



IMAGINEAR INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ImagineAR Inc.:

Opinion

We have audited the consolidated financial statements of ImagineAR Inc. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at August 31, 2021 and August 31, 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2021 and August 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes events and conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
December 29, 2021

IMAGINEAR INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT AUGUST 31,

	2021	2020
ASSETS		
Current		
Cash	\$ 4,205,362	\$ 4,659,437
Receivables (Note 5)	67,240	31,298
Prepaid expenses (Note 6)	42,911	117,246
Total current assets	4,315,513	4,807,981
Reclamation bonds (Note 7)	5,040	5,040
Right of use asset (Note 11)	8,303	17,999
Total assets	\$ 4,328,856	\$ 4,831,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 402,487	\$ 485,448
Deferred revenue (Note 10)	16,340	58,923
Subscriptions received in advance	13,032	23,032
Lease liabilities (Note 11)	7,900	19,350
Total current liabilities	439,759	586,753
Loan payable (Note 12)	40,000	40,000
Convertible debentures – liability component (Note 13)	-	79,224
Total liabilities	479,759	705,977
Shareholders' equity		
Capital stock (Note 14)	34,358,920	30,874,904
Reserves (Note 14)	6,912,274	4,556,697
Convertible debentures – equity component (Note 13)	-	10,489
Deficit	(37,422,097)	(31,317,047)
Total shareholders' equity	3,849,097	4,125,043
Total liabilities and shareholders' equity	\$ 4,328,856	\$ 4,831,020

Nature and continuance of operations (Note 1)

Subsequent events (Note 20)

“Alen Paul Silverrstieen”

Director

“Mike Tunnicliffe”

Director

See accompanying notes to the consolidated financial statements.

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

	2021	2020
REVENUE		
Licensing income	\$ 280,546	\$ -
Services income	73,220	54,149
Cost of sales	(81,324)	-
	272,442	54,149
EXPENSES		
Accretion of convertible debentures (Note 13)	3,122	101,576
Consulting, director and management fees (Note 15)	876,133	1,070,451
Depreciation (Notes 8 and 11)	22,150	952,963
Foreign exchange loss	56,996	17,682
Interest	1,260	5,034
Office and miscellaneous	178,399	124,239
Professional fees	259,868	226,459
Share-based compensation (Notes 14 and 15)	2,459,325	467,266
Shareholder communications and promotion (Note 15)	812,408	269,029
Software (Note 16)	1,571,993	592,104
Transfer agent and filing fees	20,612	21,790
Travel and accommodation	8,633	5,058
Wages and salaries	106,593	83,554
	(6,377,492)	(3,937,205)
OTHER		
Gain on settlement of debt	-	30,910
Write-down of intangible assets (Note 8)	-	(5,541,485)
	-	(5,510,575)
Net loss and comprehensive loss for the year	\$ (6,105,050)	\$ (9,393,631)
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.07)
Weighted average number of common shares outstanding – basic and diluted	195,110,006	125,980,387

See accompanying notes to the consolidated financial statements.

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (6,105,050)	\$ (9,393,631)
Items not affecting cash:		
Depreciation	22,150	952,963
Share-based compensation	2,459,325	467,266
Accretion interest on convertible debentures	3,122	101,576
Accretion interest on lease liabilities	1,260	5,034
Forgiveness of lease liabilities	(13,958)	(8,814)
Shares for services	356,250	168,080
Gain on settlement of debt	-	(30,910)
Write-down of intangible assets	-	5,541,485
Change in non-cash working capital items:		
Increase in receivables	(35,942)	(3,983)
Decrease (Increase) in prepaid expenses	74,335	(49,741)
Increase (Decrease) in accounts payable and accrued liabilities	(82,961)	57,472
Increase (Decrease) in deferred revenue	(42,583)	58,923
Cash used in operating activities	<u>(3,364,052)</u>	<u>(2,134,280)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from options exercised	91,550	291,600
Proceeds from warrants exercised	2,829,633	4,551,450
Loan received	-	40,000
Subscriptions received in advance	-	23,032
Proceeds from convertible debentures, net of issuance costs	-	1,469,782
Cash provided by financing activities	<u>2,921,183</u>	<u>6,375,864</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of lease liabilities	<u>(11,206)</u>	<u>(21,868)</u>
Cash used in investing activities	<u>(11,206)</u>	<u>(21,868)</u>
Change in cash	(454,075)	4,219,716
Cash, beginning of year	<u>4,659,437</u>	<u>439,721</u>
Cash, end of year	<u>\$ 4,205,362</u>	<u>\$ 4,659,437</u>
Cash paid for taxes during the year	\$ -	\$ -
Cash paid for interest during the year	\$ 9,560	\$ -

Supplemental disclosure with respect to cash flows (Note 18)

See accompanying notes to the consolidated financial statements.

IMAGINEAR INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)**

	Number of shares	Capital stock	Reserves		Convertible debentures – equity component	Deficit	Total
			Share-based payment reserve	Warrant reserve			
Balance, August 31, 2019	113,372,138	\$ 23,851,616	\$ 3,392,434	\$ 1,168,776	\$ -	\$ (21,923,416)	\$ 6,489,410
Share-based compensation	-	-	467,266	-	-	-	467,266
Issued pursuant to services	3,361,600	168,080	-	57,484	-	-	225,564
Issued pursuant to options exercised	5,322,500	538,896	(246,046)	-	-	-	292,850
Issued pursuant to warrants exercised	34,207,000	4,845,898	-	(294,448)	-	-	4,551,450
Convertible debentures	-	-	-	11,231	187,991	-	199,222
Convertible debentures converted	29,421,230	1,470,414	-	-	(177,502)	-	1,292,912
Net and comprehensive loss for the year	-	-	-	-	-	(9,393,631)	(9,393,631)
Balance, August 31, 2020	185,684,468	30,874,904	3,613,654	943,043	10,489	(31,317,047)	4,125,043
Issued pursuant to options exercised	1,515,000	184,904	(83,354)	-	-	-	101,550
Issued pursuant to warrants exercised	13,233,471	2,850,027	-	(20,394)	-	-	2,829,633
Convertible debentures converted	1,762,843	92,835	-	-	(10,489)	-	82,346
Shares for services	1,125,000	356,250	-	-	-	-	356,250
Share-based compensation	-	-	2,459,325	-	-	-	2,459,325
Net and comprehensive loss for the year	-	-	-	-	-	(6,105,050)	(6,105,050)
Balance, August 31, 2021	203,320,782	\$ 34,358,920	\$ 5,989,625	\$ 922,649	\$ -	\$ (37,422,097)	\$ 3,849,097

See accompanying notes to the consolidated financial statements.

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE AND CONTINUANCE OF OPERATIONS

ImagineAR Inc. (“the Company”) is a public company domiciled in Canada incorporated in British Columbia under the laws of the Business Corporations Act (BC, Canada) on October 11, 2011. On April 17, 2019, the Company was continued under the Canadian Business Corporations Act. The Company's registered office is located at #510 – 580 Hornby Street, Vancouver, BC, V6C 3B6.

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, 2021 and 2020 comprise the Company and its subsidiaries (together referred to as the “Company”).

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, and 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

The Company incurred a net loss and comprehensive loss of \$6,105,050 during the year ended August 31, 2021 (2020 - \$9,393,631) and incurred negative operating cash flows of \$3,364,052 (2020 - \$2,134,280). As at August 31, 2021 the Company had an accumulated deficit of \$37,422,097 (2020 - \$31,317,047).

These events and conditions create a material uncertainty that 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 and realize its assets and discharge its liabilities in the normal course of business. Such adjustments could be material.

2. BASIS OF MEASUREMENT AND PRESENTATION

These consolidated financial statements, including comparatives, approved and authorized for issuance by the Board of Directors on December 29, 2021 have been prepared using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of August 31, 2021.

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF MEASUREMENT AND PRESENTATION (continued)

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments 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.

Basis of consolidation

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.

Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when an investor has existing rights that give it the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a Company's capital stock. All significant intercompany transactions and balances have been eliminated.

The controlled entities are listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest at August 31, 2021	Ownership Interest at August 31, 2020	Principal Activity
Imagine AR Inc. 3 Seconds	United States	100%	100%	Virtual reality
Holdings Inc.	Canada	66.67%	66.67%	Movie production

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

The Company recognizes revenue in accordance with IFRS 15 Revenue from Contracts with Customers. Revenue represents the fair value of consideration received or receivable from customers for the transfer of control of goods or services by the Company, net of discounts and sales taxes. The Company generates revenue from technology services and licensing its patented software. Revenue is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is reasonably assured.

Licensing income is recorded in deferred revenue upon invoicing and is recognized ratably over the contract term, and begins when the customer has the right-to-use and access to the software. Revenue from usage-based fees is recognized in the period in which the customer incurs the usage, at a point in time.

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Technology services income is recognized over time when the services have been provided and control of the deliverable has been transferred to the customer. Payments received prior to the transfer of control of the deliverable are recorded as deferred revenue and recognized as the related services are provided. Management estimates the pace of revenue recognition based on contract milestones. The Company's arrangements with customers are evidenced by contracts with customers. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the service is distinct from some or all of the other services in the arrangement. A service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct services are combined with other services until they are distinct as a bundle and therefore form a single performance obligation.

Financial instruments

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument except for trade receivables which are initially recognized when they are originated. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectation of recovering the contractual cash flows on a financial asset.

Classification and measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories: (i) those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); or (ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

The classification and measurement bases of the Company's financial instruments are as follows:

Financial Assets and Liabilities	Classification and measurement
Cash	Fair value through profit and loss
Trade receivables	Amortized cost
Due from related parties	Amortized cost
Reclamation bonds	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Subscriptions received in advance	Amortized cost
Loan payable	Amortized cost
Convertible debentures – liability component	Amortized cost

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

After initial recognition at fair value, financial liabilities are classified and measured at either: i. amortized cost; ii. FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or, iii. FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost or FVTOCI are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportable forward-looking information.

Research and development

Expenditure on research activities is recognized on the consolidated statement of loss and comprehensive loss as incurred. Development expenditures are capitalized as part of the cost of the resulting intangible asset only if the expenditures can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Management determined that as at August 31, 2021, it was not yet able to demonstrate with sufficient certainty that it is probable that any economic benefits will flow to the Company. Accordingly, all research and development costs incurred to date have been expensed.

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 and 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.

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment annually and 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.

Intangible assets with indefinite lives are measured at cost less any accumulated impairment losses. These intangible assets are tested for impairment on an annual basis and more frequently if there are indicators that intangible assets may be impaired.

Impairment of non-financial assets

At each consolidated 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 of disposal 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.

Government assistance

The Company records government assistance provided there is reasonable assurance that the Company has complied and will continue to comply with all conditions of the government funding. Government assistance relating to current expenses is recognized in profit or loss and is included as a decrease to the related line item in the consolidated statements of loss and comprehensive loss.

Convertible debentures

The host debt liability, equity conversion feature and other (when applicable) components of convertible debentures are presented separately on the consolidated statement of financial position, at initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the face value of the convertible debentures at maturity which is recorded in profit or loss as accretion expense.

The carrying amount of other components (when applicable), such as warrants, is determined using the Black-Scholes option pricing model. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible debentures, and is presented in equity as an equity component of convertible debentures.

The transaction costs are allocated between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company and its subsidiaries. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the rate of exchange at the consolidated 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.

IMAGINEAR INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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, 2021 and 2020.

Valuation of equity units issued in private placements

The Company records proceeds from issuances of equity net of issue costs and any related tax effects. The Company has adopted the 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 Company 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 includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

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 consolidated statement of 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.

All share options and warrants are included in reserves, a component of shareholders' equity, until exercised. Upon exercise, the consideration received plus the amounts in reserves attributable to the options and/or warrants being exercised are credited to capital stock.

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

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

IMAGINEAR INC.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax on the profit or loss for the periods 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 consolidated statement of 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.

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, unless they have an anti-dilutive effect, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period. The “treasury stock method” is used for the assumption that proceeds upon the exercise of the options and warrants are used to purchase common shares at the average market price during the period. During the years ended August 31, 2021 and 2020, the outstanding stock options and warrants were anti-dilutive.

Right of use asset

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term using the straight line method.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following payments during the lease term: fixed payments (including in-substance fixed payments), and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option, or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Critical accounting estimates

i) Share-based payments

Management measures share-based payments using the Black Scholes Option Pricing Model. Assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, employee stock option exercise behaviors and discount rates. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

ii) Convertible debt

The Company has issued convertible debentures as described in Note 13. The accounting for convertible debentures, a complex compound financial instrument, requires the Company to estimate the discount rate applicable to the Company and the instrument. Should it be determined that the discount rate was not appropriate, then the carrying value and the recognition of expenses across the life of the instrument could be materially different.

Critical accounting judgments

i) Research and development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met.

Those criteria require that the product is technically, and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.

New accounting standards and interpretations

There are new accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after September 1, 2021 that have not been applied in preparing the consolidated financial statements for the year ended August 31, 2021. These standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

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4. 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 consist of the components of shareholders' equity, which totaled \$3,849,097 at August 31, 2021.

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 plans to spend its existing working capital and raise additional amounts as needed. The Company will continue to assess additions to its media business if 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 periods presented. The Company and its subsidiaries are not subject to externally imposed capital requirements.

5. RECEIVABLES

The receivables balance is comprised of the following items:

	<i>August 31,</i> <i>2021</i>	<i>August 31,</i> <i>2020</i>
Sales tax receivable from the Canadian Federal Government	\$ 2,409	\$ 6,479
Trade receivables	64,831	23,569
Due from related parties (Note 15)	-	1,250
	<u>\$ 67,240</u>	<u>\$ 31,298</u>

6. PREPAID EXPENSES

The prepaid expenses balance is comprised of the following items:

	<i>August 31,</i> <i>2021</i>	<i>August 31,</i> <i>2020</i>
Advertising and promotion	\$ 10,394	\$ 86,339
Consulting	-	22,107
Insurance	12,907	8,800
Management	13,872	-
Rent deposit	5,738	-
	<u>\$ 42,911</u>	<u>\$ 117,246</u>

7. RECLAMATION BONDS

The reclamation bonds balance at August 31, 2021 of \$5,040 (2020 - \$5,040) relates to the Company's previously held mineral properties.

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8. GOODWILL AND INTANGIBLE ASSETS

	<i>Software platform and application</i>	<i>Goodwill</i>	<i>Patent portfolio</i>	<i>Total Intangible Assets</i>
Balance August 31, 2019	\$ 1,110,895	\$ 4,892,465	\$ 464,089	\$ 6,467,449
Depreciation	(889,325)	-	(36,639)	(925,964)
Write-down	(221,570)	(4,892,465)	(427,450)	(5,541,485)
Balance August 31, 2020 and 2021	\$ -	\$ -	\$ -	\$ -

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance is comprised of the following items:

	<i>August 31, 2021</i>	<i>August 31, 2020</i>
Trade payables	\$ 180,293	\$ 262,648
Related parties (Note 15)	162,484	163,090
Accrued liabilities	59,710	59,710
Total	\$ 402,487	\$ 485,448

During the year ended August 31, 2020, the Company settled payables originally recorded at \$139,786 for cash payments of \$108,876, resulting in a gain of \$30,910.

10. DEFERRED REVENUE

Balance, August 31, 2019	\$ -
Addition	58,923
Balance, August 31, 2020	58,923
Addition	49,358
Recognized as revenue	(91,941)
Balance, August 31, 2021	\$ 16,340

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11. RIGHT OF USE ASSET AND LEASE LIABILITIES

The weighted average incremental borrowing rate applied to lease liabilities is 15%.

For the year ending August 31, 2021, the depreciation of the right of use assets was \$22,150. The right of use assets are depreciated on a straight-line basis over the term of the lease.

Right of use asset, September 1, 2019	\$	44,998
Depreciation of right of use asset		(26,999)
Right of use asset, August 31, 2020		17,999
Additions		12,454
Depreciation of right of use asset		(22,150)
Right of use asset, August 31, 2021	\$	8,303

For the year ending August 31, 2021, interest on the lease liabilities was \$1,260.

Lease liabilities, August 31, 2019	\$	44,998
Payment of lease liabilities		(21,868)
Accretion of interest		5,034
Forgiveness of rent*		(8,814)
Lease liabilities, August 31, 2020		19,350
Additions		12,454
Payment of lease liabilities		(11,206)
Accretion of interest		1,260
Forgiveness of rent*		(13,958)
Lease liabilities, August 31, 2021	\$	7,900

* Subsidized rent costs due to COVID-19

12. LOAN PAYABLE

During the year ended August 31, 2020, the Company received a loan of \$40,000 for the Canada Emergency Business Account to provide emergency support to the business due to the impact of COVID-19. The loan is non-interest bearing until December 31, 2022, after which it will incur interest at 5% per annum.

If principal of \$30,000 is repaid on or before December 31, 2022, the remaining \$10,000 will be forgiven.

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13. CONVERTIBLE DEBENTURES

On January 31, 2020, the Company issued convertible debentures in the principal amount of \$560,000. Each debenture bore interest at a rate of 12% per annum and matured two years from the date of issuance. The debentures were convertible into units at a price of \$0.05 per unit and each unit consisted of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share of the Company at a price of \$0.10 per share for a period of three years from the date of issuance. The Company paid issuance costs of \$2,100 cash and 42,000 broker's warrants valued at \$2,076.

During the year ended August 31, 2020, the Company issued 562,568 common shares and 11,000,000 units valued at \$583,888 pursuant to the conversion of the debentures in settlement of liabilities of \$513,528, of which \$37,991 was accrued interest, and accordingly, the Company reallocated \$70,360 of the convertible debenture equity portion to capital stock.

During the year ended August 31, 2021, the Company recorded accretion of \$964 for the debentures (2020 - \$39,027). During the year ended August 31, 2021, the Company issued 10,528 common shares and 200,000 units valued at \$11,926 pursuant to the conversion of the debentures in settlement of liabilities of \$10,647, of which \$964 was accrued interest, and accordingly, the Company reallocated \$1,279 of the convertible debenture equity portion to capital stock.

	<i>Liability</i>	<i>Equity</i>	<i>Total</i>
Balance August 31, 2019	\$ -	\$ -	\$ -
Issuance of convertible debentures	487,822	72,178	560,000
Issuance costs - cash	(1,829)	(271)	(2,100)
Issuance costs - warrants	(1,808)	(268)	(2,076)
Accretion of interest	39,026	-	39,026
Conversion to 11,562,568 common shares	(513,528)	(70,360)	(583,888)
Balance August 31, 2020	\$ 9,683	\$ 1,279	\$ 10,962
Accretion of interest	964	-	964
Conversion to 210,258 common shares	(10,647)	(1,279)	(11,926)
Balance August 31, 2021	\$ -	\$ -	\$ -

On February 25, 2020, the Company issued convertible debentures in the principal amount of \$944,782. Each debenture bore interest at a rate of 12% per annum and matured two years from the date of issuance. The debentures were convertible into units at a price of \$0.05 per unit and each unit consisted of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share of the Company at a price of \$0.10 per share for a period of three years from the date of issuance. The Company paid issuance costs of \$32,900 cash and 184,900 broker's warrants valued at \$9,155. During the year ended August 31, 2021, the Company recorded accretion of interest of \$2,158 (2020 - \$65,550) for the debentures.

During the year ended August 31, 2020, the Company issued 458,662 common shares and 17,400,000 units valued at \$886,526 pursuant to the conversion of the debentures in settlement of liabilities of \$779,384, of which \$55,252 was accrued interest, and accordingly, the Company reallocated \$107,142 of the convertible debenture equity portion to capital stock.

During the year ended August 31, 2021, the Company issued 56,945 common shares and 1,495,640 units valued at \$80,909 pursuant to the conversion of the debentures in settlement of liabilities of \$71,699, of which \$9,455 was accrued interest, and accordingly, the Company reallocated \$9,210 of the convertible debenture equity portion to capital stock.

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13. CONVERTIBLE DEBENTURES (continued)

	<i>Liability</i>		<i>Equity</i>		<i>Total</i>
Balance August 31, 2019	\$	-	\$	-	\$ -
Issuance of convertible debentures		823,010		121,772	944,782
Issuance costs - cash		(28,660)		(4,240)	(32,900)
Issuance costs - warrants		(7,975)		(1,180)	(9,155)
Accretion of interest		62,550		-	62,550
Conversion to 17,858,662 common shares		(779,384)		(107,142)	(886,526)
Balance August 31, 2020	\$	69,541	\$	9,210	\$ 78,751
Accretion of interest		2,158		-	2,158
Conversion to 1,552,585 common shares		(71,699)		(9,210)	(80,909)
Balance August 31, 2021	\$	-	\$	-	\$ -

The fair value of the liability component at the time of issuance was calculated with the discounted cash flows for the convertible notes, applying a 20% interest rate for notes without a conversion feature. The fair value of the equity component was determined at the time of issuance as the difference between the face value of the convertible debentures and the fair value of the liability component.

14. 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, 2021, the Company:

- i) issued 1,515,000 common shares pursuant to the exercise of options for proceeds of \$101,550, and accordingly, the Company reallocated \$83,354 of share-based payment reserve to capital stock.
- ii) issued 13,233,471 common shares pursuant to the exercise of warrants for proceeds of \$2,829,633, and accordingly, the Company reallocated \$20,394 of warrant reserve to capital stock.
- iii) issued 1,762,843 common shares valued at \$92,835 pursuant to the exercise of the convertible debentures in settlement of \$82,346, and accordingly, the Company reallocated \$10,489 of convertible debentures - equity portion to capital stock (Note 13).
- iv) issued 625,000 common shares valued at \$191,250 for promotional services.
- v) issued 500,000 common shares valued at \$165,000 for consulting services.

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)**Capital stock (continued)**

During the year ended August 31, 2020, the Company:

- i) issued 3,000,000 common shares valued at \$150,000 in consideration of consulting services over a six-month period. In addition, the Company also granted 1,500,000 warrants (valued at \$57,484) exercisable at a price of \$0.05 expiring on January 21, 2022.
- ii) issued 361,600 common shares for services valued at \$18,080.
- iii) issued 5,322,500 common shares pursuant to the exercise of options for proceeds of \$292,850, of which \$1,250 was subsequently received and recorded as receivable, and accordingly, the Company reallocated \$246,046 of share-based payment reserve to capital stock.
- iv) issued 34,207,000 common shares pursuant to the exercise of warrants for proceeds of \$4,551,450, and accordingly, the Company reallocated \$294,448 of warrant reserve to capital stock.
- v) issued 29,421,230 common shares valued at \$1,470,414 pursuant to the exercise of the convertible debentures in settlement of \$1,292,912, and accordingly, the Company reallocated \$177,502 of convertible debentures - equity portion to capital stock (Note 13).

Share purchase warrants

At August 31, 2021 warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price (\$)	Number of warrants	Remaining contractual life (years)
November 5, 2021*	0.25	14,120,068	0.18
January 30, 2023	0.10	400,000	1.42
February 25, 2023	0.10	1,595,640	1.49
		16,115,708	

* subsequently expired

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14. 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, 2021 and 2020:

	<i>Year ended August 31, 2021</i>		<i>Year ended August 31, 2020</i>	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the year	31,953,539	\$ 0.24	37,997,317	\$ 0.28
Warrants issued - pursuant to services	-	-	1,500,000	0.05
Warrants issued - pursuant to convertible debentures	1,695,640	0.10	28,626,900	0.10
Warrants exercised	(13,233,471)	0.21	(34,207,000)	0.13
Warrants expired	(4,300,000)	0.27	(1,963,678)	0.67
Balance, end of year	16,115,708	\$ 0.23	31,953,539	\$ 0.24

The weighted average share price on the date of exercise of the warrants was \$0.21 (2020 - \$0.34).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of broker's warrants issued for the year ended August 31, 2021 and 2020:

	<i>Year ended August 31, 2021</i>	<i>Year ended August 31, 2020</i>
Risk-free interest rate	-	1.60%
Expected life of warrants	-	2.13 years
Expected annualized volatility	-	167%
Exercise price	-	\$0.06
Expected dividend rate	-	0%

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)**Stock options**

The Company grants stock options pursuant to its 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 ten years.

As at August 31, 2021, the following incentive stock options were outstanding:

Expiry Date	Exercise price (\$)	Number of Options Outstanding	Exercisable
September 28, 2021*	0.135	500,000	500,000
November 16, 2021*	0.15	50,000	50,000
February 3, 2022	0.05	317,100	317,100
April 18, 2022	0.31	750,000	750,000
June 10, 2022	0.10	100,000	100,000
June 26, 2022	0.14	125,000	125,000
July 4, 2022	0.26	250,000	250,000
July 30, 2022	0.175	150,000	150,000
August 18, 2022	0.14	325,000	325,000
September 8, 2022	0.125	300,000	150,000
September 12, 2022	0.125	100,000	100,000
September 12, 2022	0.05	437,500	437,500
October 26, 2022	0.19	150,000	150,000
November 9, 2022	0.275	325,000	325,000
December 10, 2022	0.175	150,000	150,000
February 1, 2023	0.22	100,000	75,000
February 10, 2023	0.25	225,000	225,000
February 19, 2023	0.10	750,000	750,000
February 23, 2023	0.34	250,000	250,000
March 10, 2023	0.245	100,000	100,000
April 1, 2023	0.410	100,000	100,000
April 19, 2023	0.310	100,000	100,000
May 6, 2023	0.28	200,000	200,000
July 15, 2023	0.15	25,000	25,000
July 19, 2023	0.135	250,000	50,000
July 8, 2023	0.30	600,000	600,000
August 23, 2023	0.13	100,000	25,000
October 2, 2023	0.25	5,250,000	5,250,000
April 1, 2024	0.41	1,500,000	1,500,000
April 11, 2024	0.60	1,000,000	1,000,000
April 13, 2024	0.405	250,000	83,334
May 14, 2024	0.90	500,000	500,000
April 25, 2025	0.50	250,000	100,000
		15,579,600	14,812,934

* subsequently expired

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)**Stock options (continued)**

The following is a summary of the option transactions during the year ended August 31, 2021 and 2020:

	Year ended August 31, 2021		Year ended August 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the year	8,107,100	\$ 0.24	5,994,600	\$ 0.46
Options granted	9,150,000	0.27	10,335,000	0.07
Options exercised	(1,515,000)	0.07	(5,322,500)	0.18
Options cancelled	-	-	(2,900,000)	0.17
Options expired	(162,500)	0.12	-	-
Balance, end of the year	15,579,600	\$ 0.28	8,107,100	\$ 0.24

The weighted average share price on the date of exercise of the options was \$0.07 (2020 - \$0.19).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the years ended August 31, 2021 and 2020:

	Year ended August 31, 2021	Year ended August 31, 2020
Risk-free interest rate	0.30%	1.00%
Expected life of options	2.77 years	2.33 years
Expected annualized volatility	187.86%	177%
Exercise price	\$0.273	\$0.07
Expected dividend rate	0%	0%

The weighted average fair value of options granted during the year ended August 31, 2021 was \$0.32 (2020 – \$0.12).

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15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

Amounts paid or accrued to related parties are as follows:

	<i>Year ended August 31, 2021</i>	<i>Year ended August 31, 2020</i>
Consulting, director, and management fees	\$ 325,412	\$ 356,318
Shareholder communications and promotion	-	55,000
Share-based compensation	1,830,160	281,664
Total	\$ 2,155,572	\$ 692,982

The table above includes:

- i) management and consulting fees of \$301,412 (2020 - \$332,318), to the CEO of the Company.
- ii) consulting fees of \$Nil (2020 - \$55,000) to Park Place Limited, a company owned by a director of the Company.
- iii) consulting fees of \$24,000 (2020 - \$24,000) to the CFO of the Company.

As of August 31, 2021, \$Nil (2020 - \$1,250) was owed to the Company by an officer for exercise of options.

As of August 31, 2021, \$162,484 (2020 - \$163,090) remained outstanding to related parties and is included in accounts payable and accrued liabilities.

During the year ended August 31, 2021, the Company issued 6,750,000 stock options (2020 - 3,350,000) to an officer and directors of the Company, resulting in share-based compensation of \$1,830,160 (2020 - \$281,664).

During the year ended August 31, 2021, the Company issued 1,448,000 common shares valued at \$75,145 to a director of the Company, companies controlled by a director of the Company, spouse and dependent of a director of the Company for the settlement of convertible debentures of \$66,551, of which \$8,469 related to accrued interest, and accordingly, the Company reallocated \$8,594 of convertible debenture equity portion to share capital. The conversion included 1,395,640 warrants exercisable at a price of \$0.10 expiring on February 25, 2023.

During the year ended August 31, 2020, the Company issued 13,480,699 common shares valued at \$674,938 to a director of the Company, companies controlled by a director of the Company, spouse and dependent of a director of the Company for the settlement of convertible debentures of \$593,456, of which \$42,755 related to accrued interest, and accordingly, the Company reallocated \$81,481 of convertible debenture equity portion to share capital.

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16. SOFTWARE

The software activity expensed during the year is comprised of the following items:

	<i>Year ended August 31, 2021</i>	<i>Year ended August 31, 2020</i>
Research	\$ 392,998	\$ 148,026
Development of new features, architecture, and functions	1,178,995	444,078
Total	\$ 1,571,993	\$ 592,104

17. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's consolidated financial statements are summarized below. There have been no changes to the Company's approach to mitigating risk exposures during the year ended August 31, 2021.

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as either "Level 1" Unadjusted quoted prices in active markets for identical assets or liabilities; "Level 2" Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and, "Level 3" Inputs that are not based on observable market data. Cash is Level 1 for the periods presented.

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 that are financial instruments consist of trade receivables. The Company has no significant concentration of credit risk. The maximum exposure to credit risk is the aggregate carrying amount of cash, trade receivables, amounts due from related parties, and reclamation bonds.

Liquidity risk

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, option exercises and warrant exercises 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, 2021, the Company had \$402,487 (2020 - \$485,448) of accounts payable and accrued liabilities due on standard trade payable terms not exceeding 90 days.

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17. FINANCIAL RISK FACTORS (continued)

Interest rate risk

Interest rate 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. As at August 31, 2021, 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 or 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, 2021, the Company has US\$570,742 included in cash, US\$110,402 included in accounts payable and accrued liabilities. A 5% change in the exchange rate would result in a \$23,017 change in profit or loss.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended August 31, 2021 consisted of:

- i) transfer of fair value of \$83,354 from contributed surplus to capital stock pursuant to the exercise of stock options.
- ii) transfer of fair value of \$20,394 from contributed surplus to capital stock pursuant to the exercise of warrants.
- iii) transfer of \$82,346 from the liability portion and \$10,489 from the equity portion of the convertible debenture to capital stock pursuant to the conversion of units (Note 13).

Significant non-cash investing and financing transactions for the year ended August 31, 2020 consisted of:

- i) issued 1,500,000 warrants valued at \$57,484 pursuant to the consulting services agreement (Note 14).
- ii) issued 3,000,000 common shares valued at \$150,000 in consideration of financial advisory services.
- iii) issued 226,900 warrants valued at \$11,231 pursuant to the issuance of convertible debentures (Note 13).
- iv) transfer of fair value of \$246,046 from contributed surplus to capital stock pursuant to the exercise of stock options.
- v) transfer of fair value of \$294,448 from contributed surplus to capital stock pursuant to the exercise of warrants.
- vi) transfer of \$1,292,913 from the liability portion and \$177,502 from the equity portion of the convertible debenture to capital stock pursuant to the conversion of units (Note 13).
- vii) subscription receivable of \$1,250 pursuant to the exercise of stock options.
- viii) acquired a right of use asset of \$44,998.

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19. INCOME TAXES

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

	2021	2020
Loss for the year	\$ (6,105,050)	\$ (9,393,631)
Expected income tax (recovery) – 27%	\$ (1,654,000)	\$ (2,536,280)
Change in statutory, foreign tax, foreign exchange rates and other	9,000	(6,720)
Non-deductible expenses	665,000	1,623,000
Change in estimate	-	(278,000)
Change in unrecognized deductible temporary differences	980,000	1,198,000
Total income tax expense (recovery)	\$ -	\$ -

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:

	2021	2020
Deferred Tax Assets (liabilities)		
Share issue costs	\$ 3,000	\$ 8,000
Intangible assets	693,000	693,000
Allowable capital losses	3,000	3,000
Non-capital losses available for future periods	3,980,000	2,995,000
	4,679,000	3,699,000
Unrecognized deferred tax assets	(4,679,000)	(3,699,000)
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:

	2021	Expiry Date	2020	Expiry Date
Temporary Differences		Range		Range
Share issue costs	13,000	2022 to 2023	31,000	2021 to 2023
Intangible assets	2,516,000	No expiry date	2,516,000	No expiry date
Allowable capital losses	10,000	No expiry date	10,000	No expiry date
Non-capital losses available for future periods	14,688,000	2032 to 2041	11,059,000	2032 to 2040

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

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20. SUBSEQUENT EVENTS

Subsequent to August 31, 2021, the Company:

- i) issued 200,000 common shares pursuant to the exercise of warrants for proceeds of \$20,000.
- ii) granted 250,000 stock options to a consultant of the Company. The options are exercisable at \$0.155 per option, expiring on October 14, 2023.
- iii) granted 200,000 stock options to consultants of the Company. The options are exercisable at \$0.135 per option, expiring on October 19, 2023.
- iv) granted 100,000 stock options to a consultant of the Company. The options are exercisable at \$0.11 per option, expiring on December 1, 2023.
- v) granted 250,000 stock options to a consultant of the Company. The options are exercisable at \$0.13 per option, expiring on December 13, 2023.