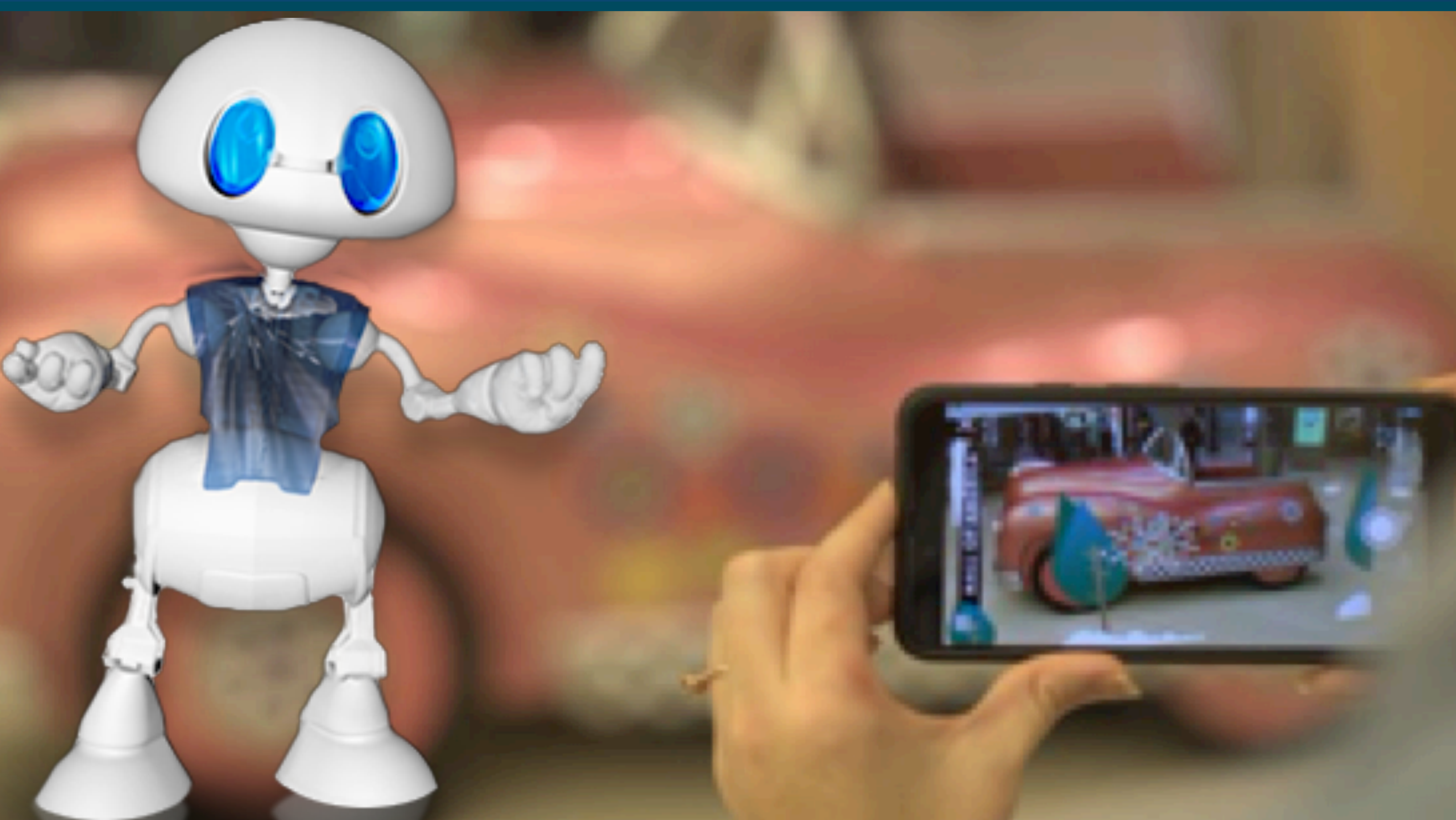
# Imagination Park Technologies

## Annual Report 2018



# Imagination Park Technologies

# Annual Report 2018

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To Our Shareholders:

Fiscal 2018 can best be characterized as a transitional year whereby we improved our execution, achieved many of our goals for the year and crossed some important milestones. We have strengthened our competitive position and the results of our actions are evident by the strength of our sales funnel.

Over the past year, we have taken several steps to further strengthen the foundation of Imagination Park. We've built a new leadership team by adding key members to the Board and executive team, we have strategically shifted the company from digital film production to developing one of the first cloud based augmented reality (AR) enterprise platforms and we have created good momentum to drive growth for future years.

During the year we faced some challenges, but recognized that most of the solutions to these challenges were well within our control and with the team, the changes were made. I can truly say, we are all working hard to improve our performance and drive the business forward.

Strategically, we have formed important relationships with key partners, invested in our AR platform and streamlined our operations. While the impact of some of these changes may take time, I am confident that we are on the right path.

As you are well aware, in 2017, the company established XenoHolographic, a joint venture company between InterKnowlogy and Imagination Park to develop and advance an augmented and mixed reality platform. By May 2018, the Company had acquired the remaining 50% interest in XenoHolographic and currently owns 100% of all the right, title and interest in the XenoHolographic suite of products that consist of *XenoMark™, XenoPlay™, and XenoCloud™*.

The XenoPlay™ mobile app through its XenoHolographic suite of products bridges the gap between the real world and digital world by allowing users to scan real world objects to unlock useful and entertaining content. After downloading the app, you simply point your mobile device at logos, signs, buildings, products, landmarks and to instantly unlock engaging videos, information, advertisements, coupons, 3D holograms or any interactive content that is hosted in the cloud and managed using a menu-driven portal. Integrated real-time analytics means that all the customer interactions are tracked and measured in real-time allowing organizations to accurately measure their return on investment and drive greater returns.

The XenoPlay™ mobile app is so easy to use and set-up that it enables every organization regardless of size to develop and implement interactive AR campaigns with the need for programming or technical expertise.

Management has been very active presenting the platform to chief marketing officers and senior key decision makers in a variety of verticals including retail, sports, live entertainment, education, and fundraising. The feedback has been extremely promising and our sales funnel continues to grow. Yet given that AR is a relatively new to the marketplace, in some cases, initial trials will be required to prove the benefits of AR over traditional methods of engaging with consumers.

As we continue to educate the market and cycle through our pipeline of prospects, we expect to convert these opportunities into subscribers paying monthly recurring licensing fees and upfront professional services fees for gaming and customer content. The successful adoption of our XenoPlay$^{TM}$ services platform will be an important driver behind the success of our future results.

This is an exciting time for our Company to be part of this emerging industry and we believe that Imagination Park is in the right place at the right time with the right capabilities to capitalize on these new opportunities.

During the year, we completed an oversubscribed non-brokered private placement financing of for gross proceeds of $3,028,718. The placement reinforces investor confidence and recognition in the markets. We believe this will provide the Company with 12 month runway to execute on its strategic initiatives. The Company is now in a unique position to take advantage of growth in this grass roots innovative industry which will revolutionize the way brands engage with their customers.

We will continue to invest in the business in order to generate growth and we remain focused on improving the rate of adoption, a significant value driver for our business. I'm proud of our team and what we accomplished in 2018, but also recognize that we have much more to accomplish in the year ahead. We will continue to focus on execution and making smart investment decisions to grow and strengthen our foundation for the future.

Yours truly,

Alen Paul Silverrstieen

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## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Imagination Park Entertainment Inc.**

We have audited the accompanying consolidated financial statements of Imagination Park Entertainment Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, statements of changes in shareholders' equity (deficiency) and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imagination Park Entertainment Inc. and its subsidiaries as at August 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matters

We draw attention to note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Imagination Park Entertainment Inc. and its subsidiaries to continue as a going concern. Our opinion is not qualified with respect to this matter.

We also draw attention to note 11 to the consolidated financial statements which describes the acquisition of Xenoholographic Inc. and the preliminary nature of the purchase price allocation. Our opinion is not qualified with respect to this matter.

Wolrige Mahon Collins Barrow LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
December 31, 2018
Vancouver, B.C.

# IMAGINATION PARK ENTERTAINMENT INC.

## ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

## (EXPRESSED IN CANADIAN DOLLARS)

**IMAGINATION PARK ENTERTAINMENT INC.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT AUGUST 31,

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 324,938 | $ 528,401 |
| Receivables (Note 7) | 147,047 | 54,603 |
| Prepaid expenses (Note 8) | 90,858 | 8,259 |
| Total current assets | 562,843 | 591,263 |
| Reclamation bonds (Note 9) | 5,040 | 5,040 |
| Intangible assets (Note 11 and 13) | 6,642,803 | - |
| Investment in Kindergarten Holdings Inc.(Note 14) | 12,801 | - |
| Investment in Xenoholographic Inc. (Note 11) | - | 203,792 |
| Total assets | $ 7,223,487 | $ 800,095 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current | | |
| Accounts payable and accrued liabilities (Notes 15 and 18) | $ 595,888 | $ 286,839 |
| Deferred revenue | - | 15,000 |
| Loans payable (Note 16) | 425 | 5,076 |
| Convertible promissory note (Note 17) | 2,007,025 | - |
| Total liabilities | 2,603,338 | 306,915 |
| Shareholders' equity | | |
| Capital stock (Note 19) | 19,902,634 | 15,121,397 |
| Reserves (Note 19) | 4,280,305 | 1,893,992 |
| Deficit | (19,562,790) | (16,522,209) |
| Total shareholders' equity | 4,620,149 | 493,180 |
| Total liabilities and shareholders' equity | $ 7,223,487 | $ 800,095 |

**Nature and continuance of operations** (Note 1)
**Subsequent events** (Note 22)

On behalf of the Board:

*"James Skippen"*, Director *"John Gillberry"*, Director

See accompanying notes to the consolidated financial statements.

**IMAGINATION PARK ENTERTAINMENT INC.**
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED AUGUST 31,

| | 2018 | 2017 |
|---|---|---|
| **REVENUE** | | |
| Production income (Note 12) | $ 416,965 | $ 34,034 |
| Production expenses (Note 12) | (510,574) | - |
| | (93,609) | 34,034 |
| **EXPENSES** | | |
| Accretion of convertible promissory note (Note 17) | 209,750 | - |
| Consulting fees and management fees (Note 18) | 1,283,755 | 921,672 |
| Foreign exchange loss | 43,966 | 16,029 |
| Interest | 10,000 | 296 |
| Financing (Note 16) | 708,922 | - |
| Net profits interests acquired (Notes 10 and 19) | 189,989 | 286,100 |
| Impairment of option acquired (Note 10) | 44,285 | - |
| Office, rent, and miscellaneous (Note 18) | 85,692 | 97,378 |
| Pre-production expenses | 114,000 | 125,799 |
| Professional fees | 246,712 | 252,775 |
| Share-based compensation (Note 18 and 19) | 1,671,655 | 1,348,662 |
| Shareholder communications and promotion | 475,888 | 111,184 |
| Transfer agent and filing fees | 40,536 | 29,581 |
| Travel and accommodation | 171,097 | 228,859 |
| | (5,296,247) | (3,418,335) |
| **OTHER** | | |
| Fair value gain on acquisition of Xenoholographic (Note 11) | 1,790,306 | - |
| Gain on revaluation of derivative liability (Note 17) | 535,000 | - |
| Loss on settlement of debt | (1,045) | (2,849,789) |
| Share of loss in equity accounted investment (Note 11) | (38,316) | (2,024) |
| Write-off of asset purchase agreement (Note 10) | - | (25,100) |
| | 2,285,945 | (2,876,913) |
| Net loss and comprehensive loss for the year | $ (3,103,911) | $ (6,261,214) |
| Net loss and comprehensive loss attributable to: | | |
| Shareholders of Imagination Park Entertainment Inc. | $ (3,040,581) | $ 6,261,214 |
| Non-controlling interests | (63,330) | - |
| | $ (3,103,911) | $ (6,261,214) |
| **Basic and diluted net loss per common share** | $ (0.05) | $ (0.13) |
| **Weighted average number of common shares outstanding – basic and diluted** | 66,129,718 | 47,283,782 |

**See accompanying notes to the consolidated financial statements.**

**IMAGINATION PARK ENTERTAINMENT INC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED AUGUST 31,

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net loss for the year | $ (3,103,911) | $ (6,261,214) |
| Items not affecting cash: | | |
| Share-based compensation | 1,671,655 | 1,348,662 |
| Financing | 708,922 | - |
| Impairment of option acquired | 44,285 | 25,100 |
| Net profits interest acquired | 189,989 | 286,100 |
| Accretion of convertible promissory note | 209,750 | - |
| Loss on settlement of debt | 1,045 | 2,849,789 |
| Share of loss in equity accounted investment | 38,316 | - |
| Fair value gain on acquisition of Xenoholographic | (1,790,306) | - |
| Gain on revaluation of convertible promissory note | (535,000) | - |
| Foreign exchange gain on loan payable | (6,105) | - |
| Change in non-cash working capital items: | | |
| Decrease (increase) in receivables | (80,905) | 21,511 |
| Decrease (increase) in prepaid expenses | (82,599) | 53,241 |
| Increase in accounts payable and accrued liabilities | 229,553 | 436,918 |
| Deposits recovered | 49,500 | - |
| Increase (decrease) in deferred revenue | (15,000) | 15,000 |
| Net cash flows used in operating activities | (2,470,811) | (1,224,893) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from private placements | 3,715,450 | 261,800 |
| Share issuance costs | (14,700) | (28,160) |
| Proceeds from option exercises | 141,855 | 342,645 |
| Proceeds from warrant exercises | 207,632 | 1,183,703 |
| Proceeds from (repayment of) loans | (4,650) | 4,650 |
| Net cash flows provided by financing activities | 4,045,587 | 1,764,638 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of and investment in Xenoholographic Inc. (Note 11) | (1,758,355) | (147,032) |
| Investment in Kindergarten Holdings Inc. (Note 14) | (12,801) | - |
| Acquisition of 3 Seconds Holdings Inc. (Note 10) | (126,659) | - |
| Cash received on acquisition of 1142128 B.C. Ltd. (Note 12) | 115,126 | - |
| Cash received on acquisition of Xenoholographic Inc. (Note 11) | 4,450 | - |
| Net cash flows used in investing activities | (1,778,239) | (147,032) |
| **Change in cash** | (203,463) | 392,713 |
| **Cash, beginning of year** | 528,401 | 135,688 |
| **Cash, end of year** | $ 324,938 | $ 528,401 |
| Cash paid for taxes during the year | $ - | $ - |
| Cash paid for interest during the year | $ 10,000 | $ - |

**Supplemental disclosure with respect to cash flows** (Note 20)

**See accompanying notes to the consolidated financial statements.**

**IMAGINATION PARK ENTERTAINMENT INC.**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

| | | | | Reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Capital stock | Treasury Shares/obligation to issue shares | Share-based payment reserve | Warrant reserve | Deficit | Non-controlling Interest | Total |
| Balance, August 31, 2016 | 36,319,214 | $ 9,670,847 | $ (255,000) | $ 442,162 | $ 358,596 | $ (10,260,995) | $ - | $ (44,390) |
| Issued pursuant to private placements | 1,047,200 | 261,800 | - | - | - | - | - | 261,800 |
| Finders' fees – cash | - | (7,560) | - | - | - | - | - | (7,560) |
| Finders' fees – warrants | - | (5,397) | - | - | 5,397 | - | - | - |
| Exercise of options | 2,462,900 | 342,645 | - | - | - | - | - | 342,645 |
| Fair value of exercised options | - | 291,422 | - | (291,422) | - | - | - | - |
| Exercise of warrants | 11,837,032 | 1,183,703 | - | - | - | - | - | 1,183,703 |
| Fair value of exercised warrants | - | 26,163 | - | - | (26,163) | - | - | - |
| Issued pursuant to asset purchase agreement (Note 10) | 3,226,000 | 322,600 | - | - | - | - | - | 322,600 |
| Share issuance costs | - | (20,600) | - | - | - | - | - | (20,600) |
| Issuance of shares for settlement of debt | 8,397,157 | 3,310,774 | - | - | - | - | - | 3,310,774 |
| Cancellation of shares (Note 10) | (1,700,000) | (255,000) | 255,000 | - | - | - | - | - |
| Share-based compensation | - | - | - | 1,348,662 | - | - | - | 1,348,662 |
| Options issued pursuant to joint venture agreement | - | - | - | 56,760 | - | - | - | 56,760 |
| Net and comprehensive loss for the year | - | - | - | - | - | (6,261,214) | - | (6,261,214) |
| Balance, August 31, 2017 | 61,589,503 | 15,121,397 | - | 1,556,162 | 337,830 | (16,522,209) | - | 493,180 |
| | | | | | | | - | |
| Issued pursuant to private placements | 11,285,999 | 3,715,450 | - | - | - | - | - | 3,715,450 |
| Issued pursuant to the acquisition of Prodigy Films Inc. (Note 10) | 71,428 | 44,285 | - | - | - | - | - | 44,285 |
| Issued pursuant to the acquisition of 1142128 B.C Ltd. (Note 12) | 62,500 | 56,875 | - | - | - | - | - | 56,875 |
| Issued pursuant to the acquisition of Xenoholographic Inc. (Note 11) | 1,828,571 | 594,286 | - | - | - | - | - | 594,286 |
| Finders' fees – cash | - | (4,800) | - | - | - | - | - | (4,800) |
| Finders' fees – shares | 86,929 | - | - | - | - | - | - | - |
| Finders' fees – warrants | - | (8,875) | - | - | 8,875 | - | - | - |
| Exercise of options | 678,000 | 141,855 | - | - | - | - | - | 141,855 |
| Fair value of exercised options | - | 116,288 | - | (116,288) | - | - | - | - |
| Exercise of warrants | 636,160 | 207,632 | - | - | - | - | - | 207,632 |
| Fair value of exercised warrants | - | 11,944 | - | - | (11,944) | - | - | - |
| Fair value of warrant including in unit offering | - | (125,093) | - | - | 125,093 | - | - | - |
| Share issuance costs | - | (9,900) | - | - | - | - | - | (9,900) |
| Issuance of shares for settlement of debt | 142,380 | 41,290 | - | - | - | - | - | 41,290 |
| Share-based compensation | - | - | - | 1,671,655 | - | - | - | 1,671,655 |
| Warrants issued pursuant to loan agreement | - | - | - | - | 708,922 | - | - | 708,922 |
| Non-controlling interest | - | - | - | - | - | - | 63,330 | 63,330 |
| Net and comprehensive loss for the year | - | - | - | - | - | (3,040,581) | (63,330) | (3,103,911) |
| Balance, August 31, 2018 | 76,381,470 | $ 19,902,634 | $ - | $3,111,529 | $ 1,168,776 | $ (19,562,790) | $ - | $ 4,620,149 |

**See accompanying notes to the consolidated financial statements.**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Imagination Park Entertainment Inc. ("the Company") is a public company domiciled in Canada incorporated in British Columbia under the laws of the Business Corporation Act (BC, Canada) on October 11, 2011. The Company's head office is located at 1108 – 1238 Seymour Street, Vancouver, BC, V6B 6J3.

The Company's core business is to deliver engaging and interactive content to users through a cloud-based augmented reality platform. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the ticker symbol "IP".

The consolidated financial statements of the Company as at, and for the years ended August 31, 2018 and August 31, 2017 comprise the Company and its subsidiaries (together referred to as the "Company" and individually as "Company entities").

The consolidated financial statements have been prepared on the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, complete additional equity financing, or generate profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations however; there is no assurance that these funds will be available on terms acceptable to the Company or at all. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 2. STATEMENT OF COMPLIANCE

These consolidated financial statements, including comparatives, approved by the Board of Directors on December 31, 2018 have been prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated statements are based on IFRS issued and outstanding as of August 31, 2018.

## 3. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a historical cost basis except for investments, and the derivative liabilities which are classified as available-for-sale or held-for-trading and measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional and presentation currency of the Company and its wholly owned subsidiaries is the Canadian dollar.

In the preparation of these consolidated financial statements, management is required to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses and revenues during the period. Actual results could differ from these estimates.

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

(EXPRESSED IN CANADIAN DOLLARS)

## 3. BASIS OF PRESENTATION (Continued)

The consolidated financial statements include the financial information of the Company and its subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Ownership Interest at August 31, 2018 | Ownership Interest at August 31, 2017 | Principal Activity |
|---|---|---|---|---|
| 1142128 B.C. Ltd. | Canada | 100% | - | Movie production |
| Xenoholographic Inc. | United States | 100% | 50% | Virtual reality |
| Prodigy Films Inc. | Canada | 100% | - | Movie production |
| Juturna Geothermal Inc. (dissolved) | Canada | - | 100% | Holding company |
| Imagination Park Alberta Ltd. | Canada | 100% | - | Movie production |
| 3 Seconds Holdings Inc. | Canada | 66.67% | - | Movie investment |

The consolidated financial statements include the financial statements of 1142128 B.C. Ltd. from its date of acquisition on January 24, 2018, Imagination Park Alberta Ltd. from its incorporation on April 9, 2018, Xenoholographic Inc. from the date control was acquired on May 29, 2018, Prodigy Films Inc, from its date of acquisition on December 20, 2017, and 3 Seconds Holdings Inc. from its date of acquisition on February 22, 2018.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to the years presented in these consolidated financial statements, unless otherwise stated.

**Subsidiaries**
Subsidiaries are entities over which the Company has control. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affects its returns. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

**Investment in Joint Venture**
A joint venture is a joint arrangement whereby the joint venture participants are bound by contractual agreements establishing joint control. Joint control exists when decisions about the activities that significantly affect the returns of the investee require unanimous consent. A joint arrangement may be a joint operation or a joint venture. A joint arrangement is classified as a joint venture when the investor has rights to the net assets of the joint arrangement. A joint operation is a joint arrangement whereby the investor has rights and obligations to the separate assets and liabilities of the investee, respectively. The Company does not hold interests in joint operations.

The Company accounts for its investments in its joint venture using the equity method. Under the equity method, the Company’s investment in the joint venture is initially recognized at fair value and subsequently increased or decreased to recognize the Company's share of net earnings and losses of joint venture, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the associate or joint venture's reserves, and for impairment losses after the initial recognition date. The total carrying amount of the Company's investments in its joint venture also include any long-term debt interests which in substance form part of the Company's net investment. The Company’s share of the joint venture's losses that are in excess of its investment are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. The Company's share of earnings and losses of the joint venture are recognized in profit or loss during the period. Dividends and repayment of capital received from a joint venture are accounted for as a reduction in the carrying amount of the Company’s investment.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash**
Cash consists of balances with banks and short-term demand deposits which are readily convertible into a known amount of cash. The Company's cash is invested with major financial institutions in business accounts.

**Revenue recognition**
Revenue from production services and other revenue, as appropriate, is recognized on a percentage-of-completion basis. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on productions-in-progress. Revenue from the provision of production services is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is reasonably assured.

**Financial instruments**
Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments, together with financial instruments designated as fair value through profit or loss, are measured at fair value with subsequent changes in fair value recognized in profit or loss.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. The effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. Any gains and losses arising from the sale of held-to-maturity financial assets are recognized in profit or loss. Currently, the Company has no held-to-maturity financial assets.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in profit or loss. The Company’s cash balance and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying amounts because of the limited terms of these instruments.

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables. Available-for-sale assets are recognized at fair value and are subsequently carried at fair value. Changes in fair value, other than impairment losses, are recognized in other comprehensive income or loss. When an available-for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income or loss to profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. Regular way purchases and sales of financial assets are accounted for at the trade date.

Financial liabilities that are not classified as held-for-trading or as fair value through profit or loss are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the profit or loss. The Company's accounts payable, accrued liabilities, loans payable and convertible promissory note are classified as other financial liabilities, and the derivative liability is classified as fair value through profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

### Business combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the fair value of consideration transferred over the fair value of identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

### Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses and is not subject to amortization. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Goodwill is allocated to a cash generating unit ("CGU"), or group of CGUs, which is the lowest level within an entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Impairment is tested by comparing the recoverable amount of goodwill assigned to a CGU or group of CGUs to its carrying value.

### Intangible assets

Identifiable intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is valued at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of financial assets**
Financial assets, other than available-for-sale assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is recognized in profit or loss. To the extent that this impairment was previously recognized as a decline in fair value in other comprehensive income, the amount recognized is reclassified from other comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

**Impairment of non-financial assets**
At each statement of financial position date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Foreign currency translation**
The Canadian dollar is the functional and reporting currency of the Company. All foreign currency monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are measured at fair value, in which case they are translated using the exchange rates at the date when the fair value was measured. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in profit or loss.

**Provisions**
Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions as at August 31, 2018 or August 31, 2017.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Valuation of equity units issued in private placements**
The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first attributes value to the shares based on their quoted trading price at issuance, and the residual amount, if any, is attributed to the value of the warrants. Any fair value attributed to the warrants is recorded within the warrant reserve.

**Share-based payment transactions**
In situations where equity instruments are issued to non-employees and the fair value of some or all of the goods or services received by the entity as consideration cannot be reliably estimated, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

**Share consideration**
Other equity instruments issued as purchase consideration in non-cash transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration is based upon the trading price of those shares on the CSE on the date of the agreement to issue shares as determined by the Board of Directors.

**Income taxes**
Income tax on the profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recognized.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the years ended August 31, 2018 and 2017, the outstanding stock options and warrants were anti-dilutive.

**Estimates and judgments**

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

i) Carrying values for assets and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of value in use or fair value less costs to sell in the case of non-financial assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

ii) Business combinations

The purchase price allocation process requires management to use significant estimates and assumptions, including fair value estimates including, but not limited to:

estimated fair values of tangible assets;
estimated fair values of intangible assets;
estimated income tax assets and liabilities; and
estimated fair value of pre-acquisition contingencies.

While management uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is the earlier of the date management receives the information necessary to identify and measure assets acquired, liabilities assumed, and consideration transferred or one year from the acquisition date, it is reasonably possible that adjustments will be recorded to the assets acquired and liabilities assumed, with the corresponding offset to goodwill.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes judgements related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Share-based payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

iii) Acquisitions
Management uses judgment in determining if an acquisition is a business combination or an asset acquisition.

**Future accounting changes**
IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9") introduces new requirements for the classification and measurement of financial instruments. Management will adopt this standard in the Company's consolidated financial statements for the period beginning September 1, 2018, and this standard is not expected to have a significant impact on the Company’s existing accounting policies or financial statement presentation.

IFRS 15 Revenue from Contracts with Customers: The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. Management will adopt this standard in the Company's consolidated financial statements for the period beginning September 1, 2018, and this standard is not expected to have a significant impact on the Company’s existing accounting policies or financial statement presentation.

IFRS 16 Leases: The new standard specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. Applicable to annual periods beginning on or after January 1, 2019. The eventual application of this standard is not expected to have a significant impact on the Company’s existing accounting policies or financial statement presentation.

## 5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company’s capital structure to primarily consist of the components of shareholders’ equity.

The Company is dependent on external financing to fund its activities. In order to carry out future transactions and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess additions to its media business if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period presented. The Company and its subsidiaries are not subject to externally imposed capital requirements.

(EXPRESSED IN CANADIAN DOLLARS)

## 6. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes to the Company’s approach to mitigating risk exposures during the year ended August 31, 2018.

<u>Credit risk</u>
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to cash and receivables. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The receivables that are financial instruments consist of trade receivables. The Company has no significant concentration of credit risk arising from operations.

<u>Liquidity risk</u>
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to ensure it has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its working capital requirements, after taking into account existing cash and expected exercise of share purchase warrants and options. Management believes that it will be successful in raising the necessary funds however, given the current market conditions, management believes that the raising of the required funds will take longer than is normal and will be at prices that may be less than desirable. There are no assurances that additional funds will be available on terms acceptable to the Company or at all. As at August 31, 2018, the Company had $595,888 (2017 - $286,839) of accounts payable and accrued liabilities which are due on standard trade payable terms not exceeding 90 days and loans payable of $425 (2017 - $5,076) and a convertible promissory note and derivative liability of $2,007,025 (2017 - $Nil).

<u>Interest risk</u>
Interest risk consists of two components: to the extent that payments made or received on the Company’s financial instruments are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rates on the Company’s financial instruments the Company is exposed to interest rate fair value risk. The Company has cash balances and no material interest-bearing debt, therefore, interest rate risk is minimal.

<u>Foreign currency risk</u>
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company’s functional and presentation currency is the Canadian dollar. Certain expenditures are transacted in foreign currencies. As a result, the Company is exposed to fluctuations in these foreign currencies relative to the Canadian dollar. As at August 31, 2018, the Company has US$11,866 included in cash, US$169,005 included in accounts payable, and a convertible promissory note of US$1,800,000. Management does not hedge its foreign exchange risk, and does not believe a change in foreign exchange would materially affect the Company at its current stage.

## 7. RECEIVABLES

The receivables balance is comprised of the following items:

| | *August 31, 2018* | *August 31, 2017* |
|---|---|---|
| Sales tax receivable from the Federal Government | $ 137,342 | $ 54,603 |
| Due from related parties (Note 18) | 9,705 | - |
| | $ 147,047 | $ 54,603 |

(EXPRESSED IN CANADIAN DOLLARS)

## 8. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

| | | *August 31, 2018* | | *August 31, 2017* |
|---|---|---|---|---|
| Consulting | $ | 89,877 | $ | 2,625 |
| Professional | | 981 | | 5,134 |
| Rent | | - | | 500 |
| Total | $ | 90,858 | $ | 8,259 |

## 9. RECLAMATION BONDS

The reclamation bonds balance at August 31, 2018, of $5,040 (2017 - $5,040) relates to the Company's previously held mineral properties.

## 10. ASSET ACQUISITIONS

Asset purchase agreements

i) Prodigy Films Inc.
On December 20, 2017, the Company purchased a 100% interest in a private company, Prodigy Inc. by issuing 71,428 common shares. The fair value of the 71,428 common shares was determined to be $0.62 per common shares, based on the trading price at the date of issuance for consideration of $44,285. The acquisition was determined to be an asset acquisition and the total consideration was allocated to an option for a script. Effective December 20, 2017, the Company included the operations of Prodigy Films Inc. in the consolidated financial statements. During the year ended August 31, 2018, there has been no activity.

During the year ended August 31, 2018 the Company recorded an impairment of $44,285 due to uncertainty around future benefits.

Revenue participation agreements
During the year ended August 31, 2015, the Company signed revenue participation agreements with directors, subsequently amended, to acquire the rights to share potential revenue from upcoming films. The Company issued 3,400,000 shares valued at $510,000 (based on the market price on the date shares were issued) as consideration for the acquisitions. During the year ended August 31, 2016, 1,700,000 shares were cancelled and returned to treasury valued at $255,000. During the year ended August 31, 2017, an additional 1,700,000 shares were cancelled and returned to treasury valued at $255,000 and the Company issued 2,665,000 common shares at $0.10 to Triton Films Inc., a company wholly-owned by Gabriel Napora, former director of Imagination Park, pursuant to the initial exercise of its option under the revenue participation agreement, which was amended during the three months ended November 30, 2016 to acquire the rights to share potential revenue from upcoming films.

i) Absolution
During the year ended August 31, 2016, the Company issued 500,000 valued at $25,000 in exchange for a percentage of net profits in the film 'Absolution". During the year ended August 31, 2017 the Company wrote off the asset of $25,000.

ii) 3 Seconds Holdings Inc.
During the year ended August 31, 2018, the Company acquired 66.67% of the outstanding share capital of 3 Seconds Holdings Inc. in consideration for a cash payment of $126,659 (US$100,000). The acquisition was determined to be an asset acquisition and the total consideration, including the non-controlling interest, of $189,989 was allocated to a net profit interest in the film "The Informant". Effective February 22, 2018, the Company included the operations of 3 Seconds Holdings Inc. in the consolidated financial statements.

## 10. ASSET ACQUISITIONS (Continued)

During the year ended August 31, 2017, the Company issued 561,000 common shares at $0.10 to Robinson Media Inc., a company owned by Timothy Marlowe, former director of Imagination Park, pursuant to the acquisition of a 10% net profits interest in a full length documentary 'Food for Thought'.

During the year ended August 31, 2018, $189,989 (2017 - $286,100) of net profit interests acquired were expensed due to uncertainty around future benefits.

## 11. XENOHOLOGRAPHIC INC. ACQUISITION

During the year ended August 31, 2017, the Company executed a binding letter of intent ("LOI") with InterKnowlogy, LLC ("InterKnowlogy") in connection with the establishment of a joint venture company "Xenoholographic Inc. ("Xeno") where, pursuant to the terms, ownership will be divided on a 50/50 basis between Imagination Park and InterKnowlogy. Under the LOI the Company was to contribute seed funds of US$500,000 and InterKnowlogy contributed the "Technology" as defined in the LOI. Additional investment was to be made on an equal basis.

During the year ended August 31, 2017, the Company contributed $149,056 (US$120,000) and granted 240,000 options with a value of $56,760 to Interknowlogy. During the year ended August 31, 2017, the Company recorded its share of the loss of Xeno of $2,024. There are no contingent liabilities relating to the Company's interest in the joint venture, and no contingent liabilities of the venture itself.

During the year ended August 31, 2018, the Company contributed a further $1,236,145 (US$979,000) to complete the acquisition of 50% of Xeno and fund further activity, up to the date of the step acquisition the Company recorded its share of the loss of Xeno of $38,316.

On May 29, 2018, the Company acquired all the remaining issued and outstanding shares of Xeno for the following consideration:

i. Cash of US$200,000 (CAD $259,262 paid) on signing of the agreement;
ii. Issue of 1,828,571 common shares of the Company, with a fair value of $594,286; and
iii. Convertible promissory note of US$1,800,000 (CAD$2,338,380) (Note 17) with the following terms:
    a) payment of US$1,800,000 on or before May 29, 2019;
    b) if after May 29, 2019 there remains any unpaid portion of the promissory note, at the option of the Company, the Company can satisfy part or all of the unpaid purchase price through the issuance of common shares of the Company valued at $0.35 per share; or
    c) at anytime the lender may request that the promissory note be satisfied with common shares of the Company valued at US$1.00 per share.

The acquisition of Xeno has been accounted for under IFRS 3 – Business Combinations using the step acquisition method, with the Company being identified as the acquirer. The step acquisition resulted in a fair value gain of $1,790,306.

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired. In accordance with the Company's accounting policy, the Company has up to one-year following the acquisition date to finalize the accounting for a business combination. Accordingly, the accounting for the Xeno acquisition has been completed using provisional amounts within these consolidated financial statements. Specifically we note that the fair value of the identifiable intangible assets, goodwill and deferred income taxes may be adjusted from these provisional amounts within the one-year measurement period based on facts and circumstances which existed as of the acquisition date; however, have not been reflected herein.

(EXPRESSED IN CANADIAN DOLLARS)

## 11. XENOHOLOGRAPHIC INC. ACQUISITION (Continued)

| *Net assets acquired* | | |
|---|---|---|
| Cash | $ | 4,450 |
| Intangible assets | | 6,392,465 |
| Accounts payable | | (13,059) |
| | $ | 6,383,856 |

| *Total Purchase Price:* | | |
|---|---|---|
| Cash US$200,000 | $ | 259,262 |
| Issuance of 1,828,571 shares | | 594,286 |
| Convertible promissory note US$1,800,000 | | 2,338,380 |
| Fair value of original 50% interest | | 3,191,928 |
| | $ | 6,383,856 |

## 12. 1142128 B.C LTD. ACQUISITION

On January 24, 2018, the Company purchased a 100% interest in a private company, 1142128 B.C Ltd. by issuing 62,500 common shares. The fair value of the 62,500 common shares was determined to be $0.91 per common share, based on the trading price at the date of issuance.

The acquisition of the private company has been accounted for under IFRS 3 – Business Combinations, with the Company being identified as the acquirer. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows:

| *Net assets acquired* | | |
|---|---|---|
| Cash | $ | 115,126 |
| Receivables | | 11,539 |
| Deposits | | 49,500 |
| Accounts payable | | (119,290) |
| | $ | 56,875 |

| *Total Purchase Price:* | | |
|---|---|---|
| Issuance of 62,500 shares | $ | 56,875 |

Effective January 25, 2018, the Company has included the operations of 1142128 B.C Ltd. in the consolidated financial statements. This includes production revenue of $401,965 and production expenses of $510,574 for the year ended August 31, 2018.

(EXPRESSED IN CANADIAN DOLLARS)

## 13. INTANGIBLE ASSETS

| | *August 31, 2018* | *August 31, 2017* |
|---|---|---|
| Mobile software application, cost of acquired assets (Note 11) | $ 6,392,465 | $ - |
| Additions | 250,338 | - |
| Total | $ 6,642,803 | $ - |

During the year ended August 31, 2018, intangible assets, comprising a mobile software platform and applications for augmented reality content, have not been amortized as they were not available for use.

## 14. INVESTMENT IN KINDERGARTEN HOLDINGS INC.

During the year ended August 31, 2018, the Company acquired 8.70% of the outstanding share capital of Kindergarten Holdings Inc. in consideration for a cash payment of $12,801 (US$10,000).

## 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The payables balance is comprised of the following items:

| | *August 31, 2018* | *August 31, 2017* |
|---|---|---|
| Trade payables | $ 505,151 | $ 186,468 |
| Related parties (Note 18) | 63,027 | 70,161 |
| Accrued liabilities | 27,710 | 30,210 |
| Total | $ 595,888 | $ 286,839 |

## 16. LOANS PAYABLE

During the year ended August 31, 2015, the Company received a loan of $6,000 from a non-related company. The loan bears interest at 10% and was repayable on December 15, 2015. If the loan was not repaid by the repayment date, the loan may be converted to shares at a price of $0.10 per share. During the year ended August 31, 2016 the principal was converted to shares and interest payable of $276 remains outstanding as at August 31, 2018 (2017 - $276).

As at August 31, 2018, the Company has $149 (2017 - $4,800) in short-term loans from related parties, which are non-interest bearing and repayable on demand.

During the year ended August 31, 2018, the Company entered into a related party $500,000 loan agreement with a director. The loan was unsecured, non-interest bearing and due 3 months from receipt. As compensation the lender was granted 2,500,000 common share purchase warrants (valued at $708,922) of the Company, each warrant convertible into one common share at a price of $0.32 per share for up to two years from the date of issue. During the year ended August 31, 2018, the Company repaid the loan in full.

(EXPRESSED IN CANADIAN DOLLARS)

## 17. CONVERTIBLE PROMISSORY NOTE

On May 29, 2018, the Corporation issued a convertible promissory note for US$1,800,000 (CDN$2,338,380). The unsecured convertible promissory note has a maturity date of May 29, 2019 does not bear interest and the principal amount is convertible into common shares at CDN$0.35 per share after May 29, 2019 at the option of the Company. At anytime the lender may request that the promissory note converted into common shares of the Company at US$1.00 per share.

The conversion option component is accounted for as a derivative liability as the currency of the U.S. dollar principal to be converted is different than the Canadian dollar conversion price of the Company's common shares.

The Corporation allocated the net proceeds to the liability and derivative liability components based on the fair value of the conversion feature (which is an embedded derivative liability requiring separation) and the liability using the effective interest rate method.

The fair value of the derivative liability component was determined to be $893,000 with a residual amount of $1,445,380 allocated to the liability on the date of issuance. The fair value of the conversion option component of the debenture at issuance was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 113%, risk free interest rate of 1.66% and an expected life of 1 year. The derivative liability is valued using Level 2 of the fair value hierarchy.

The discount on the convertible promissory note is amortized using the effective interest method over the one-year term of the promissory note. The Corporation accretes the carrying value of the convertible debentures each month by recognizing an accretion expense in profit or loss and a credit to convertible promissory note. For the year ended August 31, 2018, $209,750 of accretion expense from the debt discount was recorded by the Company.

The fair value of the derivative liability as at August 31, 2018 was estimated as $358,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 113% based on historical volatility, risk free interest rate of 1.66%, share price of $0.22, and an expected life of 0.75 years. The convertible promissory note is shown as a current liability as the debt's maturity date is fewer than 12 months from August 31, 2018.

| | *Liability* | *Derivative Liability* | *Total* |
|---|---|---|---|
| Balance August 31, 2016 and 2017 | $ - | $ - | $ - |
| Issuance of convertible promissory note | 1,445,380 | 893,000 | 2,338,380 |
| Accretion | 209,750 | - | 209,750 |
| Revaluation of derivative liability | - | (535,000) | (535,000) |
| Foreign exchange gain | (6,105) | - | (6,105) |
| Balance August 31, 2018 | $ 1,649,025 | $ 358,000 | $ 2,007,025 |

## 18. RELATED PARTY TRANSACTIONS

Key management personnel include members of the Board of Directors, Executive Officers and any companies owned or controlled by them.

During the year ended August 31, 2018, the Company paid or accrued consulting and management fees of $740,173 (2017 - $663,511), and paid or accrued office and rent costs of $Nil (2017 - $3,000) to directors and officers of the Company, or companies under their control. As at August 31, 2018, $63,027 (2017 - $70,161) remained outstanding and is included under accounts payable and accrued liabilities.

## 18. RELATED PARTY TRANSACTIONS (Continued)

During the year ended August 31, 2018, the Company was owed $9,705 from a company with directors in common which is included in receivables.

During the year ended August 31, 2018, the Company issued 2,650,000 stock options (2017 - 3,246,500) to directors resulting in share-based compensation of $708,729 (2017 - $468,070).

During the year ended August 31, 2018, the Company issued 2,500,000 warrants (2017 - Nil) relating to a loan payable (Note 16) to a director resulting in a financing expense of $708,922 (2017 - $Nil).

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

**Capital stock**

The Company has authorized an unlimited number of common shares without par value.

During the year ended August 31, 2018, the Company:

i) closed a non-brokered private placement financing for gross proceeds of $192,000. The Company issued 800,000 units at a price of $0.24 per unit. Each unit comprised of one common share and one-half of one share purchase warrant, with a whole warrant entitling the holder to purchase one additional common share for a period of up to twenty-four months from the date of issue at a price of $0.32, subject to accelerated expiry in certain circumstances.

   In addition, the Company has paid an arm's length finder a fee of $4,800 and issued 60,000 finders' units (valued at $14,400) with each finder's unit having the same terms as the units issued in the placement;

ii) closed a non-brokered private placement financing for aggregate gross proceeds of $60,000. The Company issued 187,500 units at a price of $0.32 per unit. Each unit comprised of one common share and one-half of one non-transferable share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company for a period of up to twenty-four months from the date of issue at a price of $0.37, subject to accelerated expiry in certain circumstances;

iii) issued 678,000 common shares pursuant to the exercise of options for gross proceeds of $141,855 and transferred the fair value of the options exercised to capital stock from share-based payments reserve;

iv) issued 636,160 common shares pursuant to the exercise of warrants for gross proceeds of $207,632;

v) issued 71,428 common shares at $0.62 for gross consideration of $44,285 to acquire Prodigy Films Inc. (Note 10);

vi) closed a non-brokered private placement financing for aggregate gross proceeds of $270,000. The Company issued 450,000 units at a price of $0.60 per unit. Each unit comprised of one common share and one non-transferable common share purchase warrant, with each warrant entitling the holder to purchase one additional common shares of the Company at a price of $0.65 for a period of up to twenty-four months from the date of issue.

   In addition, the Company issued 6,400 common shares (valued at $3,840) as an arm's length finder's fee in connection with the placement;

vii) issued 62,500 common shares at $0.91 for gross consideration of $56,875 to acquire 1142128 B.C Ltd. (Note 12);

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Capital stock (continued)**

viii) closed a non-brokered private placement financing for aggregate gross proceeds of $972,950. The Company issued 1,389,928 units at a price of $0.70 per unit. Each unit comprises of one common share and one non-transferable common share purchase warrant (valued at $125,093) with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.70 for a period of up to twenty-four months from the date of issue, subject to accelerated expiry in certain circumstances.

In addition, the Company has issued 20,529 common shares (valued at $14,370) as an arm's length finder's fee in connection with the placement;

ix) closed a non-brokered private placement financing for total gross proceeds of $1,665,500. The Company has allotted and issued 4,758,571 units at a price of $0.35 per unit. Each unit is comprised of one common share and one transferable share purchase warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 36 months at a price of $0.50.

In addition, the Company has paid $9,000 as an arm's length finder's fee in connection with the private placement;

x) issued 1,828,571 common shares (valued at $594,286) to acquire an additional 50% interest in Xenoholographic Inc. (Note 11);

xi) issued 142,380 common shares at a fair value of $0.29 per share to settle debts of $35,595 resulting in a loss on settlement of debt of $5,695; and

xii) closed a non-brokered private placement financing for aggregate gross proceeds of $555,000. The Company issued 3,700,000 units at a price of $0.15 per unit. Each unit comprises of one common share and one non-transferable common share purchase warrant with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 for a period of up to thirty-six months from the date of issue.

During the year ended August 31, 2017 the Company:

i) issued 378,000 common shares at $0.10 to settle debt in the amount of $37,800;

ii) issued 2,300,000 common shares at $0.10 to Triton Films Inc., a company wholly-owned by Gabriel Napora, former director of Imagination Park, pursuant to the initial exercise of its option under the Letter of Intent ("LOI"), which was amended during the three months ended November 30, 2016, to acquire a net profits interest in six films;

iii) issued 250,000 common shares at $0.10 pursuant to the LOI with Triton Films Inc., to settle the penalty fee due to the delay in completion of the financing;

iv) issued 115,000 common shares at $0.10 as a success fee pursuant to the exercise of the LOI option with Triton Films Inc.;

v) issued 561,000 common shares at $0.10 to Robinson Media Inc., a company owned by Timothy Marlowe, former director of Imagination Park, pursuant to the acquisition of a 10% net profits interest in a full length documentary 'Food for Thought';

vi) cancelled 1,700,000 common shares pursuant to the amended revenue participation agreement (Note 10);

(EXPRESSED IN CANADIAN DOLLARS)

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Capital stock (continued)**

vii) entered into debt settlement agreements with officers, directors and consultants of the Company pursuant to which the Company issued 7,926,157 common shares at a fair value of $0.41 per share to settle debts of $396,308 resulting in a loss on settlement of debt of $2,853,417;

viii) issued 2,462,900 common shares pursuant to the exercise of options for gross proceeds of $342,645 and transferred the fair value of the options exercised to capital stock from share-based payments reserve;

ix) issued 11,837,032 common shares pursuant to the exercise of warrants for gross proceeds of $1,183,703 and transferred the fair value of the options exercised to capital stock from warrant reserve;

x) entered in to a debt settlement agreement with a former director pursuant to which the Company has agreed to issue 93,000 common shares at $0.245 per share in order to settle indebtedness in the amount of $22,785; and

xi) closed a non-brokered private placement financing for aggregate gross proceeds of $261,800. The Company issued 1,047,200 units at a price of $0.25 per unit. Each unit comprised of one common share and one-half of one non-transferable share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company for a period of up to twenty-four months from the date of issue at a price of $0.35, subject to accelerated expiry in certain circumstances.

In addition, the Company has paid an arm's length finders' fees of a total of $7,560 and issued an aggregate 30,240 finders' warrants with each finders' warrant exercisable into a unit under the same terms as above.

In the event that the closing price of the Company's common shares is at or above $0.50 per share for ten consecutive days, the Company may provide notice (the "Acceleration Notice") to the holders of the warrants and finders' warrants the expiry date of the warrants and finders' warrants has been accelerated and that warrants and finders' warrants not exercised within 30 days of the date of the Acceleration Notice will expire 30 days from the date of the Acceleration Notice.

**Share purchase warrants**

At August 31, 2018 warrants were outstanding enabling holders to acquire shares as follows:

| Expiry Date | Exercise Price ($) | Number of warrants | Remaining contractual life (years) | Currently exercisable |
|---|---|---|---|---|
| June 22, 2019 | 0.35 | 329,600 | 0.81 | 329,600 |
| June 22, 2019 | 0.35 | 3,200 | 0.81 | 3,200 |
| September 28, 2019 | 0.32 | 30,000 | 1.08 | 30,000 |
| November 14, 2019 | 0.37 | 93,750 | 1.21 | 93,750 |
| January 10, 2020 | 0.65 | 450,000 | 1.36 | 450,000 |
| March 19, 2020 | 0.70 | 1,389,928 | 1.55 | 1,389,928 |
| November 14, 2020 | 0.32 | 2,500,000 | 2.21 | 2,500,000 |
| May 16, 2021 | 0.25 | 4,758,571 | 2.71 | 4,758,571 |
| August 9, 2021 | 0.25 | 3,700,000 | 2.94 | 3,700,000 |
| | | 13,255,049 | 2.45 | 13,255,049 |

(EXPRESSED IN CANADIAN DOLLARS)

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Share purchase warrants (continued)**

The following is a summary of the warrant transactions during the years ended August 31, 2018 and 2017:

| | Year ended August 31, 2018 | | | Year ended August 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Number Of Warrants | | Weighted Average Exercise Price | Number Of Warrants | | Weighted Average Exercise Price |
| Balance, beginning of the year | 553,840 | $ | 0.34 | 13,237,532 | $ | 0.18 |
| Warrants issued -pursuant to private placements | 10,822,249 | | 0.33 | 523,600 | | 0.35 |
| Warrants issued -pursuant to broker's warrants | 15,120 | | 0.35 | 30,240 | | 0.25 |
| Warrants issued - pursuant to bridge loan (Note 16) | 2,500,000 | | 0.32 | - | | - |
| Warrants exercised | (636,160) | | (0.33) | (11,837,032) | | (0.10) |
| Warrants expired | - | | - | (1,400,500) | | (0.79) |
| Balance, end of year | 13,255,049 | $ | 0.33 | 553,840 | $ | 0.34 |

Broker warrants were valued at $8,875 (2017 - $5,397), using the Black Scholes option pricing model.

During the year ended August 31, 2018, 2,500,000 warrants, granted under the bridge loan agreement, were valued at $708,922, using the Black Scholes option pricing model.

The weighted average issuance date fair value of warrants issued during the year ended August 31, 2018 was $0.25 per warrant (2017 - $0.18).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of broker warrants and loan warrants issued in the years ended August 31, 2018 and 2017:

| | Year ended August 31, 2018 | Year ended August 31, 2017 |
|---|---|---|
| Risk-free interest rate | 1.44% | 0.93% |
| Expected life of warrants | 2.00 years | 2.00 years |
| Expected annualized volatility | 190% | 150% |
| Expected dividend rate | 0% | 0% |
| Stock price | $0.35 | $0.25 |
| Exercise price | $0.32 | $0.25 |

**Stock options**

The Company may grant stock options pursuant to a stock option plan which was initially established in accordance with the policies of the TSX-V. During the year ended August 31, 2015, the Company moved it's listing from the TSX-V to the CSE, and did not change the stock option plan. The Board of Directors administers the plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants and advisors. The options can be granted for a maximum of five years.

(EXPRESSED IN CANADIAN DOLLARS)

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Stock options (continued)**

As at August 31, 2018, the following incentive stock options were outstanding:

| | Options Outstanding and Exercisable | |
|---|---|---|
| Expiry Date | Exercise price ($) | Number of Options Outstanding |
| April 4, 2019 | 0.35 | 300,000 |
| December 22, 2019 | 0.65 | 19,000 |
| January 22, 2020 | 0.97 | 150,000 |
| March 13, 2020 | 0.30 | 350,000 |
| March 17, 2020 | 0.45 | 50,000 |
| June 4, 2020 | 0.34 | 50,000 |
| August 24, 2020 | 0.24 | 250,000 |
| August 13, 2021 | 0.17 | 250,000 |
| August 24, 2021 | 0.24 | 562,250 |
| September 13, 2021 | 0.15 | 500,000 |
| November 16, 2021 | 0.15 | 50,000 |
| February 3, 2022 | 0.05 | 317,100 |
| April 12, 2022 | 0.50 | 40,000 |
| April 18, 2022 | 0.31 | 750,000 |
| June 22, 2022 | 0.26 | 68,888 |
| July 4, 2022 | 0.26 | 490,000 |
| August 8, 2022 | 0.28 | 150,000 |
| November 9, 2022 | 0.28 | 825,000 |
| December 12, 2022 | 0.69 | 20,000 |
| January 22, 2023 | 0.97 | 50,000 |
| February 13,2023 | 0.72 | 75,000 |
| April 20, 2023 | 0.45 | 100,000 |
| July 12, 2023 | 0.20 | 1,400,000 |
| | | 6,817,238 |

The following is a summary of the option transactions during the year ended August 31, 2018 and 2017:

| | Year ended August 31, 2018 | | Year ended August 31, 2017 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of the year | 4,375,488 | $ 0.25 | 710,000 | $ 0.06 |
| Options granted | 5,502,650 | 0.39 | 7,838,388 | 0.22 |
| Options exercised | (678,000) | (0.21) | (2,462,900) | (0.14) |
| Options expired/cancelled | (2,382,900) | (0.53) | (1,710,000) | (0.18) |
| Balance, end of the year | 6,817,238 | $ 0.27 | 4,375,488 | $ 0.25 |

(EXPRESSED IN CANADIAN DOLLARS)

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

**Stock options (Continued)**
The weighted average issuance date fair value of stock options granted during the year ended August 31, 2018 was $0.55 per option (2017 - $0.28).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the year ended August 31, 2018 and 2017:

| | Year ended August 31, 2018 | Year ended August 31, 2017 |
|---|---|---|
| Risk-free interest rate | 1.85% | 0.92% |
| Expected life of options | 3.95 years | 4.44 years |
| Expected annualized volatility | 153% | 150% |
| Exercise price | $0.39 | $0.24 |
| Expected dividend rate | 0% | 0% |

**Share based compensation**

During the year ended August 31, 2018, the Company granted the following options:

i) issued 100,000 stock options to a consultant of the Company. The options are exercisable at $0.255 per share for a period of two years from the date of grant. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

ii) issued 100,000 stock options to an officer of the Company. The options are exercisable at $0.255 per share for a period of five years from the date of grant. The options vested immediately.

iii) issued 1,185,000 stock options to officers, directors and consultants of the Company. The options are exercisable at $0.275 per share for a period of five years from the date of grant.The options vested immediately.

iv) issued 5,000 stock options to a consultant of the Company. The options are exercisable at $0.46 per share for a period of three years from the date of grant. The options vested immediately.

v) issued 50,000 stock options to consultants of the Company. The options are exercisable at $0.60 per share for a period of five years from the date of grant. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

vi) issued 250,000 stock options to a consultant of the Company. The options are exercisable at $0.70 per share for a period of five years from the date of grant. The options vested immediately.

vii) issued 20,000 stock options to a consultant of the Company. The options are exercisable at $0.69 per share for a period of five years from the date of grant. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

viii) issued 5,000 stock options to a consultant of the Company. The options are exercisable at $0.65 per share for a period of five years from the date of grant. The options vested immediately.

ix) issued 85,400 stock options to consultants of the Company. The options are exercisable at $0.65 per share for a period of two years from the date of grant. The options vested immediately.

x) issued 175,000 stock options to consultants of the Company. The options are exercisable at $0.97 per share for a period of two years from the date of grant. The options vested immediately.

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

**Share based compensation (Continued)**

xi) issued 100,000 stock options to a director and a consultant of the Company. The options are exercisable at $0.97 per share for a period of five years from the date of grant. The options vested immediately.

xii) issued 375,000 stock options to a director and consultants of the Company. The options are exercisable at $0.95 per share for a period of two years from the date of grant. The options vest over 14 months, 67% at grant date and 33% after 14 months from the date of grant.

xiii) issued 10,000 stock options to a consultant of the Company. The options are exercisable at $0.85 per share for a period of two years from the date of grant. The options vested immediately.

xiv) issued 75,000 stock options to a consultant of the Company. The options are exercisable at $0.72 per share for a period of five years from the date of grant. The options vested immediately.

xv) issued 100,000 stock options to a consultant of the Company. The options are exercisable at $0.72 per share for a period of three years from the date of grant. The options vest two years after the date of grant.

xvi) issued 50,000 stock options to a consultant of the Company. The options are exercisable at $0.78 per share for a period of two years from the date of grant. The options vested immediately.

xvii) issued 25,000 stock options to a consultant of the Company. The options are exercisable at $0.78 per share for a period of two years from the date of grant. The options vested immediately.

xviii) issued 140,000 stock options to a consultant of the Company. The options are exercisable at $0.61 per share for a period of two years from the date of grant. The options vested immediately.

xix) issued 40,000 stock options to a consultant of the Company. The options are exercisable at $0.50 per share for a period of two years from the date of grant. The options vested immediately.

xx) issued 100,000 stock options to a consultant of the Company. The options are exercisable at $0.45 per share for a period of two years from the date of grant. The options vested immediately.

xxi) issued 50,000 stock options to a consultant of the Company. The options are exercisable at $0.34 per share for a period of two years from the date of grant. The options vested immediately.

xxii) issued 1,400,000 stock options to a consultant of the Company. The options are exercisable at $0.20 per share for a period of two years from the date of grant. The options vested immediately.

xxiii) issued 250,000 stock options to a consultant of the Company. The options are exercisable at $0.17 per share for a period of two years from the date of grant. The options vest over 9 months, 25% at grant date, and 25% after three months thereafter.

xxiv) issued 562,250 stock options to a consultant of the Company. The options are exercisable at $0.24 per share for a period of two years from the date of grant. The options vest over 9 months, 25% at grant date, and 25% after three months thereafter.

xxv) issued 250,000 stock options to a consultant of the Company. The options are exercisable at $0.24 per share for a period of two years from the date of grant. The options vest over 1 year, 25% after three months thereafter.

## 19. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

### Share based compensation (Continued)

During the year ended August 31, 2017, the Company granted the following options:

i) granted 2,950,000 options exercisable at $0.15 for a period of five year to consultants in accordance with the Company's stock option plan. The options vested immediately.

ii) granted 200,000 options exercisable at $0.15 for a period of five year to officers, directors and consultants in accordance with the Company's stock option plan. The options vested immediately.

iii) granted 800,000 options exercisable at $0.05 for a period of five years to consultants in accordance with the Company's stock option plan. The options vested immediately.

iv) granted 900,000 options exercisable at $0.30 for a period of three years to consultants in accordance with the Company's stock option plan. The options vested immediately.

v) granted 325,000 options exercisable at $0.45 for a period of three years to consultants in accordance with the Company's stock option plan. The options vested immediately.

vi) granted 300,000 options exercisable at $0.30 for a period of three years to consultants in accordance with the Company's stock option plan. The options vested immediately.

vii) granted 300,000 options exercisable at $0.35 for a period of two years to consultants in accordance with the Company's stock option plan. The options vested immediately.

viii) granted 65,000 options exercisable at $0.31 for a period of two years to consultants in accordance with the Company's stock option plan. The options vested immediately.

ix) granted 750,000 options exercisable at $0.31 for a period of five years to the CEO of the Company in accordance with the Company's stock option plan. The options vested immediately.

x) granted 250,000 options exercisable at $0.28 for a period of five years to consultants in accordance with the Company's stock option plan. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

xi) granted 125,000 options exercisable at $0.30 for a period of three years to consultants in accordance with the Company's stock option plan. The options vested immediately.

xii) granted 46,500 incentive stock options to an officer of the Company. The options are exercisable at $0.35 per share for a period of five years from the date of grant.

xiii) granted 68,888 incentive stock options. The options are exercisable at $0.26 per share for a period of five years from the date of grant. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

xiv) granted 608,000 incentive stock options. The options are exercisable at $0.26 per share for a period of five years from the date of grant. The options vested immediately.

xv) granted 150,000 options exercisable at $0.28 for a period of five years to consultants in accordance with the Company's stock option plan. The options vest over 3 years, 25% at grant date and 25% annually thereafter.

(EXPRESSED IN CANADIAN DOLLARS)

## 20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended August 31, 2018 consisted of:

i) transferred $116,288 from share-based payment reserve to share capital upon exercise of options;

ii) issued 1,389,928 warrants valued at $125,093 included in private placement unit offering;

iii) transferred $11,944 from warrant reserve to share capital upon exercise of warrants;

iv) issued 15,120 broker warrants valued at $8,875 as share issue costs pursuant to private placement and acquisition of 1142128 B.C Ltd. and Prodigy Films Inc.;

v) issued 71,428 shares valued at $44,285 pursuant to the acquisition of Prodigy Films Inc. (Note 10);

vi) issued 62,500 shares valued at $56,875 pursuant to the acquisition of 1142128 B.C Ltd. (Note 12); and

vii) issued 1,828,571 shares valued at $594,286 pursuant to the acquisition of Xenoholographic Inc (Note 11).

Significant non-cash investing and financing transactions for the year ended August 31, 2017 consisted of:

i) issued 8,397,157 shares valued at $3,310,774 to settle outstanding debt;

ii) cancelled and returned to treasury 1,700,000 shares and valued at $255,000 (Note 10);

iii) issued 30,240 broker warrants valued at $5,397 as share issue costs pursuant to private placement;

iv) transferred $291,422 from share-based payment reserve to share capital upon exercise of options; and

v) transferred $26,163 from warrant reserve to share capital upon exercise of warrants.

## 21. INCOME TAX

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

| | | **2018** | | **2017** |
|---|---|---|---|---|
| Loss for the year | $ | (3,103,911) | $ | (6,261,214) |
| Expected income tax (recovery) – 26.7% (2017 – 26%) | $ | (830,000) | $ | (1,628,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | | 50,000 | | 39,000 |
| Non-deductible expenses | | 635,000 | | 357,000 |
| Non-taxable gains | | (616,000) | | - |
| Share issue costs | | (15,000) | | - |
| Impact of dissolved subsidiary | | 558,000 | | - |
| Impact of acquisition of XenoHolographic Inc. | | 581,000 | | - |
| Adjustment to prior years provision | | 741,000 | | - |
| Change in unrecognized deductible temporary differences | | (1,104,000) | | 1,241,000 |
| **Total income tax expense (recovery)** | **$** | **-** | $ | - |

(EXPRESSED IN CANADIAN DOLLARS)

## 21. INCOME TAX (Continued)

The significant components of the Company's deferred tax assets and liabilities that have not been included on the consolidated statement of financial position are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Deferred Tax Assets (liabilities) | | | | |
| Exploration and evaluation assets | $ | 229,000 | $ | 787,000 |
| Share issue costs | | 24,000 | | 18,000 |
| Intangible assets | | 153,000 | | 152,000 |
| Investment in Xenoholographic Inc. | | (463,000) | | - |
| Convertible promissory note and derivative liability | | (88,000) | | - |
| Allowable capital losses | | 5,000 | | 5,000 |
| Non-capital losses available for future periods | | 2,330,000 | | 2,332,000 |
| | | 2,190,000 | | 3,294,000 |
| Unrecognized deferred tax assets | | (2,190,000) | | (3,294,000) |
| **Net deferred tax assets** | **$** | **-** | **$** | **-** |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | | 2018 | Expiry Date Range | | 2017 | Expiry Date Range |
|---|---|---|---|---|---|---|
| **Temporary Differences** | | | | | | |
| Exploration and evaluation assets | $ | 856,000 | No expiry date | $ | 3,082,000 | No expiry date |
| Investment tax credit | | 1,000 | 2032 | | 2,000 | 2032 |
| Share issue costs | | 90,000 | 2019 to 2022 | | 69,000 | 2018 to 2021 |
| Investment in Xeno Holographic | | (1,737,000) | No expiry date | | - | |
| Convertible promissory note | | (331,000) | No expiry date | | - | |
| Intangible assets | | 572,000 | No expiry date | | 586,000 | No expiry date |
| Allowable capital losses | | 19,000 | No expiry date | | 19,000 | No expiry date |
| Non-capital losses available for future periods | | 8,726,000 | 2032 to 2038 | | 8,973,000 | 2032 to 2037 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

## 22. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2018, the Company:

i) closed a non-brokered private placement financing for aggregate gross proceeds of $3,028,718. The Company issued 25,239,318 units at a price of $0.12 per unit. Each unit comprises of one common share and one non-transferable common share purchase warrant with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 for a period of up to thirty-six months from the date of issue.

The Company paid $3,696 as an arm's length finder's fee in connection with the private placement.

ii) sold Imagination Park Alberta Ltd. for $6,000.

# *IMAGINATION PARK*

# *MANAGEMENT'S DISCUSSION AND ANALYSIS*

## December 31, 2018

**#510 – 580 Hornby Street,** ***Vancouver, British Columbia, Canada, V6C 3B6***
***Telephone: 818-850-2490***
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## 1. INTRODUCTION

The following Management's Discussion and Analysis ("MD&A"), of operating results and financial position for the years ended August 31, 2018 and 2017 is supplementary to, and should be read in conjunction with the audited consolidated financial statements and related notes for the financial year ended August 31, 2018. Copies of these documents can be found on the SEDAR website at www.sedar.com. The MD&A is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. The MD&A and the consolidated financial statements were reviewed by the Company's Audit Committee and approved by the Board of Directors.

## 2. FORWARD-LOOKING INFORMATION

*This document contains forward-looking statements which reflect management's current expectations about future events and financial and operating performance of the Company. Words such as "may", "will", "should", "could", "anticipate", "believe," "expect, "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. Forward-looking statements contained in this document may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. These statements reflect management's current views with respect to future events or conditions, including prospective financial performance, financial position, and predictions of future actions, plans or strategies. Certain material factors and assumptions were applied in drawing our conclusions and making these forward looking statements. These statements reflect management's current views, beliefs and assumptions and are subject to certain inherent risks and uncertainties. Factors that could cause actual performance to differ materially include, but are not limited to:*

- *ability to develop or acquire new technology;*
- *competition in the market;*
- *development of new software products;*
- *economic growth and fluctuations;*
- *proper performance of our Applications;*
- *the reliability of our payroll processing services;*
- *the protection and privacy of personal information which we hold;*
- *the risks associated with credit;*
- *capital expenditures;*
- *the exchange rate of the US currency fluctuations;*
- *changes in accounting policies and estimates;*
- *changes in consumer preferences and services and our ability to maintain customer relationships;*
- *human resource matters, including recruitment and retention of competent personnel;*

*The above (and other) factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by these forward-looking statements. See "Risks and Uncertainties" below and the section entitled "Risk Factors". Should one or more of these risks or uncertainties materialize, or should the assumptions underlying our projections or forward-looking statements prove incorrect, our actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. We do not intend and do not assume any obligation to update these forward-looking statements whether as a result of new information, plans, events or otherwise, unless required by law. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

## 3. COMPANY OVERVIEW

**Imagination Park Entertainment Inc. (the "Company" or "Imagination Park")** is a public company domiciled in Canada whose core business is to deliver engaging and interactive content to users through a cloud-based augmented reality ("AR") platform.

The Company's shares are listed on the Canadian Security Exchange (CSE) under the ticker symbol "IP" and the OTCQB Venture Market under stock symbol is "IPNFF". The Company was incorporated in British Columbia under the laws of the Business Corporation Act (BC, Canada).

In 2015, the Company was an emerging digital content production company, working with talented filmmakers around the world to bring conventional as well as virtual reality content to life. The Company embarked on a number of joint ventures, letters of understanding and revenue sharing agreements for the development of short films and proof of concepts.

In January 2018, the Company purchased a 100% interest in a private company, 1142128 B.C Ltd. by issuing 62,500 common shares. The fair value of the 62,500 common shares was determined to be $0.91 per common shares, based on the trading price at the date of issuance. The Company has included the operations of 1142128 B.C Ltd. in the consolidated financial statements. This includes revenue of $401,965 and offsetting costs of $510,574 for the year ended August 31, 2018.

During the year ended August 31, 2018, the Company acquired Prodigy Films Inc., for 71,428 common shares of Imagination Park, at value of $0.62 a share, for gross consideration of $44,285. The Company also acquired 66.67% of the outstanding shares capital of 3 Seconds Holdings Inc. in consideration for a cash payment of $126,659 (US$100,000). During the year, the Company incorporated Imagination Park Alberta Ltd., a movie production company and in December 2018 sold all interests in this Company for $6,000.

The Company has strategically decided to shift focus from digital content production to augmented reality and mixed reality software and services. Under the restructuring, the Company will reduce its involvement and investments in film content and transition to augmented reality. The Company expects to wind-down its remaining interest in its film producing entities in the following year.

In 2017, Company announced that it had executed a binding letter of intent with InterKnowlogy, LLC ("InterKnowlogy") in connection with the establishment of XenoHolographic Inc. ("XenoHolographic") a joint venture company where, pursuant to the terms, ownership would be divided on a 50/50 basis between Imagination Park and InterKnowlogy. InterKnowlogy, a software developer, is to advance its augmented and mixed reality platform and Imagination Park is to provide the marketing strategy and sales support to promote the use of augmented and mixed reality platform.

By November 2017, XenoHolographic was in the process of developing two new products to deliver interactive holographic experiences. XenoRoom is a location-based holographic experience engine allowing businesses to upload 3D content to the cloud. XenoSidekick is a mobile phone toolkit that when launched with a smartphone will allow for seamless interaction with holograms irrespective of the augmented reality headset brand.

In May 2018 the Company acquired the remaining 50% interest in XenoHolographic from InterKnowlogy to solely focus on providing the XenoHolographic Product Suite, one of the first platform-agnostic, cloud-based AR enterprise platforms in the world. With the recent acquisition of XenoHolographic, the Company now owns 100% of all right, title and interest in the XenoHolographic suite of products.

## 3. COMPANY OVERVIEW (CONTINUED)

*About XenoHolographic Product Suite*

*XenoMark*™ is an AR mobile app. that allows you to quickly create a visual marker. Once the marker is detected AR content is activated.

*XenoPlay*™ is the AR mobile app that allows the user to visualize the AR content once it is activated through XenoMark™. The activated content can be in the form of an image, text or video. XenoPlay™ can also deliver AR rewards and create AR stories showing people where they need to go and what they need to do to activate AR.

*XenoCloud*™ is a centralized management system where the content is securely stored and managed.

Working together, these products bridge the gap between the digital world and real world experiences. The mobile apps allow the users to scan real-world objects to unlock useful and entertaining content. The Company allows the user to create their own augmented reality content or will provide professional content services for a fee. Professional services can take the form of gaming content (scavenger hunts, score boards, sweepstakes etc.) or custom content (3D modelling, video animation, logo imaging etc.)

The AR experiences could be published to an existing mobile app or a white label app built by the Company via its augmented reality SDK or to the XenoPlay™ app. The Company will charge users an annual recurring licensing fee for the use of the mobile app based on the volume of AR experiences it publishes. The Company expects to generate revenue from monthly recurring revenue licensing fees.

According to Statista the AR/VR market grew from $6.1 billion in 2016 to $27 billion in 2018. BusinessWire reports that the global augmented reality market is estimated to be worth $60 Billion by 2023 and grow at a 40% CAGR from 2017 to 2023. The Company feels that it is uniquely positioned to take advantage of growth in this grass roots innovative industry which will revolutionize the way brands engage with their customers.

The Company is currently in discussions with a number of brands, resellers and agencies who are interested in licensing the XenoHolographic's software product suite. On November 15, 2018, the Company announced that it has been contracted to provide an exclusive augmented reality program for the inaugural season for the Tucson Sugar Skulls, an Indoor Football League ("IFL") team in Tucson, Arizona.

On December 10, 2018, the Company announced that it had been contracted to provide an exclusive augmented reality experience at the Mall of America one of the largest malls in America for this holiday season starting December 4, 2018. The Mall of America Augmented Reality Experience told a holiday story using XenoPlay™ mobile app with a series of AR experiences located throughout the mall. Upon completing the story, guests were rewarded with the opportunity to enter to win a shopping spree at the mall.

On December 4, 2018, the Company announced that it filed a comprehensive patent application for "Systems and Methods for Creating and Delivering Augmented Reality Content" with the U.S. Patent and Trademark Office. The patent application is specifically focused on the proprietary technology developed for XenoMark™ and XenoCloud™.

In June 2018, the Company announced significant changes to its Board of Directors with the appointment of James (Jim) Skippen and John Gillberry as new independent board members and the resignation from the Board of both Yas Taalat and Yipeng Ben Lu. In October 2018, the Company announced that Mr. Jim Skippen, an independent director, had been appointed Chair of the Board. In December 2018, the Company announced the Gabriel Napora resigned as a director of the Company.

## 4. NATURE OF CONTINUANCE OF OPERATIONS

The audited consolidated financial statements were prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, complete a public equity financing, or generate profitable operations in the future. The Company believes it will be able to raise the necessary funding to continue operations however, there is no assurance that these funds will be available on terms acceptable to the Company or at all. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

At August 31, 2018, the Company had a net working capital deficiency of $2,040,495 (2017 – working capital of $284,348).

## 5. SELECTED ANNUAL INFORMATION

The following summary of selected audited financial information is derived from, and should be read in conjunction with, the Company's audited consolidated financial statements, including the notes thereto, for the financial years ended August 31, 2018, 2017, and 2016:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | 416,965 | 34,034 | 81,954 |
| Loss for the year | 3,103,911 | 6,261,214 | 955,235 |
| Total comprehensive loss | 3,103,911 | 6,261,214 | 955,235 |
| Working capital (deficiency) | (2,040,495) | 284,348 | (74,530) |
| Total assets | 7,223,487 | 800,095 | 303,442 |
| Long-term debt | Nil | Nil | Nil |

## 6. DISCUSSION OF OPERATIONS

The results of operations reflect the overhead costs incurred to provide an administrative infrastructure to manage the business and financing activities of the Company. General and administrative costs can be expected to increase or decrease in relation to the changes in activity of Management and Directors.

For the year ended August 31, 2018, the Company had a net loss of $3,103,911 compared with a net loss of $6,261,214 in the prior year. During the year ended August 31, 2018, the Company incurred:

- production revenue of $416,965 (2017 - $34,034). Revenue in 2018 is related to the production of the Chinese television series "Always With You" through the Company's subsidiary, 1142128 B.C. Ltd. The Company also incurred $510,574 (2017 - $Nil) of production costs in 2018 resulting in a net production loss of $93,609.

- consulting and management fees of $1,283,755 (2017 - $921,672). The increase is mainly due to increased director and management involvement and increased outside consultants to facilitate the Company's restructuring and transition to AR.

## 6. DISCUSSION OF OPERATIONS (CONTINUED)

- financing of $708,922 (2017 - $Nil). The increase is mainly due to share purchase warrants granted pursuant to a related party $500,000 bridge loan agreement.

- accretion of convertible promissory note of $209,750 (2017 - $Nil). The increase is mainly due to the interest accrued on a convertible promissory note during the current year.

- share-based compensation of $1,671,655 (2017 - $1,348,662). The increase is due to options being granted during the current year.

- shareholder communications and promotions of $475,888 (2017 - $111,184). The increase was primarily due to an increase in promotion activities incurred during the current year including an increase in news release distribution fees, and website updates.

- travel and accommodation of $171,097 (2017 - $228,859). The decrease was due to directors travelling less frequently for business during the year.

- loss on settlement of debt of $1,045 (2017 - $2,849,789) related to the issuance of shares for debt. The prior year loss was a result of the difference between the deemed price and the fair value at the date of issuance.

- fair value gain on acquisition of XenoHolographic of $1,790,306 (2017 - $Nil). The gain was a result of the fair value change on the first 50% of XenoHolographic at the date of acquisition.

- $ 535,000 gain on revaluation of the derivative liability.

## 7. SUMMARY OF QUARTERLY RESULTS

The following table contains selected consolidated financial information for the Company, prepared in accordance with IFRS, for the eight most recently completed quarters of 2018 and 2017:

| **Three Months Ended** | **August 31, 2018** | **May 31, 2018** | **February 28, 2018** | **November 30, 2017** |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Production income | (37,889) | - | 454,854 | - |
| Production expenses | (55,720) | - | (454,854) | - |
| Income (loss) and Comprehensive income (loss) | (431,409) | 287,909 | (1,537,794) | (1,422,617) |
| Income (loss) per Common Share | (0.01) | 0.00 | (0.02) | (0.02) |
| **Three Months Ended** | **August 31, 2017** | **May 31, 2017** | **February 28, 2017** | **November 30, 2016** |
| | $ | $ | $ | $ |
| Production income | - | - | 4,034 | 30,000 |
| Loss and Comprehensive loss | (653,616) | (4,436,481) | (664,326) | (506,791) |
| Loss per Common Share | (0.01) | (0.08) | (0.03) | (0.03) |

## 7. SUMMARY OF QUARTERLY RESULTS (CONTINUED)

During the quarters ended November 30, 2016 and February 28, 2017, the Company increased its activity and increased its costs as a result. The increase in the quarter ended February 28, 2017 is primarily a result of $417,400 of share-based compensation relating to stock-option issuances. The increase in the quarter ended November 28, 2016 was primarily a result of $288,975 of net profit interests acquired.

During the quarter ended May 31, 2017, the Company incurred $2,851,624 in loss relating to shares issued for debt. This was a result of a difference in the deemed price and the trading price on the date of issuance. The Company also incurred $859,161 of stock-based compensation relating to the issuance of stock-options. The Company incurred higher consulting fees of $365,191 (compared to $221,442 during the 3 months ended May 31, 2016) and higher travel costs of $117,950 (May 31, 2016 - $36,988). Detailed descriptions of the increases are noted further in the MD&A.

During the quarter ended November 30, 2017, the Company incurred $988,392 of stock-based compensation relating to the issuance of stock-options and warrants pursuance to bridge loan agreement.

During the quarter ended February 28, 2018, the Company incurred $883,955 of stock-based compensation relating to the issuance of stock-options. The Company also recorded $454,854 of production income and $454,854 of production expenses related to producing the Chinese television series "Always With You" through the Company's newly acquired subsidiary, 1142128 B.C. Ltd.

During the quarter ended May 31, 2018, the Company incurred $1,400,577 in income relating to fair value gain on acquisition of XenoHolographic, subsequently adjusted in the fourth quarter by an additional $389,729.

During the quarter ended August 31, 2018, the Company incurred $374,961 of stock-based compensation relating to the issuance of stock-options.

## 8. DISCUSSION OF FOURTH QUARTER 2018 RESULTS

During the fourth quarter, the following significant transactions occurred:

i) The Company issued 142,380 common shares at a fair value of $0.29 per share to settle debts of $35,595 resulting in a loss on settlement of debt of $5,695.

ii) The Company closed a non-brokered private placement financing for aggregate gross proceeds of $555,000. The Company issued 3,700,000 units at a price of $0.15 per unit. Each unit comprises of one common share and one non-transferable common share purchase warrant with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 for a period of up to thirty-six months from the date of issue.

## 9. LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position was $324,938 at August 31, 2018 compared to $528,401 at August 31, 2017. The Company had a working capital deficiency of $2,040,495 at August 31, 2018 compared with working capital of $284,348 at August 31, 2017.

During the year ended August 31, 2018, cash flow activities consisted of:



i) cash flows spent on operating activities of $2,470,811 (2017 - $1,224,893) consisting of operating expenses during the year.

## 9. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

ii) cash flows received from financing activities of $4,045,587 (2017 - $1,764,638) consisting primarily of $3,715,450 from private placements.

iii) cash flows spent on investing activities of $1,778,239 (2017 - $147,032) consisting primarily of $1,758,355 (2017 - $147,032) for investment in XenoHolographic Inc.

During the period from September 1, 2017 to December 31, 2018, the Company:

i) closed a non-brokered private placement financing for gross proceeds of $192,000. The Company issued 800,000 units at a price of $0.24 per unit. Each unit comprised of one common share and one-half of one share purchase warrant, with a whole warrant entitling the holder to purchase one additional common share for a period of up to twenty-four months from the date of issue at a price of $0.32, subject to accelerated expiry in certain circumstances.

   In addition, the Company has paid an arm's length finder a fee of $4,800 and issued 60,000 finder's units with each finders unit having the same terms as the units issued in the placement;

ii) closed a non-brokered private placement financing for aggregate gross proceeds of $60,000. The Company issued 187,500 units at a price of $0.32 per unit. Each unit comprised of one common share and one-half of one non-transferable share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company for a period of up to twenty-four months form the date of issue at a price of $0.37, subject to accelerated expiry in certain circumstances;

iii) entered into a loan agreement to accept a short term, no interest, $500,000 bridge loan from a director of the Company convertible into 2,500,000 common share purchase warrants of the Company, each warrant convertible into one common share at a price of $0.32 per share for up to two years from the date of issue. The Company repaid it in full;

iv) issued 678,000 common shares pursuant to the exercise of options for gross proceeds of $141,855 and transferred the fair value of the options exercised to capital stock from share-based payments reserve;

v) issued 636,160 common shares pursuant to the exercise of warrants for gross proceeds of $207,632;

vi) issued 71,428 common shares at $0.62 for gross consideration of $44,285 to acquire Prodigy Films Inc.;

vii) issued 62,500 common shares at $0.91 for gross consideration of $56,875 to acquire 1142128 B.C Ltd.;

viii) closed a non-brokered private placement financing for aggregate gross proceeds of $270,000. The Company issued 450,000 units at a price of $0.60 per unit. Each unit comprised of one common share and one non-transferable common share purchase warrant, with each warrant entitling the holder to purchase one additional common shares of the Company at a price of $0.65 for a period of up to twenty-four months from the date of issue.

   In addition, the Company issued 6,400 common shares as an arm's length finder's fee in connection with the placement.

## 9. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

ix) closed a non-brokered private placement financing for aggregate gross proceeds of $972,950. The Company issued 1,389,928 units at a price of $0.70 per unit. Each unit comprised of one common share and one non-transferable common share purchase warrant (valued at $125,093), with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.70 for a period of up to twenty-four months from the date of issue.

In addition, the Company issued 20,529 common shares as an arm's length finder's fee in connection with the placement.

x) closed a non-brokered private placement financing for total gross proceeds of $1,665,500. The Company has allotted and issued 4,758,571 units at a price of $0.35 per unit. Each unit is comprised of one common share and one transferable share purchase warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 36 months at a price of $0.50.

In addition, the Company has paid $9,000 as an arm's length finder's fee in connection with the private placement;

xi) issued 1,828,571 common shares (valued at $594,286) to acquire XenoHolographic Inc. for $640,000, resulting in a gain of $45,714;

xii) issued 142,380 common shares at a fair value of $0.29 per share to settle debts of $35,595 resulting in a loss on settlement of debt of $5,695;

xiii) closed a non-brokered private placement financing for aggregate gross proceeds of $555,000. The Company issued 3,700,000 units at a price of $0.15 per unit. Each unit comprises of one common share and one non-transferable common share purchase warrant with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 for a period of up to thirty-six months from the date of issue;

xiv) issued a convertible promissory note to InterKnowlogy of US$1,800,000 (valued at CAD$2,338,380). The loan is repayable on or before May 29, 2019 or if after the date there remains any unpaid portion of the principal amount, the Company can satisfy part or all of the unpaid portion through the issuance of common shares of the Company valued at $0.35 per share or at the option of Interknowlogy at any time prior to May 29, 2019 at a price of US $1.00; and

xv) completed a non-brokered private placement financing for total gross proceeds of $3,028,718. The Company issued 25,239,318 units at a price of $0.12 per unit. Each unit comprised of one common share and one non-transferable common share purchase warrant, with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 for a period of up to thirty-six months from the date of issue. The net proceeds of the placement will be used in the Company's ongoing efforts to create, deliver and promote augmented reality and the XenoHolographic product suite of products as well as for general working capital purposes.

In addition, the Company paid $3,696 as finder's fees in connection with the private placement.

## 10. SHARE CAPITAL

As at December 31, 2018, the Company had 101,620,788 common shares issued and outstanding and the following incentive stock options were outstanding:

| Expiry Date | Exercise Price | Number of Options Outstanding |
|---|---|---|
| April 4, 2019 | $0.35 | 300,000 |
| December 22, 2019 | 0.65 | 19,000 |
| January 22, 2020 | 0.97 | 150,000 |
| March 13, 2020 | 0.30 | 350,000 |
| March 17, 2020 | 0.45 | 50,000 |
| June 4, 2020 | 0.34 | 50,000 |
| August 24, 2020 | 0.24 | 250,000 |
| August 13, 2021 | 0.17 | 250,000 |
| August 24, 2021 | 0.24 | 562,250 |
| September 13, 2021 | 0.15 | 500,000 |
| November 16, 2021 | 0.15 | 50,000 |
| February 3, 2022 | 0.05 | 317,100 |
| April 12, 2022 | 0.50 | 40,000 |
| April 18, 2022 | 0.31 | 750,000 |
| June 22, 2022 | 0.26 | 68,888 |
| July 4, 2022 | 0.26 | 490,000 |
| August 8, 2022 | 0.28 | 150,000 |
| November 9, 2022 | 0.28 | 825,000 |
| December 12, 2022 | 0.69 | 20,000 |
| January 22, 2023 | 0.97 | 50,000 |
| February 13, 2023 | 0.72 | 75,000 |
| April 20, 2023 | 0.45 | 100,000 |
| July 12, 2023 | 0.20 | 1,400,000 |
| | | 6,817,238 |

As at December 31, 2018, warrants were outstanding enabling holders to acquire shares as follows:

| Expiry Date | Exercise Price | Number of Warrants Outstanding |
|---|---|---|
| June 22, 2019 | $0.35 | 329,600 |
| June 22, 2019 | 0.35 | 3,200 |
| September 28, 2019 | 0.32 | 30,000 |
| November 14, 2019 | 0.37 | 93,750 |
| January 10, 2020 | 0.65 | 450,000 |
| March 19, 2020 | 0.70 | 1,389,928 |
| November 14, 2020 | 0.32 | 2,500,000 |
| May 16, 2021 | 0.32 | 4,758,571 |
| August 9, 2021 | 0.32 | 3,700,000 |
| November 5, 2021 | 0.25 | 25,239,318 |
| | | 38,494,367 |

## 11. OFF-BALANCE SHEET FINANCING

The Company did not have any off-balance sheet arrangements or transactions.

## 12. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them. During the year ended August 31, 2018, the Company paid or accrued:

i) management and consulting fees of $257,590 (2017 - $107,884), to The Zamnu Inc., a corporation owned by the CEO of the Company, namely Alen Paul Silverrstieen.

ii) consulting fees of $Nil (2017 - 100,627) to Fast Creative Inc., a corporation owned by a former director of the Company, namely Colin Wiebe.

iii) consulting fees of $175,500 (2017 - $137,050) to Triton Films Inc., a corporation owned by a director and former CEO of the Company, namely Gabriel Napora.

iv) consulting fees of $11,500 (2017 - $127,200) to a former director of the Company, namely Tim Marlowe.

v) consulting fees of $155,250 (2017 - $150,750) to a director of the Company, namely Yas Taalat.

vi) consulting fees of $44,500 (2017 - $Nil) to a director of the Company, namely Ben Lu.

vii) director fees of $40,000 (2017 - $Nil) recorded in consulting and management fees to a director of the Company, namely James Skippen.

viii) director fees of $33,333 (2017 - $Nil) recorded in consulting and management fees to a director of the Company, namely John Gilberry.

ix) consulting fees of $22,500 (2017 - $Nil) to PJ Realty, a corporation owned by a director of the Company, namely James Skippen.

x) consulting fees of $Nil (2017 - $15,000) to Bow-Tie Investments, a corporation owned by a former director, namely Joe Wowk.

xi) consulting fees of $Nil (2017 - $25,000) to KMC Capital Corp., a corporation owned by the former CFO, namely Kelsey Chin.

xii) issued shares with a fair value of $Nil (2017 - $230,000) for a net profit interest in several films to Triton Films Inc., a corporation owned by a director of the Company, namely Gabriel Napora.

xiii) issued shares with a fair value of $Nil (2017 - $56,100) for a net profit interest in Food For Thought Project to a former director of the Company, namely Tim Marlowe.

xiv) paid or accrued office and rent costs of $Nil (2017 - $3,000) to KMC Capital Corp., a corporation owned by a former CFO Kelsey Chin.

As at August 31, 2018, $63,027 (2017 - $70,161) remained outstanding to related parties and is included under accounts payable.

## 12. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended August 31, 2018, the Company was owed $9,705 from a company with directors in common which is included in receivables.

During the year ended August 31, 2018, the Company issued 2,650,000 stock options to directors resulting in share-based compensation of $708,729, which consisted of:

i) $242,660 to Ben Lu, a former director of the Company;
ii) $49,101 to Tristram Coffin, a director of the Company;
iii) $49,101 to Yassen Taalat, a director of the Company;
iv) $73,652 to Paul Silverrstieen, the CEO of the Company;
v) $166,656 to James Skippen, a director of the Company; and
vi) $127,560 to John Gillberry, a director of the Company.

During the year ended August 31, 2018, the Company issued 2,500,000 warrants (2017 - Nil) to the director, Tristram Coffin pursuant to a bridge loan of $500,000 resulting in a financing expense of $708,922 (2017 - $Nil).

## 13. DISCLOSURE CONTROLS AND PROCEDURES

CSE listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of Disclosure controls and procedures ("DC&P") and Internal controls over financial reporting ("ICFR"), as defined in National Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitation on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## 14. CHANGES IN ACCOUNTING POLICY AND FUTURE ACCOUNTING CHANGES

Please refer to the consolidated financial statements filed on www.sedar.com for the year ended August 31, 2018 for changes in accounting policies and future accounting changes.

## 15. FINANCIAL INSTRUMENTS

The Company is required to disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the statement of financial position date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

## 15. FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts of cash, accounts receivables, accounts payable and accrued liabilities on the consolidated statement of financial position approximate fair market value because of the limited term of these instruments. The Company carries its marketable securities at fair value.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to cash and receivables. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The receivables relate to amounts due from government agencies and amounts due from related parties therefore the Company's maximum exposure to credit risk is the balance of cash held as at August 31, 2018. The Company has no significant concentration of credit risk arising from operations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instrument or future media related transactions. The Company's approach to managing liquidity risk is to ensure it has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and expected exercise of share purchase warrants and options. Management believes that it will be successful in raising the necessary funds however, given the current market conditions, management believes that the raising of the required funds will take longer than is normal and will be at prices that may be less than desirable. There are no assurances that additional funds will be available on terms acceptable to the Company or at all. As August 31, 2018 the Company had $595,888 (2017 - $286,839) of accounts payable and accrued liabilities which are due on standard trade payable terms not exceeding 90 days and a convertible promissory note and derivative liability of $2,007,025 (2017 - $nil).

Interest risk

Interest risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rates on the Company's monetary assets and liabilities the Company is exposes to interest rate fair value risk. The Company has cash balances and no material interest-bearing debt, therefore, interest rate risk is minimal.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's functional and presentation currency is the Canadian dollar. Certain expenditures are transacted in foreign currencies. As a result, the Company is exposed to fluctuations in these foreign currencies relative to the Canadian dollar. As at August 31, 2018, the Company has US $11,866 included in cash and US $169,005 included in accounts payable and accrued liabilities and a convertible promissory note in the amount of US $1,800,000. Management does not hedge its foreign exchange risk, and does not believe a change in foreign exchange would materially affect the Company at its current stage

## 16. CONTINGENCIES

The Company is unaware of exposure to any contingent liabilities.

## 17. RISKS AND UNCERTAINTIES

The Company's financial condition, results of operations and business are subject to risks. The following are identified as the main risk factors:

Financing

The Company is reliant upon equity financing in order to continue its operations because it does not derive any income from its assets. There is no guarantee that future sources of funding will be available to the Company. If the Company is not able to raise additional funding in the future, it will be unable to carry out its operations.