



nextech AR

s o l u t i o n s

Condensed Consolidated Interim Financial Statements of

NexTech AR Solutions Corp.

Three and six months ended June 30, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

As at	June 30, 2023	December 31, 2022
Assets		
Current assets		
Cash & cash equivalents (Note 3)	\$ 3,810,323	\$ 3,777,117
Receivables (Note 4)	104,657	744,331
Deferred asset (Note 5)	211,641	256,818
Contract asset (Note 12)	199,546	332,197
Prepaid expenses	376,558	310,906
Inventory	-	45,289
Non current assets held for sale	-	501,188
	4,702,725	5,967,846
Non-current assets		
Equipment (Note 6)	193,336	278,463
Deferred consideration (Note 14)	199,320	-
Deferred tax asset	191,306	-
Right of use asset (Note 7)	-	829,278
Finance lease receivable on sublease (Note 7)	914,665	-
Intangible assets (Note 8)	2,128,558	3,313,741
Goodwill (Note 8)	6,434,004	6,746,378
Total assets	\$ 14,763,914	\$ 17,135,706
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 3,899,601	\$ 2,641,918
Deferred revenue (Note 12)	281,044	437,746
Lease liability (Note 7)	176,328	222,250
Liabilities associated with assets held for sale	-	92,532
	4,356,973	3,394,446
Non-current liabilities		
Lease liability (Note 7)	514,297	582,586
Deferred income tax liability	-	29,974
Total liabilities	4,871,270	4,007,006
Shareholders' Equity		
Share capital (Note 10)	87,677,731	83,271,707
Reserves	16,238,629	12,754,706
Accumulated Other Comprehensive Income	1,184,974	827,101
Shareholder's equity attributable to Nextech shareholders	(97,867,520)	(85,898,862)
Total common shareholders' equity	7,233,814	10,954,652
Non controlling interest	2,658,830	2,174,048
Total equity	9,892,644	13,128,700
Total liabilities and shareholders' equity	\$ 14,763,914	\$ 17,135,706

Nature of Operations (Note 1)

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board of Directors

"Evan Gappelberg" , Director

"Belinda Tyldesley" , Director

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
Revenue (Note 12)	\$ 1,405,003	\$ 551,945	\$ 2,706,197	\$ 1,062,156
Cost of sales (Note 13)	(875,033)	(347,303)	(1,642,341)	(601,786)
Gross profit	529,970	204,642	1,063,856	460,370
Operating expenses:				
Sales and marketing (Note 13)	1,358,985	1,249,004	3,009,293	2,901,712
General and administrative (Note 13)	2,673,998	3,941,315	5,265,627	6,963,302
Research and development (Note 13)	877,262	880,272	1,757,166	1,907,466
Stock based compensation (Note 10)	1,084,471	878,286	2,255,142	1,457,091
Amortization (Note 8)	500,094	750,429	1,030,753	1,478,807
Depreciation (Note 6)	15,546	31,580	44,877	63,239
Right of use amortization (Note 7)	(118)	19,227	55,728	38,453
	6,510,238	7,750,113	13,418,586	14,810,070
Other expense (income)				
Loss (gain) on disposition (Note 14)	(34,830)	-	160,149	-
Impairment of goodwill (Note 14)	-	-	184,097	-
Impairment of intangible assets	-	2,702,313	-	2,702,313
Foreign exchange gain (loss)	743,127	(843,903)	649,165	(402,023)
	708,297	1,858,410	993,411	2,300,290
Loss before income taxes	(6,688,565)	(9,403,881)	(13,348,141)	(16,649,990)
Current income tax expense	(9,019)	(7,128)	(18,039)	(14,256)
Deferred income tax recovery	98,639	121,852	203,306	260,785
Net loss from operations	\$ (6,598,945)	\$ (9,289,157)	\$ (13,162,874)	\$ (16,403,461)
Income (loss) from discontinued operations	\$ -	295,605	\$ -	\$ (293,636)
Other comprehensive loss				
Exchange differences on translating foreign operations, continuing operations	454,321	11,126	357,873	11,126
Exchange differences on translating foreign operations, discontinued operations	-	(1,571)	-	(26,258)
Total comprehensive loss	\$ (6,144,624)	\$ (8,983,997)	\$ (12,805,001)	\$ (16,712,229)
Non controlling interests	(494,717)	-	(1,194,216)	-
Total comprehensive loss attributable to Nextech shareholders	\$ (5,649,907)	\$ (8,983,997)	\$ (11,610,785)	\$ (16,712,229)
Income (loss) per common share				
Basic and diluted loss per common share, continuing operations	(0.06)	(0.09)	(0.11)	(0.17)
Basic and diluted loss per common share, discontinued operations	-	-	-	-
Weighted average number of common shares outstanding	109,766,574	99,725,256	108,353,964	98,334,837
Basic and diluted				

See accompanying notes to condensed consolidated interim financial statements.

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)
(Unaudited)

	Number of shares	Share capital	Reserves	Deficit	Accumulated Other Comprehensive Income	Non-controlling interest	Total
Balance as at December 31, 2021	90,880,791	\$ 70,570,760	\$ 11,390,048	\$ (58,958,737)	\$ 1,259,946	\$ -	24,262,017
Shares for services	898,724	865,566	-	-	-	-	865,566
Shares issued from short form prospectus	8,130,082	10,000,001	-	-	-	-	10,000,001
Stock-based compensation	-	-	1,457,091	-	-	-	1,457,091
Share issuance costs	-	(1,083,367)	21,771	-	-	-	(1,061,596)
Translation of foreign operations	-	-	-	-	(15,132)	-	(15,132)
Total net loss	-	-	-	(16,697,097)	-	-	(16,697,097)
Balance as at June 30, 2022	99,909,597	\$ 80,352,960	\$ 12,868,910	\$ (75,655,834)	\$ 1,244,814	\$ -	18,810,850
Balance as at December 31, 2022	103,437,469	\$ 83,271,708	\$ 12,754,706	\$ (85,898,862)	\$ 827,101	\$ 2,174,048	13,128,701
Shares for employee pay program	3,136,944	2,281,014	225,087	-	-	-	2,506,101
Treasury shares	-	(201,717)	-	-	-	-	(201,717)
Shares issued from short form prospectus	3,614,457	2,783,132	216,867	-	-	-	2,999,999
Stock based compensation	-	-	1,853,580	-	-	401,562	2,255,142
Share issuance costs	-	(456,406)	101,787	-	-	-	(354,619)
Translation of foreign operations	-	-	-	-	357,873	-	357,873
Other net changes in capitalization	-	-	1,086,602	-	-	1,277,436	2,364,038
Net loss, operations	-	-	-	(11,968,658)	-	(1,194,216)	(13,162,874)
Balance as at June 30, 2023	110,188,870	\$ 87,677,731	\$ 16,238,629	\$ (97,867,520)	\$ 1,184,974	\$ 2,658,830	9,892,644

See accompanying notes to condensed consolidated interim financial statements.

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows (Expressed in Canadian dollars) (Unaudited)

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
Cashflows from operating activities				
Net loss, continuing operations	\$ (6,598,945)	\$ (9,289,157)	\$ (13,162,874)	\$ (16,403,461)
Net loss, discontinuing operations		295,605	-	(293,636)
Items not affecting cash				
Amortization of intangible assets	500,094	750,429	1,030,753	1,478,807
Deferred income tax recovery	(98,639)	(121,852)	(203,306)	(260,785)
Impairment of intangible assets & goodwill	-	2,702,313	184,097	2,702,313
Amortization of right to use asset	(118)	19,227	55,728	38,453
Finance income on sublease	41,576	-	41,567	-
Depreciation of property and equipment	15,546	31,580	44,877	63,239
Employee pay program	(84,506)	148,500	225,087	865,566
Treasury shares for employee pay program	-	-	(201,717)	-
Stock based compensation	1,084,471	878,286	2,255,142	1,457,091
Write off equipment	-	-	85,679	-
Deferred consideration receivable on sale of PET	5,910	-	(199,320)	-
Gain on write off of right of use assets	(120,626)	-	(120,626)	-
Changes in non-cash working capital balances				
Receivables	836,414	600,222	706,634	662,372
Deferred asset	56,281	(153,185)	45,177	(153,185)
Contract asset	53,928	(68,653)	132,651	192,567
Prepaid expenses	16,836	362,636	(35,827)	217,305
Inventory	-	160,434	434,765	1,022,339
Accounts payable and accrued liabilities	(1,148,207)	739,778	(1,131,989)	(109,080)
Deferred revenue	(258,268)	(200,758)	(156,702)	(186,861)
Deferred tax liability	-	-	-	-
Cashflows from operating activities, continuing operations	\$ (5,698,253)	\$ (2,605,203)	\$ (9,970,204)	\$ (8,496,077)
Cashflows from operating activities, discontinued operations	-	(792,705)	-	(210,879)
Cashflows from investing activities				
Purchase of equipment	(7,603)	(37,485)	(36,603)	(84,038)
Purchase of short term investments	-	-	-	-
Interest on lease liability	(7,122)	(6,890)	(13,945)	(13,602)
Net cash provided by (used in) investing activities, continuing operations	\$ (14,725)	\$ (38,685)	\$ (50,548)	\$ (86,756)
Net cash provided by (used in) investing activities, discontinued	-	(5,690)	-	(10,884)
Cashflows from financing activities				
Proceeds from Employee Pay Program	701,794	-	2,281,014	-
Proceeds from private placement, net of issuance costs	(6,350)	1,910	2,645,380	8,938,406
Payment of lease obligations	19,801	(74,369)	(111,698)	(147,767)
Receivables financing (net)	2,297,143	-	2,297,143	-
Issuances to non controlling interest, net of issuance costs	2,277,289	-	2,364,037	-
Net cash provided by (used in) financing activities, continuing operations	\$ 5,289,677	\$ (43,090)	\$ 9,475,876	\$ 8,893,406
Net cash provided by (used in) financing activities, discontinued	-	(29,369)	-	(102,767)
Change in cash during the period	(423,301)	(3,514,742)	(544,876)	(13,957)
Cash, beginning of period	3,502,217	10,781,775	3,786,493	7,237,296
Effects of foreign exchange on cash	731,407	(203,765)	568,706	(160,072)
Cash, end of period, continuing operations	3,810,323	6,048,083	3,810,323	6,048,083
Cash, end of period, discontinued operations	-	1,015,185	-	1,015,185
Cash, end of period	\$ 3,810,323	\$ 7,063,268	\$ 3,810,323	\$ 7,063,268
Supplemental cash flow information				
Taxes paid	21,607	(224)	22,407	21,571
Interest paid	11,221	9,022	16,688	17,857
Interest received	17,766	11,956	51,555	39,329

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS

NexTech AR Solutions Corp. (“NexTech” or the “Company”), a Metaverse Company, provides augmented reality experience technologies, wayfinding technologies, and 3D model services. On June 16, 2022 the Company announced the winding down of its eCommerce businesses to focus on augmented reality solutions. On June 13, 2023 the Company completed its spinout of Toggle3D.ai.Inc., an AI powered 3D design studio. The Company was incorporated in the province of British Columbia, Canada on January 12, 2018. The Company’s registered and head office is located at PO Box 64039 RPO Royal Bank Plaza, Toronto, Ontario, M5J 2T6.

The Company’s shares trade in Canada on the Canadian Securities Exchange under the trading symbol “NTAR”, on the Frankfurt Stock Exchange under the trading symbol “EP2”, and in the United States of America on the OTCQX under the trading symbol “NEXCF”.

2. MATERIAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2022. However, selected explanatory notes are included to explain events and transactions that are material to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2022.

Basis of Measurement and Going Concern

These consolidated financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting except for cash flow information. The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company’s ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and the expenses and the statement of financial position classifications used. For the period ended June 30, 2023, the Company generated a net loss and negative operating cash flow. These factors give rise to material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or to obtain additional financing. Management is of the opinion that sufficient funds will be obtained from operations and/or from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that cash flows from operations or additional financing will not be available on a timely basis or on terms acceptable to the Company.

These condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited consolidated financial statements for the period ended December 31, 2022. The prior period numbers have been revised to reflect management's decision to close its ecommerce operations. In the fourth quarter of 2022, management discontinued its vacuumcleanermarket.com and Trulyfe product lines and on March 9, 2023 the Company entered into an agreement for the sale of the assets of Infinite Pet, LLC. For comparability purposes management has chosen to present the prior year numbers without these amounts. The unaudited

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows

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condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 22, 2023.

Basis of Consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control occurs when the Company is exposed to, or has right to, variable return from its involvements with an investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. The Company's wholly owned subsidiaries are NexTech AR Solutions USA LLC, AR Ecommerce LLC, Jolokia Corporation, Threedy.ai Inc, Arway Ltd, Toggle3D.ai Inc., 1400330 B.C. Ltd., and 1383947 B.C. Ltd. The Company partially owns Arway Corporation (formerly 1000259749 Ontario Inc.) and Toggle3D.ai.Inc. however, it displays power and control over the entity, resulting in Arway Corporation and Toggle3D.ai.inc. being consolidated into the financial statements with the non-controlling portions in each of the entity represented under non-controlling interest on the financial statements.

3. CASH AND CASH EQUIVALENT

On June 30, 2023, the Company held \$2,400,000 in Guaranteed Investments Certificates (GIC) with an annual interest rate of 4.7% compared to \$1,676,981 as at December 31, 2022.

4. RECEIVABLES

	June 30, 2023	December 31, 2022
Trade receivables	\$ 57,294	\$ 538,863
Other receivables	-	133,718
GST receivable	47,363	71,750
	\$ 104,657	\$ 744,331

As at June 30, 2023 the Company has included in accounts receivable \$1,285,498 payable to a receivables financing company. This portion of the amount owing has been recorded as an offset to accounts receivable to more accurately reflect the nature of the transaction.

5. DEFERRED ASSET

Deferred asset consists of capitalized costs that are identifiable and specifically attributable to certain revenue contracts. These costs are recognized commensurate with the recognition of the revenue on the related contracts.

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

6. EQUIPMENT

	Computer Equipment		Trade Show Equipment		Office Furniture and Equipment		Total
Costs							
December 31, 2021	\$	513,295	\$	16,440	\$	241,541	\$ 771,276
Additions		96,763		-		5,021	101,784
Asset write-offs		(22,253)		-		(91,531)	(113,784)
Effects of movement in exchange rates		16,680		-		35,298	51,978
December 31, 2022	\$	604,485	\$	16,440	\$	190,329	\$ 811,254
Additions		30,536		-		6,067	36,603
Write-off		(156,352)		(16,440)		(122,908)	(295,700)
Effects of movement in exchange rates		2,171		-		(194)	1,977
June 30, 2023	\$	480,840	\$	-	\$	73,294	\$ 554,134
Accumulated depreciation							
December 31, 2021	\$	243,110	\$	12,331	\$	138,593	\$ 394,034
Additions		91,057		3,288		49,222	143,567
Asset write-offs		(10,899)		-		(30,942)	(41,841)
Effects of movement in exchange rates		32,892		-		4,139	37,031
December 31, 2022	\$	356,160	\$	15,619	\$	161,012	\$ 532,791
Additions		33,540		821		10,516	44,877
Write-off		(81,109)		(16,440)		(112,472)	(210,021)
Effects of movement in exchange rates		(6,125)		-		(725)	(6,850)
June 30, 2023	\$	302,466	\$	-	\$	58,331	\$ 360,798
Net book value							
December 31, 2022	\$	248,325	\$	821	\$	29,317	\$ 278,463
June 30, 2023	\$	178,374	\$	-	\$	14,963	\$ 193,336

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

7. LEASES

The company entered into long-term lease agreements for warehouse space, store space, and office space with lease terms ranging from 2-8 years. The present value of future lease payments was measured using an incremental borrowing rate of 6% annum. The right of use asset is as follows:

Right of use assets			Total
Balance, December 31, 2021	\$		1,079,319
Additions			-
Amortization			(261,101)
Effects of movement in exchange rates			11,060
At December 31, 2022	\$		829,278
Additions			-
Amortization			(55,728)
Write-off			(778,351)
Effects of movement in exchange rates			4,801
At June 30, 2023	\$		-

On March 31, 2023, AR Ecommerce entered into a sublease agreement for a warehouse with expiry date of June 20, 2028. This resulted in the derecognition of the right of use assets and the recognition of finance lease receivable on sublease resulting in a gain of \$120,626.

Lease obligations			Total
Balance, December 31, 2021	\$		1,077,112
Additions			-
Interest expense			(28,668)
Lease payments			(360,136)
Effects of movement in exchange rates			116,528
At December 31, 2022	\$		804,836
Interest expense			(13,945)
Lease payments			(111,698)
Effects of movement in exchange rates			11,432
At June 30, 2023	\$		690,625

The maturity analysis of the lease liabilities as at June 30, 2023 is as follows:

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Maturity Analysis		June 30, 2023
Less than one year	\$	90,603
One to five years		769,479
Over five years		101,980
Total undiscounted lease liabilities	\$	962,062
Amount representing implicit interest		(271,437)
At June 30, 2023	\$	690,625

Interest expense for the three and six months ended June 30, 2023 was nil and \$6,802 respectively (2022 - \$11,576 and \$18,288).

Finance lease receivable on sublease

Maturity Analysis		June 30, 2023
Less than one year	\$	132,805
One to five years		916,143
Over five years		-
Finance lease receivable, undiscounted	\$	1,048,948
Unearned finance income		(134,283)
Finance lease receivable	\$	914,665

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows

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8. INTANGIBLE ASSETS

	Customer relationship	Supplier relationship	Brand	Technology	Goodwill	Total
Costs						
December 31, 2021	\$ 1,432,146	\$ 313,409	\$ 1,142,281	\$ 6,510,811	\$ 8,790,529	\$ 18,189,176
Impairment of intangible assets & goodwill	(241,781)	(318,551)	(1,034,622)	(708,730)	(2,619,949)	(4,923,633)
Disposals	-	-	-	(709,903)	-	(709,903)
Effects of movement in exchange rates	90,002	5,142	14,547	394,256	575,798	1,079,745
December 31, 2022	\$ 1,280,367	\$ -	\$ 122,205	\$ 5,486,434	\$ 6,746,378	\$ 13,635,384
Additions	-	-	-	-	-	-
Impairment of intangible assets & goodwill	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effects of movement in exchange rates	(28,638)	-	45	(125,837)	(312,374)	(466,804)
June 30, 2023	\$ 1,251,729	\$ -	\$ 122,250	\$ 5,360,597	\$ 6,434,004	\$ 13,168,580
Accumulated depreciation						
December 31, 2021	\$ 489,874	\$ 94,023	\$ 775,032	\$ 1,619,784	\$ -	\$ 2,978,713
Additions	280,253	15,928	171,918	2,187,553	-	2,655,652
Impairment of intangible assets	(137,230)	(110,523)	(854,916)	(642,538)	-	(1,745,207)
Disposals	-	-	-	(272,119)	-	(272,119)
Effects of movement in exchange rates	(17,268)	572	1,529	(26,607)	-	(41,774)
December 31, 2022	\$ 615,629	\$ -	\$ 93,563	\$ 2,866,073	\$ -	\$ 3,575,265
Additions	125,174	-	20,375	885,204	-	1,030,753
Impairment of intangible assets	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effects of movement in exchange rates	-	-	-	-	-	-
June 30, 2023	\$ 740,803	\$ -	\$ 113,938	\$ 3,751,277	\$ -	\$ 4,606,018
Net book value						
December 31, 2022	\$ 664,738	\$ -	\$ 28,642	\$ 2,620,361	\$ 6,746,378	\$ 10,060,119
June 30, 2023	\$ 510,926	\$ -	\$ 8,312	\$ 1,609,320	\$ 6,434,004	\$ 8,562,562

NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)
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INTANGIBLE ASSETS (continued)

Intangible assets

On June 16, 2022, the Company announced it would wind down its legacy eCommerce operations which includes vacuumcleanermarket.com, trulyfesupplements.com and infinitepetlife.com. This change resulted in an impairment of \$558,477. The Company announced the plan to sell of infinitepetlife.com (see Note 16) therefore the assets were written down proceeds less cost to sell, resulting in a total value of \$0 for intangible assets.

On October 26, 2022 the Company completed the spin out of Arway Corporation (“Arway”) which began trading on the CSE under the ticker symbol: ARWY. Arway is a no-code spatial mapping platform for the metaverse. As part of this transaction Arway issued a total of 26,629,552 shares in exchange for cash and intangible assets. The Company transferred a fair value of \$5,000,000 of intangible assets in exchange for 19,999,900 shares of Arway Corporation and derecognized the outstanding net book value of \$448,293 of intangibles and \$485,872 of goodwill from the initial acquisition of ARway Ltd. (UK) in August 2021. The remaining 6,629,552 shares were issued at a subscription price of \$0.25 per share for gross proceeds of \$1,657,389.

The Company distributed 4,000,000 of the 19,999,900 shares of Arway to its shareholders on a pro rata basis and is reflected on the consolidated statements of changes in shareholders’ equity, and transferred 3,000,000 shares as compensation for current and existing liabilities and expensed on the consolidated statements of comprehensive loss. As of June 30, 2023 the Company holds 13,000,000 shares of Arway Corporation.

On June 13, 2023 the Company completed its spinout of Toggle3D.ai.Inc. (“Toggle 3D”), an AI powered 3D design studio which began trading on the CSE under the ticker simple: TGGL. The Company transferred a fair value of \$5,000,000 of intangible assets in exchange for 19,999,900 shares of Toggle3D.

The Company distributed 4,000,000 of the 19,999,900 shares of Toggle3D.ai Inc to its shareholders on a pro rata basis and is reflected on the consolidated statements of changes in shareholders’ equity, and transferred 3,000,000 shares as compensation for current and existing liabilities and expensed on the consolidated statements of comprehensive loss. As of June 30, 2023 the Company holds 13,000,000 shares of Toggle3D.

Goodwill

The goodwill balance, as at June 30, 2023, consists of the goodwill acquired from acquisition of AR Ecommerce LLC, Jolokia and Map Dynamics, Threedy.ai and Arway Ltd. and includes the currency translation adjustment for the six months ended June 30, 2023 of \$312,374 (2022 – (\$41,774)). The Company estimated the recoverable amount based on the value-in-use method of the cash-generating units that the goodwill contributes to was higher than the carrying value at October 1, 2022. The sale of legacy eCommerce operations resulted in a goodwill impairment of \$142,928 for Infinite Pet Life.

The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts. Cash flows were projected out 5 years and a terminal value was calculated using a long-term steady growth of 3-5%. The discount rate of 25% was used.

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9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2023		December 31, 2022
Accounts payable	\$	2,654,113	\$	1,218,898
Accrued liabilities		1,245,488		1,423,020
	\$	3,899,601	\$	2,641,918

As at June 30, 2023 the Company has received \$2,297,143 (including interest of \$264,814) in advances of receivables payable to a receivables financing company, \$1,285,498 has been recorded as an offset to current accounts receivable. The remaining \$1,011,645 has been included in the accounts payable as it relates to advances of future receivables and interest payable.

10. SHARE CAPITAL

Authorized

As at June 30, 2023, the authorized share capital of the Company was an unlimited number of common shares.

Share Capital

During the six months ended June 30, 2023, the Company had the following share transactions:

- issued 3,136,944 shares with a fair value of \$2,281,014 for employee pay program
- issued 3,614,457 units for gross proceeds of \$3,000,000 (issuance costs of \$456,406)

Share purchase warrants

	Number		Weighted Average Exercise Price
Balance, as at December 31, 2021	4,411,265	\$	4.00
Granted	15,892,597		1.23
Expired/Cancelled	(3,616,002)		0.84
Balance as at December 31, 2022	16,687,860	\$	1.69
Granted	3,867,468		1.02
Exercised	(2,535,278)		1.02
Expired/Cancelled	(1,703,855)		5.88
Balance as at June 30, 2023	16,316,195	\$	1.38

The weighted average remaining life on the warrants is 0.84 years. 253,011 broker warrants were granted for the six months ended June 30, 2023. The broker warrants have been valued at an aggregate \$101,788 (2022 - \$21,772 using the Black-Scholes option pricing model with the following assumptions:

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	Six months ended June 30, 2023	Six months ended June 30, 2022
Weighted average		
Risk free interest rate	0.43%	1.17%
Expected life of warrants in years	2 years	2 years
Expected dividend yield	0%	0%
Expected stock volatility	104%	123%
Fair value per warrant	\$ 0.40	\$ 0.86

Stock options

	Number	Weighted Average Exercise Price
Balance, as at December 31, 2021	3,924,900	\$ 2.69
Granted	29,789,649	0.73
Forfeited/Expired/Cancelled	(17,761,052)	1.14
Balance as at December 31, 2022	15,953,497	\$ 0.76
Granted	525,000	0.78
Forfeited/Expired/Cancelled	(1,045,345)	1.45
Balance as at June 30, 2023	15,433,152	\$ 0.71

The weighted average remaining life of the outstanding stock options is 2.00 years.

The fair value of all options granted is estimated on the grant date using the Black-Scholes option pricing model. During the three and six months ended June 30, 2023, \$1,084,471 and \$2,255,142 respectively (2022 - \$878,286 and \$1,457,091 respectively) was recognized as stock based compensation.

The weighted average assumptions used in calculating the fair values are as follows:

Weighted average	Six months ended June 30, 2023	Year ended June 30, 2022
Risk free interest rate	0.65%	0.65%
Expected life of options in years	3	3
Expected dividend yield	0%	0%
Expected stock option volatility	81%	135%
Fair value per option	\$1.31	\$1.06

The following table presents the stock-based compensation expense by function:

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
Cost of sales	\$ 2,333	\$ 1,541	\$ 3,945	\$ 2,556
General and administrative	955,786	803,314	1,996,651	1,332,712
Research and development	81,027	50,067	146,123	83,061
Sales and marketing	45,325	23,364	108,423	38,762
	\$ 1,084,471	\$ 878,286	\$ 2,255,142	\$ 1,457,091

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11. RELATED PARTY TRANSACTIONS AND BALANCES

The Company entered into a number of transactions with key management personnel. The Company considers the executive officers and directors as the key management of the Company. The remuneration of key management personnel includes those persons having the authority and responsibility for the planning, directing and controlling of the activities of the Company are as follows:

	Three months ended		Three months ended		Six months ended		Six months ended	
	June 30, 2023		June 30, 2022		June 30, 2023		June 30, 2022	
Remuneration for services	\$	301,318	\$	302,444	\$	603,941	\$	497,888
Share-based payments		253,396		204,500		403,396		744,500
	\$	554,714	\$	506,944	\$	1,007,337	\$	1,242,388

Amounts due to and from related parties as at June 30, 2023 and December 31, 2022 are as follows:

Related party assets (liabilities)	June 30, 2023		December 31, 2022	
Key management personnel	\$	(655,160)	\$	(227,867)

The amounts owed from the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment.

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents a disaggregation of revenue by service:

	Three months ended		Three months ended		Six months ended		Six months ended	
	June 30, 2023		June 30, 2022		June 30, 2023		June 30, 2022	
			<i>Revised (Note 2)</i>				<i>Revised (Note 2)</i>	
Technology services	\$	44,986	\$	34,056	\$	125,236	\$	84,798
Renewable software licenses	\$	1,318,260		490,390		2,506,933		938,029
Other revenue	\$	41,757		27,499		74,028		39,329
	\$	1,405,003	\$	551,945	\$	2,706,197	\$	1,062,156

The product sales are recognized at a point in time and the technology services and renewable software licenses revenue is recognized over time.

The renewable software licenses revenue stream has one major customer who contributes 49% (\$1,336,027) of total revenue in the six months ended June 30, 2023, compared to nil in the six months ended June 30, 2022.

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Deferred Revenue

Contract liabilities represent customer payments received for services to be provided subsequent to the reporting date. Significant changes in contract liabilities are as follows:

	Six months ended		Year Ended	
	June 30, 2023		December 31, 2022	
Deferred revenue, beginning	\$	437,746	\$	609,001
Revenue recognized that was included in deferred revenue		(688,847)		(520,772)
Amount received for revenue unearned		532,145		349,517
Deferred revenue, ending	\$	281,044	\$	437,746
Current		281,044		437,746
Non current		-		-
Deferred revenue, ending	\$	281,044	\$	437,746

Contract assets

	Six months ended		Year Ended	
	June 30, 2023		December 31, 2022	
Contract assets, beginning	\$	332,197	\$	386,202
Contract assets, billed over the period		(132,651)		(109,432)
Contract assets additions related to technology services				55,427
Contract assets, ending	\$	199,546	\$	332,197
Current		199,546		332,197
Non current		-		-
Contract assets, ending	\$	199,546	\$	332,197

13. EXPENSES BY NATURE

The Company presents operating expenses by function with the exception of amortization, depreciation and foreign exchange loss. The following presents operating expenses by nature:

Cost of Sales

Cost of sales	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
		<i>Revised (Note 2)</i>		<i>Revised (Note 2)</i>
Cost of products/services	\$ 5,678	\$ -	\$ -	\$ -
Salaries, wages, and commissions	719,477	324,313	1,323,623	550,077
Consulting fees	148,403	11,520	316,997	25,263
Employee benefits	1,475	11,470	1,721	26,446
Computer, software, and maintenance	-	-	-	-
	\$ 875,033	\$ 347,303	\$ 1,642,341	\$ 601,786

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Sales and marketing

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
Sales and marketing				
Advertising	\$ 167,261	\$ 197,757	\$ 372,389	\$ 498,403
Consultant fees	54,026	149,624	146,309	529,692
Salaries, wages, and commissions	573,770	591,428	1,150,882	1,041,363
Employee benefits	24,305	25,319	40,423	37,960
Investor relations	490,648	180,642	1,194,347	322,156
Management fees	-	-	-	289,911
Software and other expense	48,975	104,234	104,943	182,227
	\$ 1,358,985	\$ 1,249,004	\$ 3,009,293	\$ 2,901,712

General and administrative

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
General and administrative				
Compliance fees	\$ 121,791	\$ 42,402	\$ 191,666	\$ 101,875
Salaries and wages	573,508	1,106,881	1,445,955	2,505,506
Consultant fees	128,783	90,594	165,065	98,860
Employee benefit	101,206	250,612	326,670	324,959
Management fees	314,238	186,938	707,781	558,196
Office, general, and other	564,943	1,421,265	827,863	1,654,189
Computer, software, and maintenance	149,625	251,165	459,534	638,087
Professional fees	719,904	591,458	1,141,093	1,081,630
	\$ 2,673,998	\$ 3,941,315	\$ 5,265,627	\$ 6,963,302

Research and Development

	Three months ended June 30, 2023	Three months ended June 30, 2022 <i>Revised (Note 2)</i>	Six months ended June 30, 2023	Six months ended June 30, 2022 <i>Revised (Note 2)</i>
Research and development				
Salaries and wages	\$ 395,082	\$ 518,931	\$ 756,144	\$ 992,977
Employee benefits	13,741	31,379	31,884	58,510
Consultant fees	251,329	192,106	490,519	511,571
Platform, maintenance, and other	217,110	137,856	478,619	344,408
	\$ 877,262	\$ 880,272	\$ 1,757,166	\$ 1,907,466

14. SALE OF PET BUSINESS

On March 9, 2023 the Company entered into an agreement for the sale of the assets of Infinite Pet, LLC for a deferred consideration of US \$150,000. The Company wrote-off all assets and liabilities at the date of the transaction resulting in a loss on disposition of \$201,318. In addition, the goodwill balance of \$184,097 related to the PET business was written-down.

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15. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Management

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

Credit Risk

Credit risk arises from cash as well as credit exposures to counterparties of outstanding receivables and committed transactions. There is no significant concentration of credit risk other than cash deposits and receivables. The Company's cash deposits are primarily held with a Canadian chartered bank and receivables are due from the distributors of the company's products and customers. The Company also factors some of its accounts receivables with a third party.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's main source of cash resources is through equity financing. The Company's financial obligations are limited to its current liabilities which have contractual maturities of less than one year. The Company manages liquidity risk as part of its overall "Management of Capital" as described below.

Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of the Company's expenses are incurred in U.S. dollars ("USD"). A significant change in the currency exchange rates between the Canadian dollar relative to the USD could affect the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at June 30, 2023, the Company is exposed to currency risk through cash, accounts receivable and accounts payable denominated in USD. A 10% change in exchange rate could increase/decrease the Company's net loss by \$201,658.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. We believe that interest rate risk is low for our financial assets as the majority of investments are made in highly liquid instruments.

Fair Values

The Company's financial instruments consist of cash, receivables, and accounts payable. Financial instruments are initially recognized at fair value with subsequent measurement depending on classification as described below. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. As at June 30, 2023, the Company's financial instruments were classified as amortized cost. The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

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16. CONTINGENCY

During the year ended December 31, 2020, the Company has received a legal claim against the Company in respect of the acceleration term on the right to exercise certain warrants. As at June 30, 2023, the claim remains at the preliminary stage. It is premature to determine the outcome of this claim.

17. SUBSEQUENT EVENT

On July 25, 2023, the Company raised \$2,500,000 (net proceeds of \$2,153,777 after \$287,426 of share issuance costs) in total gross proceeds and issued 6,062,390 Common Shares and Warrants to purchase up to an aggregate of 6,062,390 Common Shares at a purchase price of CAD\$0.45 per Common Share and associated Warrant. Each Warrant entitles the holder to purchase one Common Share at an exercise price of CAD\$0.52 for a period of 36 months following the issuance date.