreed between the parties from time to time, or alternatively, continued support from the other party with respect to waiving targets.

If the going concern assumption were not appropriate for these consolidated interim financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss for the year and consolidated statements of financial position classifications, such adjustments could be material.

## 3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Corporation and its subsidiaries.

The Interim Financial Statements for the period ended December 31, 2023, and the notes thereto present the Corporation's financial results of operations and financial position under IFRS as at and for the nine month periods ended December 31, 2023 and December 31, 2022. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Corporation adopted in its financial statements for the year ending March 31, 2023 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

The policies set out in Note 3 were consistently applied to all the years presented unless otherwise mentioned.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Surgical Lasers Inc., SLI US Inc., Scotiachemco Holdings Limited and Scotiachemco Inc. Inter-company transactions and balances have been eliminated.

(c) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

(d) Accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances.

The areas that management makes critical estimates, assumptions and judgments are the collectability of accounts receivable, valuation and determination of the useful life of assets, valuation of convertible debenture debt/equity, valuation of share capital warrants and stock options, fair value of long-term investments and recoverability of deferred tax assets.

(e) Financial Instruments

A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

The classification of the Corporation's financial assets and financial liabilities are summarized in the following table:

| | IFRS 9 | |
|---|---|---|
| **Financial assets and liabilities** | **Classification** | **Measurement** |
| Cash and cash equivalent | Amortized cost | Amortized cost |
| Accounts receivable and deposits | Amortized cost | Amortized cost |
| Due from related party | Amortized cost | Amortized cost |
| Long-term investment | FVTPL | FVTPL |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Note payable | Amortized cost | Amortized cost |
| Convertible note | Amortized cost | Amortized cost |
| Due to related party | Amortized cost | Amortized cost |
| Series "A" special shares | FVTPL | FVTPL |

(f) Impairment of financial assets at amortized cost

The impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL"). Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. The Corporation's accounts receivable, deposits and due from related party are included in this category. The Corporation applies the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on accounts receivable are based on credit risk characteristics and days past due. Accounts receivables are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Corporation.

(g) Revenue from contracts with customers

The Corporation employs a process for determining the performance obligations within customer sales contract such that revenue is recognized when each specific performance obligation is satisfied and as or when the transfer of control of goods or services to the customer has occurred. Revenue is recognized to reflect the consideration the Corporation is entitled to receive in exchange for the goods or services included under each specific performance obligation.

The Corporation's primary sources of revenue under its contracts with customers are the sale of medical devices and fibre-optic delivery devices. The performance obligation regarding the Corporation's contracts with its customers and the timing of revenue recognition on those obligations is upon shipment and revenue is recognized at a point in time. Payment is due on terms established with the customer and can range from date of delivery to 60 days. The Corporation is able to allocate the transaction price to all of its performance obligations using the prices of the promised goods as they are quoted and invoiced to customers on a stand-alone basis. The Corporation also provides a 1 year manufacturer's warranty on sales and therefore the Corporation makes no warranty provision

(h) Cash and equivalent

Cash and cash equivalent include cash held with banks and short-term deposits with an original maturity of three months or less.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost is determined based on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition which include the purchase price, import duties, non-recoverable taxes, transportation, handling and other costs directly related to the purchase of the inventory.

(j) Equipment

Equipment placed in hospitals and clinics for evaluation purposes are classified as demo equipment. Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Amortization is provided on equipment over the estimated useful life using the following rates and methods:

| | |
|---|---|
| Computer equipment | - 5 years straight line |
| Furniture and equipment | - 3 years straight line |
| Demonstration equipment | - 10 years straight line |
| Right of use asset | - Term of lease |

Depreciation methods, useful lives and residual values are reviewed each period and adjusted if appropriate.

(k) Convertible note

Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method. The component of the convertible note that exhibits characteristics of a liability is recognized as a liability in the consolidated statements of financial position, net of transaction costs.

On the issuance of the convertible note the fair value of the liability is determined and this amount is carried as a liability on the amortized cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognized as a finance cost. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability from the amount of the debentures and is presented in shareholders' equity as equity component of convertible debenture. The equity component is not re-measured subsequent to initial recognition except on conversion or expiry.

(l) Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated statements of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to be realized or settled. The effect of changes in rates is included in the consolidated statements of comprehensive loss in the period which includes the substantive enactment date. 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) Stock based payments

Stock based payment awards that are direct awards of stock to employees or directors, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuing equity instruments, are valued using the Black-Scholes option pricing model. The cost is recognized on a straight-line graded method over the vesting period adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in contributed surplus. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

Stock based payments with parties other than employees, assumes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In certain circumstances, the Corporation rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Corporation then measures the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(n) Unit private placements

For private placements of units consisting of common shares and warrants, the Corporation uses the Black-Scholes option-pricing model in determining the fair value of warrants. The common shares are allocated the residual value.

(o) Foreign currency

Foreign currency transactions are translated into Canadian dollars at the rate prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the end of the period. Translation gains and losses are recorded in the consolidated statements of comprehensive loss.

(p) Provisions

A provision is recognized in the consolidated statements of financial position when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

(q) Loss per share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

(r) Impairment of non-financial assets

Equipment is tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value (less costs of disposal) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs of disposal. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of amortization) that would have been determined had no impairment loss been recognized.

(s) Fair value measurement

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.
Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.
Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Long term investments are considered Level 3 in the hierarchy

(t) Accounting for leases

The Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**i. Right-of-use assets**

The Corporation recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Land and building 3 – 10 years

If ownership of the leased asset transfers to the Corporation at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

**ii. Lease liabilities**

At the commencement date of the lease, the Corporation recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Corporation uses its incremental borrowing rate at the lease commencement date, if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

**iii. Short-term leases and leases of low-value assets**

The Corporation applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term. The Corporation recognised rent expense from low-value leases of $24,645 for the year ended March 31, 2023.

(u) Future accounting pronouncements

Standards and amendments to existing standards effective March 1, 2022:
There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on March 1, 2022, that have a material effect on the consolidated financial statements of the Corporation.

New standards, amendments and interpretations effective after March 1, 2022 and have not been early adopted:
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after March 1, 2022 and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Corporation.

(Expressed in Canadian dollars)

## 4. INVENTORIES

Inventories consists of finished products held for sale.

| Detail | 31-Dec-23 | 31-Dec-22 |
|---|---|---|
| | $ | $ |
| Balance beginning of year | **43,709** | 44,539 |
| Purchases | **29,728** | 98,305 |
| Cost of sales | **(56,613)** | (99,221) |
| Balance end of period | **16,825** | 43,622 |

## 5. EQUIPMENT

| | Computer equipment<br>$ | Right of Use Asset<br>$ | Office furniture and equipment<br>$ | Total<br>$ |
|---|---|---|---|---|
| **December 31, 2022** | | | | |
| **Cost** | | | | |
| Balance, beginning of year | 3,959 | - | 26,005 | 29,964 |
| Additions | - | - | - | - |
| Balance, end of period | 3,959 | - | 26,005 | 29,964 |
| **Accumulated depreciation** | | | | |
| Balance, beginning of year | 3,959 | - | 20,499 | 24,458 |
| Depreciation for period | - | - | 2,498 | 2,498 |
| Balance, end of period | 3,959 | - | 22,997 | 26,956 |
| Net book value | - | - | 3,008 | 3,008 |
| **December 31, 2023** | | | | |
| **Cost** | | | | |
| Balance, beginning of year | 3,959 | 106,984 | 26,005 | 136,948 |
| Additions | - | - | 4,358 | 4,358 |
| Balance, end of period | 3,959 | 106,984 | 30,363 | 141,306 |
| **Accumulated depreciation** | | | | |
| Balance, beginning of year | 3,959 | 4,458 | 23,830 | 32,247 |
| Depreciation for period | - | 20,059 | 3,080 | 23,139 |
| Balance, end of period | 3,959 | 24,517 | 26,910 | 55,386 |
| Net book value | - | 82,467 | 3,453 | 85,920 |

## 6. DUE FROM AND TO RELATED PARTY

### (A) Due from former related party

The now former President, Chief Technology Officer and Director of the Corporation, and Cast Laser Inc., ("Cast") a corporation owned by that director, were indebted to the Corporation as at December 31, 2023, in the amount of $ nil (2022 - $ nil).

As of July 30, 2019, each of Gordon Willox, Cast. and Forest Lane Holdings Inc. ("FLH"), a Company controlled by David J. Hennigar, Chairman of the Corporation, delivered a joint and several promissory note to secure the principal amount of $224,907 together with interest at 6% per year accruing from April 1, 2019. Under this promissory note interest accruing on the outstanding principal from time to time is payable at the end of each month, and the principal is payable on demand. (See also Note 20 – Litigation). On August 26, 2022 FLH honoured its commitment for this obligation by repaying the note and outstanding interest by way of a reduction in the amounts due to related parties (Note 6 (B)).

(Expressed in Canadian dollars)

The following table details the changes in the amount due from a former related party:

| | **31-Dec-23** | 31-Dec-22 |
|---|---|---|
| | **$** | $ |
| Balance beginning of year | **-** | 265,391 |
| Interest during the period | **-** | 5,472 |
| Repayment from amounts due to related party (Note 6(B)) | **-** | (270,863) |
| Balance end of period | **-** | - |

**(B) Due to related party**

FLH owns directly and indirectly 13,311,508 shares (48.2%) (2022 - 8,712,804 shares - 36.8%) of the Corporation. FLH has provided working capital funding to the Corporation for a number of years.

The following table details the changes in the amount due to related party:

| | **31-Dec-23** | 31-Dec-22 |
|---|---|---|
| | **$** | $ |
| Balance beginning of year | **2,683,802** | 2,463,026 |
| Advances during period | **270,000** | 229,000 |
| Interest during period | **173,695** | 105,205 |
| Repayment amount due from related party (Note 6(A)) | **-** | (270,863) |
| Change in foreign currency translation | **(13,951)** | 44,085 |
| Balance end of period | **3,113,546** | 2,570,453 |

Effective January 14, 2020, the Corporation entered into an Agreement with FLH in relation to the loan due to FLH. Under that Agreement, the terms of the FLH Loan, which was previously non-interest-bearing and had no set terms for repayment, were amended such that effective April 1, 2020, (i) it will be subject to interest at CIBC Prime Rate plus 1%, payable quarterly on March 31, June 30, September 30 and December 31 in each year, (ii) it may be called for redemption by notice in writing expiring on a maturity date that is not less than fifteen months following the date of the notice, except in the case of a "trigger event" happening, and (iii) it may be repaid by the corporation, in whole or in part, at any time without notice or penalty. A "trigger event" includes any act or incident of insolvency of either the Corporation or Surgical Lasers Inc. ("SLI"), the disposition of all or substantially all of the assets of either the Corporation or SLI, or the acquisition of more than 50% of the issued and outstanding shares of the Corporation by any one shareholder or a group of shareholders acting in concert.

**(C) Operating loan**

By virtue of common directors Salumatics Inc. "Salumatics" is deemed to be a related party to ASTI and in November 2021 FLH acquired a 10% interest in Salumatics. In addition to management services Salumatics provided an operating loan to SLI to fund the purchase of inventory and for general working capital purposes. The loan bears interest at 4% per annum and has no fixed terms of repayment.

| **Detail** | **31-Dec-23** | 31-Dec-22 |
|---|---|---|
| | **$** | $ |
| Balance beginning of year | **194,710** | 156,488 |
| Interest during period | **6,115** | 4,788 |
| Advances during period | **58,000** | 20,000 |
| Balance end of period | **258,825** | 181,276 |

(Expressed in Canadian dollars)

During the period Salumatics invoiced SLI for the following operating expenses:

| Item | 31-Dec-23 | 31-Dec-22 |
|---|---|---|
| Management | **54,000** | 61,500 |
| Accounting | **45,000** | 72,000 |
| Rent and storage | **-** | 9,182 |
| Software and other expenses | **6,282** | 4,104 |
| Total for year | **105,282** | 146,786 |

Included in accounts payable as at December 31, 2023 is an amount of $921,286 owing to Salumatics (2022 - $707,624).

The compensation paid to the directors and key management of the Corporation in the period ended December 31, 2023 was $ nil (2022 - $63,000) in management fees and benefits. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any directors. Included in accounts payable and accrued liabilities is $65,030 (2022 - $57,120) payable to key management. In December 2022 3,920,000 common shares were issued at $0.05 as partial settlement of the amount payable (see Note 8).

## 7. LONG TERM INVESTMENT

**Woodland Biofuels Inc. ("Woodland")**
The Corporation holds 112,272 shares in Woodland, a private company focused on the development and production of ethanol and other fuels and chemicals from biomass. Woodland recently completed a placement of common shares to unrelated third parties at US$2 per share. The Corporation has adjusted the fair value of the investment to reflect the above noted value converted to C$ at the foreign exchange rates applicable at the end of each period and recognized a change in the fair value of the investment in the consolidated statements of comprehensive loss.

## 8. SHARE CAPITAL

Share capital consists of the following:
An unlimited number of special shares, issuable in series; and
An unlimited number of common shares.

For the year ended March 31, 2023 the Corporation issued 3,920,000 common shares in settlement of an account payable to a related party (see Note 6(C)).

| | Common | |
|---|---|---|
| **SHARE CAPITAL** | **Shares** | **Amount** |
| Balance March 31, 2022 | 23,679,172 | 19,874,907 |
| Debt conversion (Note 6(C)) | 3,920,000 | 196,000 |
| Balance December 31, 2022 | 27,599,172 | 20,070,907 |
| | | |
| Balance March 31, 2023 and December 31, 2023 | 27,599,172 | 19,953,307 |
| | - | - |
| Balance March 31, 2023 | 27,599,172 | 19,953,307 |

All previously issued warrants have expired unexercised and there are no warrants outstanding as at December 31, 2023.

| **WARRANTS** | **Warrants - May 29, 2022** | | **Warrants - June 6, 2022** | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Balance March 31, 2022 | 906,707 | 183,000 | 10,000 | 2,000 |
| Expired - unexercised | (906,707) | (183,000) | (10,000) | (2,000) |
| Balance December 31, 2022 | - | - | - | - |

(Expressed in Canadian dollars)

## 9. STOCK BASED COMPENSATION PROGRAM

The Board of Directors has established a stock option plan ("the Plan") under which options to purchase common shares are granted to directors, officers, consultants and key employees of the Corporation. The Plan was approved by the shareholders of the Corporations at the Annual General and Special Shareholders Meeting held on November 21, 2016. Options to acquire common shares are granted at option prices, which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant and will generally vest immediately.

The Corporation has reserved 4,000,000 common shares pursuant to the Plan. There are 1,500,000 options to acquire common shares outstanding under the plan as at December 31, 2023 (December 31, 2022 – 1,750,000). Any unexercised options that expire or are forfeited become available again for issuance under the Plan.

Options issued and outstanding as at December 31, 2023 and December 31, 2022:

| Stock options | Weighted Average Exercise price | Issued |
|---|---|---|
| Balance March 31, 2022 | 0.42 | 260,000 |
| Less: Issued | 0.05 | 1,500,000 |
| Less: Expired | 1.00 | (10,000) |
| Balance December 31, 2022 | 0.10 | 1,750,000 |
| Balance March 31, 2023 | 0.10 | 1,750,000 |
| Less: Expired | 0.40 | (250,000) |
| Balance December 31, 2023 | 0.05 | 1,500,000 |

| Number of options outstanding | Expiry Date | Exercise price $ | Number of options exercisable | Weighted average remaining life (yrs) |
|---|---|---|---|---|
| 1,500,000 | 15-Nov-2027 | 0.05 | 1,000,000 | 3.88 |

The Corporation granted 250,000 options in the year ended March 31, 2021 at an exercise price of $0.40 per share. The options were valued using Black Scholes method with an expected term of 2.8 years, an interest rate of 0.73% and volatility of 90%.

The Corporation granted 1,500,000 options in the year ended March 31, 2023 at an exercise price of $0.05 per share. The options vest as follows: 250,000 immediately and 250,000 vesting every six months commencing May 15, 2023. The options were valued using Black Scholes method with an expected term of 3.13 years, an interest rate of 3.0% and volatility of 90%.

## 10. LONG TERM DEBT

### Convertible Note

The $250,000 unsecured convertible note bearing interest at 9.5%, which matured on April 15, 2022 has been renewed for a further 2 year period under the same terms and conditions and now matures April 15, 2024. Interest is payable quarterly on January 15, April 15, July 15 and October 15. The note is convertible into common shares at $0.35 per share at any time up to the date of maturity.

### Term Loan

Effective June 3, 2020**,** the Corporation entered into a Credit Facility Agreement (the "Credit Facility") with a chartered bank (the "Bank"). Under the terms of the Credit Facility, the Corporation was granted a non-revolving term facility of $500,000. The Credit Facility, together with all other obligations of the Corporation to the Bank, is secured by (i) a

(Expressed in Canadian dollars)

General Security Agreement over all personal property of the Corporation, ranking first in priority to all other obligations of the Corporation, (ii) a personal guarantee and postponement of claims in the amount of $250,000 granted by a director of the Corporation, also by (iii) security over a cash collateral deposit by the Corporation in the form of a GIC in the amount of $100,000 and a Guarantee in the amount of $250,000 (the "EDC Guarantee") issued by Export Development Canada. The Terms of the Credit Facility also include financial covenants by the Corporation, including in particular the obligation to maintain Debt Service Coverage at the end of each financial year of not less than 1.25:1. The Credit Facility bears interest at 3.69% and is repayable in blended monthly payments of $9,138 commenting July 2020. The EDC Guarantee fee, calculated at 3.15% on the guaranteed balance outstanding, is payable quarterly in advance commencing on the May 22, 2020 acceptance date. The Corporations paid a finders fee to an unrelated party. As at March 31, 2023, the Corporation is in default of the terms of its credit facility and at this time the Corporation cannot determine what action, if any, the lender may take (see Notes 2 and 18). Due to the technical default the balance of the loan has been reclassified as a short term liability pending review by the bank.

**CEBA Loan**

The Government of Canada provided interest free loans to qualified businesses through the Canada Emergency Business Account ("CEBA"). The loan is interest free and if repaid before January 19, 2024 may qualify for forgiveness up to $20,000. Loans not paid in full by January 18, 2024 will automatically renew for a further 3 year period to December 31, 2026 and interest will commence at 5% per annum. The eligibility of the program may be subject to audit and verification at which time the balance may become repayable and has been classified as a current liability. (See Note 20 – Subsequent Event)

**Lease liability**

Effective February 1, 2023 SLI US Inc., a wholly owns subsidiary of SLI, committed to a lease agreement related to office and warehouse premises in Powhatan, Virginia, commencing on February 1, 2023 and terminating on January 31, 2024, renewable for a further three one year terms at the same rental. The lease liability has been calculated discounting the monthly payment of US$2,000 (C$2,670) at 10% for a 48 month term. The lease is inclusive of all costs and the tenant is not required to pay any additional rent.

| LONG TERM DEBT | Convertible Note | Term Loan | CEBA Loan | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance March 31, 2022 | 250,000 | 335,643 | 40,000 | 625,643 |
| Interest during period | 18,094 | 8,429 | - | 26,523 |
| Repayments during period | (18,094) | (82,242) | - | (100,336) |
| Face value of loans | 250,000 | 261,830 | 40,000 | 551,830 |
| Current portion long term debt | - | (261,830) | (40,000) | (301,830) |
| Long term December 31, 2022 | 250,000 | - | - | 250,000 |
| | | | | |
| Balance March 31, 2023 | 250,000 | 236,726 | 40,000 | 526,726 |
| Interest during period | 17,873 | 5,647 | - | 23,519 |
| Repayments during period | (17,873) | (82,242) | - | (100,115) |
| Face value of loans | 250,000 | 160,131 | 40,000 | 450,131 |
| Current portion long term debt | (250,000) | (160,131) | (40,000) | (450,131) |
| Long term December 31, 2023 | - | - | - | - |

## 11. INCOME TAX

In the period ended December 31, 2023 the Corporation incurred income tax expense of $1,993 (2022 - $ nil). This represents taxes incurred by the US subsidiary, SLI US Inc.

The Corporation and its subsidiaries have non-capital losses of $13.8 million expiring between 2026 and 2043 as indicated in the following table:

(Expressed in Canadian dollars)

Non-capital losses carried forward

| Year of expiry | $ | Year of expiry | $ |
|---|---|---|---|
| 2026 | 300,680 | 2035 | 1,178,880 |
| 2027 | 183,097 | 2036 | 187,084 |
| 2028 | 327,325 | 2037 | 511,177 |
| 2029 | 409,661 | 2038 | 1,782,495 |
| 2030 | 348,264 | 2039 | 1,611,496 |
| 2031 | 217,199 | 2040 | 1,490,476 |
| 2032 | 323,394 | 2041 | 1,170,346 |
| 2033 | 975,607 | 2042 | 1,350,457 |
| 2034 | 735,728 | 2043 | 723,440 |
| | | | 13,826,806 |

## 12. EXPENSES BY NATURE

| | Three Months Ended | |
|---|---|---|
| **Expense item** | **31-Dec-23** | 31-Dec-22 |
| Selling, general and admin expenses | **70,696** | 52,238 |
| Professional fees | **18,000** | 68,578 |
| Listing expenses | **4,560** | 3,361 |
| Consulting fees | **30,000** | 67,500 |
| General and administrative | **123,256** | 203,677 |

## 13. INTEREST AND BANK CHARGES

| | Period ended | |
|---|---|---|
| **Interest expenses** | **31-Dec-23** | **31-Dec-22** |
| | **$** | **$** |
| Convertible note interest (Note 10) | **17,873** | 18,094 |
| Accretion convertible note (Note 10) | **-** | 2,980 |
| Term loan interest (Note 10) | **5,647** | 8,429 |
| Term loan guarantee fees (Note 10) | **2,830** | 3,810 |
| Related party interest (Note 6(B)) | **173,695** | 105,205 |
| Operating loan interest(Note 6(C)) | **6,115** | 4,788 |
| Interest on lease liability Note 10) | **7,644** | - |
| Bank charges, accrued interest and recoveries | **(33,369)** | 10,808 |
| | **180,435** | 154,114 |

## 14. LOSS PER SHARE

The earnings per share is calculated based upon the weighted average number of common shares outstanding during the period of 27,599,172 (December 31, 2022 – 23,950,008). As at December 31, 2023, the Corporation has 1,500,000 outstanding stock options (December 31, 2022 – 1,750,000). The dilution created by warrants and options and the Corporation's commitment to issue shares has not been reflected in the per share amounts as the effect would be anti-dilutive.

## 15. COMMITMENTS

Effective February 1, 2023 SLI US Inc., a wholly owns subsidiary of SLI, committed to a lease agreement related to office and warehouse premises in Powhatan, Virginia, commencing on February 1, 2023 and terminating on January

(Expressed in Canadian dollars)

31, 2024. At the option of the tenant the lease is renewable for three further one year terms at the same rental. The lease is inclusive of all costs and the tenant is not required to pay any additional rent.

Minimum payments required – fiscal year 2024 US$20,000

## 16. FINANCIAL INSTRUMENTS

**Fair Values**

The estimated fair values of cash and cash equivalent, accounts receivable, accounts payable, due from related parties and accrued liabilities note approximate their carrying values due to the relatively short-term nature of the instruments.

The fair value of the due to related party approximates the carrying value as the balance bears interest at a market interest rate. The convertible note has been recorded at the discounted value after allocating the attributed value of the conversion feature. The long-term investment has been recorded at current market value and is Level 3 in the fair value hierarchy.

The following table presents the movement in Level 3 instruments for the financial periods ended December 31, 2023 and December 31, 2022:

| Long term investment | Shares | value (US$) | | 31-Dec-23 | 31-Dec-22 |
|---|---|---|---|---|---|
| | | | | $ | $ |
| Balance beginning of year | | | | **303,875** | 280,590 |
| Change in fair value | 112,272 | $ | 2.00 | **(6,894)** | 23,532 |
| Balance end of period | | | | **296,982** | 304,122 |

Information about significant unobservable inputs used in Level 3 fair value measurements

| Description | Fair value at Dec 31 2023 | Valuation techniques | Unobservable Inputs | Range input |
|---|---|---|---|---|
| Long-term investment | 296,982 | Recent transaction ice | N/A | N/A |

| Description | Fair value at Dec 31 2022 | Valuation techniques | Unobservable Inputs | Range input |
|---|---|---|---|---|
| Long-term investment | 304,122 | Recent transaction price | N/A | N/A |

The Corporation had applied recent transaction price as the valuation technique to the underlying investments, hence unobservable inputs were not applicable.

During the periods ended December 31, 2023 and December 31, 2022, there was no transfer of financial assets between the three levels of the fair value hierarchy.

## 17. FINANCIAL RISKS

The main risks the Corporation's financial instruments are exposed to are credit risk, foreign currency risk, liquidity risk and market risk.

**Credit Risk**

The Corporation's credit risk is primarily attributable to its accounts receivable and due from related party. The amounts disclosed in the consolidated statements of financial position are net of allowances for doubtful accounts, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures. As at December 31, 2023, all receivables which are 60 days past the due date and are deemed uncollectible have been recorded in the allowance for doubtful accounts. The total allowance for bad debts at December 31, 2023 is $ nil (2022 - $ nil).

(Expressed in Canadian dollars)

| Accounts Receivable aging | 31-Dec-23 | 31-Dec-22 |
|---|---|---|
| | $ | $ |
| 30 days or less | 49,555 | 31,724 |
| 31 - 60 days | 1,356 | 9,019 |
| 61 - 90 days | - | 3,896 |
| Over 90 days | 21,133 | 15,650 |
| | 72,044 | 60,290 |
| Less Provision | - | - |
| Net receivable | 72,044 | 60,290 |

**Liquidity Risk**

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Corporation manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations.

In recent years, additional necessary liquidity required. The payment of accounts payable and accrued liabilities are based upon contractual terms as arranged with suppliers. Effective April 1, 2020 the amount due to related party bears interest at CIBC Prime + 1% and the amount is callable upon 15 months written notice. The Corporation also manages liquidity risk on the basis of expected maturity dates. The following table analyzes financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

| Liquidity risk table | Debt | Account payable and accrued liabilities | Total |
|---|---|---|---|
| | $ | $ | $ |
| **31-Dec-22** | | | |
| Less than 1 year | 483,106 | 894,708 | 1,377,814 |
| 1 - 5 year | 2,820,453 | - | 2,820,453 |
| More than 5 years | - | - | - |
| Balance as at December 31, 2022 | 3,303,560 | 894,708 | 4,198,267 |
| **31-Dec-23** | | | |
| Less than 1 year | 733,913 | 1,109,316 | 1,843,229 |
| 1 - 5 year | 3,173,847 | - | 3,173,847 |
| More than 5 years | - | - | - |
| Balance as at December 31, 2023 | 3,907,760 | 1,109,316 | 5,017,076 |

**Debt Service Coverage**

The Terms of the Credit Facility include financial covenants by the Corporation, including the obligation to maintain Debt Service Coverage, defined as the ratio of EBITDA to the total of Interest Expense and scheduled principal payments in respect of Funded Debt, at the end of each financial year of not less than 1.25:1. As at March 31, 2023, the Corporation is in default of the terms of its credit facility and at this time the Corporation cannot determine what action, if any, the lender may take (see Note 2).

**Market Risk**

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Corporation. As indicated in Note 6 the Corporation has an investment in a company focused on the development and production of ethanol and other fuels and chemicals from biomass. The fair value of this investment is subject to future financing to further develop the planned facility and the prices of the ethanol and wood. The Corporation has determined that it is not exposed significantly to any other market risk

**Interest Rate Risk**

The convertible note (Note 10) bears interest at 9.5%, the term loan (Note 10) bears interest at 3.69%, the amount due from related parties (Note 6(A) bears interest at 6% per annum. The amount due to related parties (Note 6(B)) and 6(C)) bears interest at CIBC Prime +1% (Note 6(B)) and 4% (Note 6(C)) per annum. The Corporation is subject to interest rate price risk on the amount due to related parties resulting from market fluctuations in interest rates. A 1% change in interest rates would change interest expenses by $27,000 per year.

**Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At the period end the following assets and liabilities originate in US. dollars and Euros and are subject to fluctuations:

| Currency Risk Table | 31-Dec-23 | 31-Dec-22 | 31-Dec-23 | 31-Dec-22 |
|---|---|---|---|---|
| | US$ | US$ | € | € |
| Cash and cash equivalent | 26,119 | 10,363 | - | - |
| Accounts receivable | 37,673 | 31,481 | - | - |
| Inventory deposits | - | - | 2,789 | 2,790 |
| Accounts payable | (9,891) | (5,227) | (1,015) | (1,015) |
| Related party payable | (472,617) | (436,881) | - | - |
| | (418,716) | (400,264) | 1,774 | 1,775 |

A 5% fluctuation in the US and Euro exchange rates vs the Canadian dollar could create a net loss or gain of $20,000 in the consolidated statement of loss.

## 18. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans payable, amount due to related party, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

| Management of Capital | **31-Dec-23** | 31-Dec-22 |
|---|---|---|
| | **$** | **$** |
| Cash and cash equivalent | **138,752** | 138,566 |
| Operating loan | **258,825** | 181,276 |
| Long term debt | **-** | 275,104 |
| Current portion long term debt | **450,131** | 276,726 |
| Amount due to related party | **3,113,546** | 2,570,453 |
| Share capital | **19,953,307** | 20,070,907 |
| Contributed surplus | **9,315,859** | 9,315,860 |
| Deficit | **(33,655,348)** | (33,013,777) |
| Total Capital | **(424,928)** | (184,886) |

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors and subject to all relevant regulatory and other consents and approvals, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Corporation is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2023.

## 19. SEGMENTED INFORMATION

Management has determined that during the periods covered by these financial statements, the Corporation carried on business in one operating segment only. All capital assets, except for demonstration equipment, were located in Canada. Sales other than to Canadian customers for the period ended December 31, 2023 were export sales to the United States of $170,492 (December 31, 2022 - $166,819).

## 20. LITIGATION

On July 16, 2021, following a forensic investigation and as anticipated in Press Releases issued in February and March, 2021, litigation was commenced by the Corporation's principal operating subsidiary, Surgical Lasers Inc. ("SLI"), in the Superior Court of Ontario against former consultants/employees Gordon Willox and Christopher Schmid, their related "consultant" corporations, CAST Laser, Inc. and 1380511 Ontario Inc., their corporations used to fraudulently divert and misappropriate corporate assets, Surgical Lasers Solutions Corp. (Ontario), Surgical Lasers Solutions Corp. (Delaware), Surgical Laser Solutions Inc. and Clarity Medical Technologies Inc., and former consultants/employees Michael Szymanski and Sherry Geramikhosh. In that Statement of Claim, SLI claims General Damages and Punitive Damages of $6 million for breach of contract, fraud and theft, Specific Damages of US$220,587 and C$29,774 in respect of misappropriated assets and cash that have so far been specifically identified, and recovery of $224,907 plus interest at 6% per year calculated from April 1, 2019 against Willox and CAST Laser, Inc. The Statement of Claim also seeks orders for an Accounting of misappropriated corporate assets, corporate cash and corporate opportunities and recovery of any amounts found due as well as appropriate injunctive and other consequential relief. The Defendants are defending the claim by denying all allegations, and Willox and Schmid have sought to establish a counterclaim against SLI, which has been denied by SLI. The lawsuit is currently in the Discovery process. Litigation is, by its nature, of uncertain outcome, and recovery of any amount that may be ordered by a Judgement is dependent on the resources available to the defendants to meet any obligations.

## 21. SUBSEQUENT EVENTS

The Corporation repaid the CEBA loan (Note 10) on January 16, 2024 and qualified for the loan forgiveness of $20,000 which had been previously recognized in the accounts.

Aquarius Surgical

TECHNOLOGIES INC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE NINE MONTHS ENDED DECEMBER 31, 2023

### 1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The Management Discussion and Analysis ("MD&A") of Aquarius Surgical Technologies Inc. (the "Corporation") may contain forward-looking statements, which involve risks and uncertainties. Actual events could differ from those anticipated in forward-looking statements. While this MD&A reflects the period ending December 31, 2023, it also addresses key events that have occurred up to and including the date of this Report. Readers are specifically referred to Note 21 – Litigation, in the Notes to the Consolidated Interim Financial Statements to December 31, 2023.

Forward-looking statements may include sales, earnings, and profitability comments. These statements may contain words such as "anticipated", "expected", "could", "should", "may", "plans", "will", or similar expressions that are based on and arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. By their very nature, forward-looking statements involve uncertainties and risks that the forecasts and targets will not be achieved. Readers are cautioned not to place undue reliance on forward looking statements as a number of important factors, as disclosed herein and in the Corporation's other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward looking statements.

Readers are also referred to the Corporation's documents filed on SEDAR+ at www.sedarplus.ca for additional information

### 2. INTRODUCTION

The following is a discussion and analysis of the Corporation's results of operations and financial condition for the nine months ended December 31, 2023 and should be read in conjunction with its Consolidated Interim Financial Statements for the nine month ended December 31, 2023 and the related notes thereto (the "Interim Financial Statements"). Unless otherwise indicated the amounts included in the following discussions are expressed in Canadian dollars.

### 3. GOING CONCERN

The Interim Financial Statements have been prepared on a going concern basis which assumes the Corporation will be able to realize its assets and discharge its liabilities in the normal course of operations. The Corporation incurred operating losses in prior years and in the current period and has a significant shareholders deficiency. These circumstances cast significant doubt on the ability of the Corporation to continue as a going concern which is dependent on the support of its creditors, the ability to obtain additional financing, and ultimately, the attainment of profitable operations. The Corporation's lenders, who are significant shareholders, have indicated that their support will continue over the forthcoming year. Significant working capital was raised during prior fiscal years which was been further supplemented during the current year by advances from a significant shareholder. As indicated in Note 2 to the Interim Financial Statements, those Statements do not include any adjustments to the amounts or classification of financial statement items that might be necessary if the Corporation was unable to continue as a going concern and no adjustment has been made in those financial statements to reflect liquidation values of assets on a non-going concern basis as any such adjustment, if required, would not have a material effect on the Corporation's balance sheet.

### 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared by management using the accounting policies and methods as outlined in Note 3 to the Interim Financial Statements for the nine month ended December 31, 2023. The Interim Financial Statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality and are in conformity with International Financial Reporting Standards ("IFRS").

### 5. BUSINESS OVERVIEW

As of March 20, 2017, the Corporation acquired all the outstanding shares of Surgical Lasers Inc. ("SLI"). SLI, is principally a provider of innovative, minimally invasive medical laser systems and consumables for multiple medical disciplines, principally in the field of urology.

The Corporation's primary focus is the development, sale, distribution, marketing, and exploitation of technologies for use in surgical environments.

The Corporation is currently generating revenue from lasers and fibers sales and service operations through its subsidiary SLI. With the addition of new marketing personnel along with sourcing potential new value added services and technologies sales are expected to increase going forward

SLI's focus has always been on clinical efficacy, evidence-based research, proven technologies, and value. This allows SLI to deliver practical solutions which not only enhances patient care, but also introduces operational and financial benefits to medical practices. In this regard, SLI delivers measurable benefits to patients, clinicians, and the medical system alike and offers the following benefits:

- Enhanced patient care
- Minimally invasive laser treatments
- Value based, cost-effective & practical laser based solutions
- Best of breed technology
- Cost effective consumables
- Unparalleled support & comprehensive educational programs

Following the temporary setbacks caused by shutdowns during the pandemic, we are looking forward to getting back to a more normal and predictable environment and steady recovery and regrowth for our shareholders and clients.

As described in Press Releases issued in February and March, 2021, former management personnel were removed in February, 2021, Salumatics Inc. has been retained to provide overall Management and Administration services to SLI and the offices of SLI have been moved to Mississauga, Ontario. Further, as described in Note 21 to the Interim Financial Statements, significant litigation has been commenced against certain former management personnel and their related corporations.

SLI utilized the opportunity of the consequences of the COVID epidemic and the reorganization of management and administration to redevelop many processes, procedures and systems including an online e-commerce storefront for consumables and cost saving improvements that will provide benefits in the future.

## 6. OVERALL PERFORMANCE RELATING TO OPERATIONS FOR THE NINE MONTHS ENDING DECEMBER 31, 2023

Revenues from operations for the nine months ended December 31, 2023 were $170,492 (December 31, 2022 - $166,819). Cost of goods sold in the nine months ended December 31, 2023 were $56,613 (December 31, 2022 - $99,221).

General and administrative expenses in the nine months ended December 31, 2023 were $441,001 (December 31, 2022 - $560,700).

Interest and bank charges in the nine months ended December 31, 2023 were $180,435 (December 31, 2022- $154,114). The increase in interest expense is a reflection of the increase in the prime rate. The interest charges in the current year include $ nil (2022 - $2,980) imputed interest on the long term debt.

Amortization expense in the nine months ended December 31, 2023 was $23,139 (December 31, 2022- $2,498). The increase in the current year reflects the depreciation of the Right to Use Asset.

Interest income in the nine months ended December 31, 2023 was $1,297 (December 31, 2022 - $6,027). The Corporation also recorded a decrease in the carrying value of investment of $6,894 (December 31, 2022 - $23,532 increase) reflecting changes in foreign exchange rates.

Income tax expense for the nine months ended December 31, 2023 was $1,993 (December 31, 2022 - $ nil). This expense relates to income taxes incurred by a US subsidiary.

The net loss and comprehensive loss for the nine month ended December 31, 2023 was $538,286 (December 31, 2022 - $620,154).

## 7. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Selected items from the Consolidated Statements of Financial Position as at December 31, 2023, December 31, 2022, and December 31, 2021:

| Consolidated Statements of Financial Position Item | 31-Dec-23 $'s | 31-Dec-22 $'s | 31-Dec-21 $'s |
|---|---|---|---|
| Cash and cash equivalent | 138,752 | 138,566 | 308,484 |
| Accounts receivable | 72,044 | 60,290 | 71,558 |
| Inventory | 16,825 | 43,622 | 59,986 |
| Prepaid expenses and deposits | 20,371 | 21,649 | 48,679 |
| Due from former related party | - | - | 262,018 |
| Long term investment | 296,982 | 304,122 | 1 |
| Equipment | 85,920 | 3,008 | 271,555 |
| Accounts payable | 1,109,316 | 894,708 | 848,427 |
| Operating loan | 258,825 | 181,276 | 155,008 |
| Current portion lease liability | 24,957 | - | - |
| Current portion long term debt | 450,131 | 276,726 | 622,662 |
| Related party advances | 3,113,546 | 2,570,453 | 2,409,578 |
| Lease liability | 60,301 | - | - |
| Long term debt | - | 275,104 | 8,457 |
| Shareholders Deficiency | (4,386,182) | (3,627,010) | (3,021,851) |

## 8. CASH AND CASH EQUIVALENT

Cash and cash equivalent on hand increased to $138,752 at the end of the current period from $138,566 in the prior year. The current year balance includes a certificate of deposit in the amount of $100,000 (2022 - $100,000)

## 9. ACCOUNTS RECEIVABLE

Accounts receivable increased to $72,044 at December 31, 2023 compared to $60,290 in the prior year. Included in accounts receivable is HST receivable of $18,138 (2022 - $17,652).

## 10. INVENTORIES

Inventories at December 31, 2023 were $16,825 compared to $43,622 in the prior year.

## 11. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits at December 31, 2023 were $20,371 compared to $21,649 in the prior year

## 12. DUE FROM FORMER RELATED PARTY

Due from former related party at December 31, 2023 was $ nil (see Notes 6(A) and 6(B) to the Interim Financial Statements); (2022 - $ nil).

## 13. LONG TERM INVESTMENT

Long term investment at December 31, 2023 was $296,982 (see Note 7 to the Interim Financial Statements); (2022 - $304,122).

## 14. EQUIPMENT

Equipment at December 31, 2023 was $85,920 compared to $3,008 in the prior year. The current year amount includes Right of Use asset for the net amount of $82,467 (2022 - $ nil).

**15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable increased to $1,109,316 at December 31, 2023 from $894,708 in the prior year. Accounts payable to a related party and to key management was $986,316 (see Notes 6(C) to the Interim Financial Statements); (2022 $764,744).

**16. OPERATING LOAN**

The operating loan at December 31, 2023 was $258,825 (see Notes 6(C) to the Interim Financial Statements); (2022 - $181,276).

**17. CURRENT PORTION LEASE LIABILITY**

The current portion of lease liability at December 31, 2023 was $24,957 compared to $ nil in the prior year.

**18. CURRENT PORTION LONG TERM DEBT**

The current portion of long term debt at December 31, 2023 was $450,131 compared to $276,726 in the prior year.

**19. RELATED PARTY TRANSACTIONS**

The amount due to related party increased to $3,113,546 at December 31, 2023 compared to $2,570,453 at December 31, 2022. Please refer to Note 6(A), (B) and (C) to the Interim Financial Statements for pertinent information pertaining to the Related Party transactions.

**20. LEASE LIABILITY**

Lease liability as at December 31, 2023, was $60,301 compared to $ nil in the prior year.. Please refer to Note 10 to the Interim Financial Statements for pertinent information concerning the lease liability.

**21. LONG TERM DEBT**

Long term debt at December 31, 2023, was $ nil compared to $275,104 in the prior year.. Please refer to Note 10 to the Interim Financial Statements for pertinent information concerning the long term debt.

## 22. SELECTED QUARTERLY FINANCIAL DATA

The table below presents selected unaudited financial data for each of the eight quarters ending December 31, 2023:

| DESCRIPTION | 31-Dec 2023 $'s | 30-Sep 2023 $'s | 30-Jun 2023 $'s | 31-Mar 2023 $'s | 31-Dec 2022 $'s | 30-Sep 2022 $'s | 30-Jun 2022 $'s | 31-Mar 2022 $'s |
|---|---|---|---|---|---|---|---|---|
| **OPERATIONS** | | | | | | | | |
| Sales | | | | | | | | |
| Equipment | - | 47,313 | - | - | - | - | 64,424 | - |
| Fibers | 55,509 | 14,128 | 51,709 | 35,729 | 33,171 | 22,611 | 30,501 | 44,495 |
| Other | 546 | 245 | 1,041 | 1,185 | 5,791 | 862 | 9,460 | 29,687 |
| | 56,055 | 61,686 | 52,750 | 36,914 | 38,963 | 23,472 | 104,384 | 74,182 |
| Cost of sales | 25,982 | 7,147 | 23,484 | 22,600 | 32,037 | 13,814 | 53,370 | 55,917 |
| Gross Margin | 30,073 | 54,539 | 29,266 | 14,314 | 6,926 | 9,658 | 51,014 | 18,265 |
| Expenses and other items | | | | | | | | |
| General and administrative | 123,256 | 188,671 | 129,072 | 165,137 | 203,678 | 146,230 | 210,793 | 463,607 |
| Interest and bank charges | 77,719 | 32,227 | 70,489 | 64,710 | 57,201 | 51,615 | 45,298 | 57,827 |
| Amortization | 7,737 | 7,882 | 7,520 | 5,290 | 833 | 833 | 833 | 12,797 |
| Gain on debt settlement | - | - | - | (117,600) | - | - | - | - |
| Interest income | (444) | (441) | (412) | (185) | (188) | (2,360) | (3,527) | (3,374) |
| Change in fair value of investment | 6,602 | (6,287) | 6,579 | 247 | 3,660 | (18,435) | (8,757) | (280,589) |
| | 214,870 | 222,053 | 213,248 | 117,599 | 265,183 | 177,882 | 244,639 | 250,269 |
| Net Loss and comprehensive loss before tax | (184,797) | (167,513 ) | (183,982) | (103,285) | (258,258) | (168,225) | (193,625) | (232,003) |
| Provision for income tax | - | 18 | 1,975 | - | - | - | - | - |
| Net Loss and comprehensive loss after tax | (184,797 ) | (167,531 ) | (185,957 ) | (103,285 ) | (258,258 ) | (168,225 ) | (193,625 ) | (232,003 ) |
| EPS | (0.01) | (0.01) | (0.01) | (0.00) | (0.01) | (0.01) | (0.01) | (0.01) |

**Discussion of Selected Quarterly Financial Data - Operations**

In the quarter ended December 31, 2023 Equipment sales were $ nil (December 31, 2022 - $ nil); Fiber sales were $55,509 (December 31, 2022 - $33,171) and other sales and services were $546 (December 31, 2022 - $5,791). Cost of sales for the quarter ended December 31, 2023 were $25,982 (December 31, 2022 - $32,037). The gross margin for the quarter ended December 31, 2023 was $30,073 (December 31, 2022 - $6,926).

For the quarter ended December 31, 2023 General and administrative expenses were $123,256 (December 31, 2022 - $203,678); Interest and bank charges were $77,719 (December 31, 2022 - $57,201) included in the current period is a recovery of $42,996 previously incurred by a subsidiary; Amortization was $7,737 (December 31, 2022 - $833); Interest income was $444 (December 31, 2022 - $188); Decrease in fair value of investment $6,602 (December 31, 2022 – $3,660); Income tax expense was $ nil (2022 $ nil).

The net loss and comprehensive loss for quarter ended December 31, 2023 was $184,797 ($0.01 per share) compared to loss of $258,258 ($0.01 per share) in the prior year. For the quarter ended December 31, 2023 the weighted-average number of shares outstanding was 27,599,172 (December 31, 2022 – 24,488,737).

### 23. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans payable, amount due to related party, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

| Management of Capital | 31-Dec-23 | 31-Dec-22 |
|---|---|---|
| | **$** | **$** |
| Cash and cash equivalent | **138,752** | 138,566 |
| Operating loan | **258,825** | 181,276 |
| Long term debt | **-** | 275,104 |
| Current portion long term debt | **450,131** | 276,726 |
| Amount due to related party | **3,113,546** | 2,570,453 |
| Share capital | **19,953,307** | 20,070,907 |
| Contributed surplus | **9,315,859** | 9,315,860 |
| Deficit | **(33,655,348)** | (33,013,777) |
| Total Capital | **(424,928)** | (184,886) |

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Terms of the Credit Facility include financial covenants by the Corporation, including the obligation to maintain Debt Service Coverage, defined as the ratio of EBITDA to the total of Interest Expense and scheduled principal payments in respect of Funded Debt, at the end of each financial year of not less than 1.25:1. The Corporation is in default of these terms of the Credit Facility accordingly the balance is presented in current liabilities. At this time it cannot be determined what action the Lender may take upon review of the Audited Financial Statements for the year ended March 31, 2023.

### 24. CONTRACTUAL OBLIGATIONS

Effective February 1, 2023 SLI US Inc., a wholly owns subsidiary of SLI, committed to a lease agreement related to office and warehouse premises in Powhatan, Virginia, commencing on February 1, 2023, and terminating on January 31, 2024. At the option of the tenant the lease is renewable for three further one year terms at the same rental. The lease is inclusive of all costs and the tenant is not required to pay any additional rent.

Minimum payments required – fiscal year 2024 US$20,000

### 25. CAPITAL RESOURCES

The Corporation does not anticipate any major expenditure on capital resources.

### 26. OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

### 27. LONG-TERM INVESTMENTS

**Woodland Biofuels Inc. ("Woodland")**

The Corporation holds 112,272 shares in Woodland; further details appear in Note 7 of the Interim Financial Statements for the period ended December 31, 2023. Woodland recently completed a placement of common shares to unrelated third parties at US$2 per share. Accordingly, the Corporation has increased the carrying value of the investment to US$2 per share and recognizes the changes in value in the statement of loss.

### 28. RISKS AND UNCERTAINTIES

In addition to the general Risks and Uncertainties, Readers are referred to Note 20 – Litigation – in the Interim Financial Statements to December 31, 2023

There are risks and uncertainties with the business operation and results of the Corporation. The risks noted below are not the only risks associated with the Corporation and its business, in particular the business of its wholly owned operating subsidiary, SLI. Additional risks and uncertainties, including ones that the Corporation is not aware of or that the Corporation believes currently are not material, may also adversely affect the Corporation's business.

*The Corporation is in the Development Stage:* The business of SLI, in particular as it is a development stage company, involves a high degree of risk, including, but not necessarily limited to, the risk factors described below.

*Limited Operating History:* Investment in the Corporation should be regarded as speculative, due to the nature of and the present stage of development of its business. SLI has a limited operating history. The likelihood of the success of the SLI, and thus the Corporation, must be considered in light of the risks inherent in, and the difficulties, costs, and complications encountered in the early growth stage of a business enterprise and the development and marketing of new technologies. As a result of its early growth stage of business and its limited operating history, sales and results from operations are inherently more difficult to predict, and as a result, SLI may sustain operating losses.

*Uncertainty of Market Acceptance:* The Corporation currently derives a substantial portion of its revenues from the sale of its portable laser systems and related fiber-optic consumables. Those sales are exclusively to sophisticated medical professionals, and are presently concentrated only in the United States of America. Because of this limited marketplace and target market concentration, a decline in the demand for the products would have a material adverse effect on the Corporation. There can be no assurance that the Corporation's expanded marketing and sales efforts will result in increased market acceptance for its products.

*Supply Dependency:* Manufacture of the products distributed by SLI is dependent on the continued efficient supply of component parts from two key exclusive suppliers, both based in Europe. The shortage of supply of any machines, parts or materials would seriously jeopardize the SLI's ability to bring its products to market.

*Dependence on Distribution Relationships:* The business of SLI is dependent on the performance of its distributors.

*Technological Factors:* Technology of the complexity developed by SLI and its manufacturers may contain errors which, from time to time, become apparent subsequent to product introduction. To date, the cost to SLI of meeting its warranty obligations has not been significant and is, as far as possible, passed back to the respective manufacturer. However, SLI's product operating experience is limited, and increased warranty claims could have a material adverse effect on SLI's stature and acceptability in its marketplace.

*Product Liability:* The Corporation believes that it has adequate third party liability and errors and omissions insurance. To date, it has not made any claims with respect to this insurance. However, future product liability claims not covered by such insurance or in excess of the limits of such insurance could have a material adverse effect on the financial condition of the Corporation.

*Technological and Product Obsolescence:* The medical/surgical laser industry is characterized by rapid and significant technological changes. Current competitors or new market entrants could introduce new or enhanced products with features that render SLI's products obsolete or less marketable. Certain competitors are significantly larger, and thus have substantially greater financial resources. The ability of SLI to compete successfully will depend in large measure on the ability of SLI and its respective exclusive manufacturers to maintain a technically superior research and development staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards.

*Protection of Intellectual Property:* The Corporation has not applied for patents relating to the products it distributes because, at this time, the relevant technology rights belong to third parties, namely the manufacturers. SLI is preparing certain technological products and improvements that it may, if and when the opportunity arises, become the subject of application for patent or other proprietary right protection. It may be possible for competitors or customers to copy or duplicate certain aspects of the products distributed by SLI or obtain information that SLI and/or its manufacturers regard as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those developed or planned by SLI and its manufacturers.

*Infringement of Proprietary Rights:* Although the Corporation believes that the products it distributes do not infringe on the proprietary rights of others and has not received any notice of claimed infringement, certain of the products it distributes could infringe on existing proprietary rights. If any such infringement does exist, there can be no assurance that any necessary licenses or rights could be obtained on terms satisfactory to Corporation or the respective manufacturer or that necessary modification could be made to the infringing products in a timely or commercially feasible manner.

*Strict regulatory environment:* SLI's laser devices and fiber delivery systems require regulatory approval for commercial sale. Numerous statutes and regulations govern human testing and the manufacture and sale of medical devices in the United States, Canada and the European Union and other countries where SLI intends to market its product. Such legislation and regulation bears upon, among other things, the approval of protocols, human testing, the approval of manufacturing facilities, testing procedures and controlled research, review and approval of manufacturing, preclinical and clinical data prior to marketing approval, as well as regulation of marketing activities including advertising and labelling.

While SLI has obtained relevant regulatory approvals in the United States for its current range of key laser products, future products and future developments of existing products may require submission for further testing of which the outcome cannot be guaranteed. Any failure to obtain necessary regulatory approval in future would materially adversely affect SLIs business, financial condition and results of operations.

*Dependence Upon Key Personnel:* The success of the Corporation is largely dependent on the personal efforts of certain key officers and employees. The loss of any of these key individuals could have a material adverse effect on the Corporation's business and prospects. In this respect the Corporation does not currently maintain keyman insurance. All employees, as a condition of employment, have signed confidentiality and non-compete agreements.

*Government Assistance:* The Corporation may utilize its entitlement for government assistance under applicable plans or programs that are designed to encourage investment in technology. There can be no assurance that such assistance will be made available to the Corporation with respect to any research and development of its technologies. There can be no assurance that the Corporation's research and development efforts will qualify for such assistance.

*Risk of International Sales:* The continued growth of the Corporation's business will depend to a significant extent on sales to customers located outside Canada – principally in the United States of America and the Caribbean. The cost of supporting a widespread customer base could have a materially adverse effect on the Corporation.

*Insurance costs could negatively impact profitability:* The cost of insurance, including director and officer, worker's compensation, property, product liability and general liability insurance, has risen significantly in recent years and is expected to continue to increase. These increases, and the Corporation's increased risk due to increased deductibles and reduced coverages, could have a negative impact on results of operations, financial condition and cash flows.

*Risk of product liability claims:* The use of medical devices for treatment of humans, even after regulatory marketing clearance approval is obtained, can result in product liability claims. Product liability claims can be expensive, difficult to defend and may result in large judgments or settlements. The Corporation currently maintains product liability insurance in connection with the use of its devices but may not, in the future, be able to obtain or maintain adequate protection against potential liabilities arising from such use. If the Corporation is unable to obtain sufficient levels of insurance at acceptable cost or otherwise protect against potential product liability claims, it will be exposed to product liability claims. A successful product liability claim in excess of the Corporation's insurance coverage could harm the Corporation's financial condition, results of operations and ability to continue in business. Even if a claim is not successful, defending such a claim may be time-consuming and expensive.

*Risk of use of product in unapproved circumstances:* While the Corporation is prohibited by law from marketing or promoting any unapproved use of its products, physicians/clinicians in most jurisdictions, can use these products in ways or circumstances other than those strictly within the scope of the regulatory approval. Although the product training the Corporation will provide to physicians and other health care professionals will be limited to approved uses or for clinical trials, no assurance can be given that claims might not be asserted against the Corporation if its product is used in ways or for procedures that are not approved.

*Unexpected product safety or efficacy concerns*: Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales, as well as product liability, consumer fraud and/or other claims. This could have a material adverse effect on the Corporation's business, financial results and operating results

*Future Financing Requirements:* The Corporation anticipates that it will require additional financing in the future in order to fund continued product development and marketing. There is no assurance that such financing will be available.

*Debt Service Coverage:* The Terms of the Credit Facility include financial covenants by the Corporation, including the obligation to maintain Debt Service Coverage, defined as the ratio of EBITDA to the total of Interest Expense and scheduled principal payments in respect of Funded Debt, at the end of each financial year of not less than 1.25:1

*Foreign Exchange Rates:* Substantially all of the Corporation's sales are denominated in U.S. dollars. General and Administrative costs are incurred principally in Canadian dollars, while costs of product acquisition from manufacturers in Europe are denominated in Euros. The economics of the Corporation's business may be adversely affected by fluctuations in foreign exchange rates which may adversely affect both sales and gross margins from the sales of its products.

*Dilution:* Calls for additional capital to develop the Corporation's business in the future may be met by issuance of common shares, leading to dilution of existing shareholder interests.

*No Dividends:* The Corporation has not paid any dividends with respect to its Common Shares and does not anticipate paying any dividends in the foreseeable future.

In addition to the foregoing risks and uncertainties, there also financial risks which are discussed in detail in Note 16 to the Consolidated Financial Statements for the period ended March 31, 2023

## 29. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

As required by National Instrument 52-109, the Corporation's Interim Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be filing annual and quarterly certificates of disclosure concurrent with the filing of its annual and quarterly filings.

The Board of Directors together with an independent and qualified Audit Committee provide direct oversight responsibilities for the review of the quarterly and annual financial statements.

## 30. STOCK EXCHANGE LISTING

Since June 21, 2017, the shares have been listed on the Canadian Securities Exchange, trading under the symbol ASTI.

## 31. SHARE CAPITAL, WARRANTS AND INCENTIVE STOCK OPTIONS

As at December 31, 2023 and at the date of this report there are 27,599,172 issued and outstanding common shares (December 31, 2022 – 27,599,172).

As at December 31, 2023 and at the date of this Report there are 1,500,000 issued and outstanding Incentive Stock Options to purchase common shares (December 31, 2022 – 1,750,000).

Please refer to Notes 8 and 9 to the Interim Financial Statements for the period ended December 31, 2023 for additional information on Share Capital, Warrants and Incentive Stock Options.

## Further Information

Additional information may be found in the Corporation's documents filed on SEDAR+ at www.sedarplus.ca.

**DATED:** February 26, 2024

## CORPORATE PROFILE

### Board of Directors

| | |
|---|---|
| David J. Hennigar, Bedford, Nova Scotia | Director, Chairman |
| Charlotte Janssen, Toronto, Ontario | Director |
| Dr. Rajiv Singal, Toronto, Ontario | Director |
| Dr. Stanley Swierzewski III, Holyoke, MA, USA | Director |

### Corporate Officers

| | |
|---|---|
| Michael Machika, Fonthill, Ontario | Interim Chief Executive Officer |
| Lorne S. MacFarlane, Dartmouth, Nova Scotia | Chief Financial Officer |
| Christopher H. Freeman, King City, Ontario | Secretary |

### Corporate Office

89 Scollard Street
Toronto, ON M5R 1G4
Tel.: (902) 496-7594
Fax: (902) 484-7599

### Corporate Information

| | |
|---|---|
| Bankers | Royal Bank of Canada, Richmond Hill, Ontario |
| Lawyers | C. H. Freeman, Barrister & Solicitor, King City, Ontario |
| Auditors | Grant Thornton LLP, Mississauga, Ontario |
| Transfer Agent & Registrar | TSX Trust Company, Toronto, Ontario |