IMAGINEAR INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED MAY 31, 2023 AND 2022

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED – PREPARED BY MANAGEMENT)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim financial statements of Imagination Park Technology have been prepared by and are the responsibility of management and have been approved by the Board of Directors.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

IMAGINEAR INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED – PREPARED BY MANAGEMENT)

	May 31, 2023	August 31, 2022
ASSETS		
Current		
Cash	$ 347,019	$ 481,242
Receivables (Note 5)	138,258	26,649
Prepaid expenses (Note 6)	52,831	29,352
Deferred contract costs (Note 6)	84,957	81,501
Total current assets	623,065	618,744
Right of use asset (Note 9)	-	9,021
Intangible asset (Note 10)	6,012	15,365
Total assets	$ 629,077	$ 643,130
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities (Notes 7 and 13)	$ 897,056	$ 520,406
Deferred revenue (Note 8)	16,991	19,560
Loan payable (Note 11 and 12)	53,032	13,032
Lease liabilities (Note 9)	-	9,243
Total current liabilities	967,079	562,241
Loan payable (Note 11)	-	40,000
Total liabilities	967,079	602,241
Shareholders' equity (deficiency)		
Capital stock (Note 12)	34,837,567	34,388,295
Reserves (Note 12)	7,198,662	7,141,752
Deficit	(42,374,231)	(41,489,158)
Total shareholders' equity (deficiency)	(338,002)	40,889
Total liabilities and shareholders' equity	$ 629,077	$ 643,130

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

"Alen Paul Silverrstieen"	***"Mike Tunnicliffe"***
Director	**Director**

See accompanying notes to the condensed interim consolidated financial statements.

IMAGINEAR INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three Months Ended May 31, 2023	Three Months Ended May 31, 2022	Nine Months Ended May 31, 2023	Nine Months Ended May 31, 2022
REVENUE				
Licensing income	$ 56,973	$ -	$ 138,829	$ 176,237
Services income	-	93,097	-	128,531
Cost of sales	(46,071)	-	(84,284)	(98,839)
	10,902	93,097	54,545	205,929
EXPENSES				
Consulting, director and management fees (Note 13)	6,685	596,026	172,001	1,012,454
Depreciation (Notes 9 and 10)	3,167	17,769	13,863	23,996
Foreign exchange	2,525	5,336	3,904	13,480
Interest expenses (Note 9)	-	245	379	730
Office and miscellaneous	43,094	40,348	130,804	151,164
Professional fees	27,249	64,737	114,469	220,154
Share-based compensation (Notes 12 and 13)	7,350	43,413	56,910	210,701
Shareholder communications and promotion	77,496	124,857	107,981	300,199
Software (Note 14)	37,138	213,910	354,903	1,376,534
Transfer agent and filing fees	5,832	4,679	18,586	12,538
Travel and accommodation	-	14,589	-	34,181
Wages and salaries	2,110	26,663	61,614	90,328
	(212,646)	(1,152,572)	(1,035,414)	(3,446,459)
OTHER				
Bad debt expenses	-	(13)	-	(6,332)
Forgiveness of debt	-	9,375	-	9,375
Write-off of reclamation bond	-	-	-	(5,040)
Write-off of right of use asset (Note 9)	-	-	(4,764)	-
Write-off of accounts payable (Note 7)	-	-	100,560	146,667
	-	9,362	95,796	144,670
Net loss and comprehensive loss for the period	$ (201,744)	$ (1,050,113)	$ (885,073)	$ (3,095,860)
Basic and diluted net loss per common share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)
Weighted average number of common shares outstanding – basic and diluted	204,115,823	203,601,826	203,802,462	203,496,712

See accompanying notes to the condensed interim consolidated financial statements.

IMAGINEAR INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED – PREPARED BY MANAGEMENT)

For the nine months ended May 31,		2023		2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$	(885,073)	$	(3,095,860)
Items not affecting cash:				
Accretion interest on lease liabilities		379		730
Depreciation		13,863		23,997
Foreign exchange		3,904		-
Share-based compensation		56,910		210,701
Shares for services		23,397		9,375
Write-off of reclamation bond		-		5,040
Write-off of right of use asset		4,764		-
Write-off of accounts payable		(100,560)		(146,667)
Change in non-cash working capital items:				
Accounts payable and accrued liabilities		470,679		38,824
Deferred revenue		(3,398)		31,208
Prepaid expenses		(28,469)		(31,176)
Receivables		(111,609)		(234,393)
Cash used in operating activities		(555,213)		(3,188,221)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from private placement		425,875		-
Proceeds from warrants exercised		-		20,000
Cash provided by financing activities		425,875		20,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of intangible asse				(64,458)
Repayment of lease liabilities		(4,885)		(9,683)
Cash used in investing activities		(4,885)		(74,141)
Change in cash		(134,223)		(3,242,362)
Cash, beginning of period		481,242		4,205,362
Cash, end of period	$	347,019	$	963,000
Cash paid for taxes during the period	$	-	$	-
Cash paid for interest during the period	$	-	$	-

See accompanying notes to the condensed interim consolidated financial statements.

IMAGINEAR INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED – PREPARED BY MANAGEMENT)

			Reserves			
	Number of shares	Capital stock	Share-based payment reserve	Warrant reserve	Deficit	Total
Balance, August 31, 2021	203,320,782	$ 34,358,920	$ 5,989,625	$ 922,649	$ (37,422,097)	$ 3,849,097
Issued pursuant to warrants exercised	200,000	20,000	-	-	-	20,000
Shares for services	125,000	9,375	-	-	-	9,375
Share-based compensations	-	-	210,701	-	-	210,701
Net and comprehensive loss for the period	-	-	-	-	(3,095,860)	(3,095,860)
Balance, May 31, 2022	203,645,782	34,388,295	6,200,326	922,649	(40,517,957)	993,313
Share-based payments	-	-	18,777	-	-	18,777
Net and comprehensive loss for the period	-	-	-	-	(971,201)	(971,201)
Balance, August 31, 2022	203,645,782	34,388,295	6,219,103	922,649	(41,489,158)	40,889
Issued pursuant to private placement	12,905,315	425,875	-	-	-	425,875
Shares for services	584,936	23,397	-	-	-	23,397
Share-based payments	-	-	56,910	-	-	56,910
Net and comprehensive loss for the period	-	-	-	-	(885,073)	(885,073)
Balance, May 31, 2023	217,136,033	$ 34,837,567	$ 6,276,013	$ 922,649	$ (42,374,231)	$ (338,002)

See accompanying notes to the condensed interim consolidated financial statements.

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 #250 – 750 West Pender Street, Vancouver, BC, V6C 2T7.

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 condensed interim consolidated financial statements of the Company as at, and for the nine months ended May 31, 2023 and 2022 comprise the Company and its subsidiaries (together referred to as the "Company").

The condensed interim 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 $885,073 during the nine months ended May 31, 2023 (2022 - $3,095,860) and incurred negative operating cash flows of $134,223 (2022 - $3,242,360). As at May 31, 2023, the Company had an accumulated deficit of $42,374,231 (August 31, 2022 - $41,489,158).

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 condensed interim 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 condensed interim consolidated financial statements, including comparatives, approved and authorized for issuance by the Board of Directors on July 31, 2023 have been prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The policies applied in these consolidated statements are based on IFRS issued and outstanding as of May 31, 2023. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending August 31, 2023 could result in restatements of these condensed interim consolidated financial statements. None of these standards are expected to have a significant effect on the condensed interim consolidated financial statements.

(EXPRESSED IN CANADIAN DOLLARS)

2. BASIS OF MEASUREMENT AND PRESENTATION (continued)

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value. In addition, these condensed interim 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 subsidiaries is the Canadian dollar.

Basis of consolidation

These condensed interim consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. The condensed interim 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 subsidiaries are listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest at *May 31, 2023*	Ownership Interest at August 31, 2022	Principal Activity
Imagine AR Inc.	United States	100%	100%	Virtual reality
FameDays Inc.	United States	100%	100%	Virtual reality
3 Seconds 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 condensed interim 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.

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.

Deferred Contract Costs
The Company defers contract costs that are direct and incremental to obtaining contracts. Deferred contract costs consist of guarantees paid. These fees for initial contracts are amortized over the estimated period of time the corresponding products are available for use in proportion to the revenue recognized. The Company classifies deferred contract costs as short-term or long-term based on when the Company expects to recognize the expense. Short-term and long-term deferred contract costs are included on the Company's consolidated statements of financial position. Deferred contract costs are periodically reviewed for impairment.

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 using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

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).

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 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
Reclamation bonds	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost

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 in profit or 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 May 31, 2023, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Identifiable intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are valued at fair value as at the date of acquisition.

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 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 is 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.

Intangible assets are being depreciated using the straight-line method over their estimated useful life of 2 years.

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 if there is an 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company 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.

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 May 31, 2023 and 2022.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)
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.

Income taxes
Current income 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. 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.

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.

Income (loss) per share
Basic income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income 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. 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. Diluted loss per share is equivalent to basic loss per share, as the effect of potentially dilutive equity instruments is anti-dilutive when the Company is in a loss position.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liability (continued)
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.

Estimates and judgments
The preparation of these condensed interim 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.

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 under 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
New standards, interpretations, amendments and improvements to existing standards with future effective dates have been reviewed by management and are either not applicable or not expected to have a significant impact on the Company's financial statements.

(EXPRESSED IN CANADIAN DOLLARS)

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' deficiency, which totaled $338,002 at May 31, 2023.

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 is not subject to externally imposed capital requirements.

5. RECEIVABLES

The receivables balance is comprised of the following items:

	May 31, 2023	*August 31, 2022*
Sales tax receivable from the Canadian Federal Government	$ 6,256	$ 3,792
Trade receivables	132,002	22,857
	$ 138,258	$ 26,649

6. PREPAID EXPENSES AND DEFERRED CONTRACT COSTS

The prepaid expenses balance is comprised of the following items:

	May 31, 2023	*August 31, 2022*
Advertising and promotion	$ 27,506	$ 8,363
Insurance	25,325	16,164
Rent deposit	-	4,825
	$ 52,831	$ 29,352

As of May 31, 2023, the Company recorded upfront revenue guarantee of $84,957 (August 31, 2022 - $81,501) pursuant to terms of various agreements. The Company will recover these costs from future augmented reality content revenue, and recorded the amount as deferred contract costs.

(EXPRESSED IN CANADIAN DOLLARS)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		May 31, 2023		*August 31, 2022*
Trade payables	$	835,830	$	384,775
Related parties (Note 14)		12,600		16,356
Accrued liabilities		48,626		119,275
Total	$	897,056	$	520,406

During the period ended May 31, 2023, the Company wrote-off payables of $100,560 (2022 - $146,667) due to the statute of limitations on amounts having lapsed.

8. DEFERRED REVENUE

Balance, August 31, 2021	$	16,340
Additions		19,560
Recognized as revenue		(16,340)
Balance, August 31, 2022		19,560
Recognized as revenue		(3,398)
Foreign exchange translation		829
Balance, May 31, 2023	$	16,991

9. RIGHT OF USE ASSET AND LEASE LIABILITIES

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

For the period ending May 31, 2023, the depreciation of the right of use assets was $4,510. The right of use asset is depreciated on a straight-line basis over the term of the lease.

Right of use asset, August 31, 2021	$	8,303
Additions		13,531
Depreciation of right of use asset		(12,813)
Right of use asset, August 31, 2022		9,021
Depreciation of right of use asset		(4,510)
Write-off of right of use asset		(4,511)
Right of use asset, May 31, 2023	$	-

(EXPRESSED IN CANADIAN DOLLARS)

9. RIGHT OF USE ASSET AND LEASE LIABILITIES (continued)

For the period ending May 31, 2023, interest on the lease liabilities was $379 (2022 - $730).

Lease liabilities, August 31, 2021	$	7,900
Additions		13,531
Payment of lease liabilities		(13,346)
Accretion of interest		1,158
Lease liabilities, August 31, 2022		9,243
Accretion of interest		379
Payment of lease liabilities		(4,885)
Write-off of lease liabilities		(4,737)
Lease liabilities, May 31, 2023	$	-

During the period May 31, 2023, the Company terminated the office rental agreement before the end of term and forgo the security deposit of $4,978, which resulted in a loss of $4,764 for the write-off of the right of use asset.

10. INTANGIBLE ASSET

Intangible assets, August 31, 2021	$	-
Additions		23,533
Depreciation of intangible assets		(8,168)
Intangible assets, August 31, 2022		15,365
Depreciation of intangible assets		(9,353)
Intangible assets, May 31, 2023	$	6,012

During the period ended May 31, 2023, intangible assets, comprising a mobile software platform and applications for augmented reality content, were commercially viable and available for use.

11. 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, 2023, after which it will incur interest at 5% per annum.

If principal of $30,000 is repaid on or before December 31, 2023, the remaining $10,000 will be forgiven.

(EXPRESSED IN CANADIAN DOLLARS)

12. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital stock

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

During the period ended May 31, 2023, the Company:

i) closed a non-brokered private placement financing for aggregate gross proceeds of $425,875. The Company issued 12,905,315 units at a price of $0.033 per unit. Each unit comprised of one common share and one non-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 thirty-six months from the date of issue at a price of $0.05.

ii) issued 584,936 common shares valued at $23,397 for consulting services. Fair value of the common shares was determined using the trading price on the date the common shares were issued.

During the year ended August 31, 2022, the Company:

iii) issued 200,000 common shares pursuant to the exercise of warrants for proceeds of $20,000.

iv) issued 125,000 common shares valued at $9,375 for consulting services. Fair value of the common shares was determined using the trading price on the date the common shares were issued.

Share purchase warrants

At May 31, 2023, the following warrants were outstanding:

Expiry Date	Exercise price ($)	Number of Warrants Outstanding	Exercisable
May 29, 2026	0.05	12,905,315	12,905,315
		12,905,315	12,905,315

The following is a summary of the warrant transactions during the nine months ended May 31, 2023 and year ended August 31, 2022:

	Period ended May 31, 2023		*Year ended August 31, 2022*	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the period	1,795,640	$ 0.10	16,115,708	$ 0.23
Warrants exercised	-	-	(200,000)	0.10
Warrants expired	(1,795,640)	0.10	(14,120,068)	0.25
Warrants granted	12,905,315	0.05	-	-
Balance, end of period	12,905,315	$ 0.05	1,795,640	$ 0.10

The weighted average share price on the date of exercise of the warrants was $Nil (August 31, 2022 - $0.16).

(EXPRESSED IN CANADIAN DOLLARS)

12. 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 May 31, 2023, the following incentive stock options were outstanding:

Expiry Date	Exercise price ($)	Number of Options Outstanding	Exercisable
July 8, 2023*	0.30	600,000	600,000
July 15, 2023*	0.15	25,000	25,000
July 19, 2023*	0.135	250,000	250,000
October 2, 2023	0.25	2,750,000	2,750,000
October 14, 2023	0.135	250,000	250,000
October 19, 2023	0.135	100,000	100,000
October 19, 2023	0.135	100,000	100,000
December 13, 2023	0.13	250,000	250,000
March 3, 2024	0.075	125,000**	125,000
April 1, 2024	0.41	1,000,000	1,000,000
April 11, 2024	0.60	1,000,000	1,000,000
April 13, 2024	0.405	250,000	250,000
May 14, 2024	0.90	500,000	500,000
January 13, 2025	0.10	200,000	200,000
January 23, 2025	0.035	250,000	125,000
February 22, 2025	0.05	500,000	250,000
April 25, 2025	0.50	250,000	200,000
June 9, 2025	0.065	200,000	200,000
September 16, 2025	0.075	750,000**	750,000
February 25, 2027	0.075	500,000	500,000
		9,850,000	9,425,000

* options expired subsequent to May 31, 2023
**options cancelled subsequent to May 31, 2023

(EXPRESSED IN CANADIAN DOLLARS)

12. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

Stock options (continued)

The following is a summary of the option transactions during the nine months ended May 31, 2023 and year ended August 31, 2022:

	Period ended May 31, 2023		*Year ended August 31, 2022*	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	11,987,500	$ 0.27	15,579,600	$ 0.28
Options granted	1,500,000	0.06	2,275,000	0.10
Options expired	(3,637,500)	0.17	(5,867,100)	0.24
Balance, end of the period	9,850,000	$ 0.28	11,987,500	$ 0.27

The outstanding options at May 31, 2023, had a weighted average remaining life of 1.01 years (August 31, 2022 – 1.29 years).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the nine months period ended May 31, 2023 and year ended August 31, 2022:

	Period ended May 31, 2023	*Year ended August 31, 2022*
Risk-free interest rate	3.91%	1.45%
Expected life of options	2.00 years	3.08 years
Expected annualized volatility	145.23%	169.17%
Exercise price	$0.058	$0.098
Expected dividend rate	0%	0%

The weighted average fair value of options granted during the period ended May 31, 2023 was $0.03 (August 31, 2022 – $0.10).

(EXPRESSED IN CANADIAN DOLLARS)

13. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Related parties include key management personnel and any companies owned or controlled by key management personnel. Key management personnel include the Board of Directors and Executive Officers.

Amounts paid or accrued to key management personnel are as follows:

		For the period ended May 31,		
		2023		*2022*
Consulting, director, and management fees	$	106,934	$	268,738
Share-based payments		-		53,007
Total	$	106,934	$	321,745

The table above includes:

i) management and consulting fees of $88,934 (2022 - $250,738), to the CEO of the Company.

ii) consulting fees of $18,000 (2022 - $18,000) to the CFO of the Company.

As of May 31, 2023, $12,600 (August 30, 2022 - $16,356) remained outstanding to related parties and is included in accounts payable and accrued liabilities.

During the period ended May 31, 2023, the Company wrote-off payables of $17,044 (August 31, 2022 - $146,667) owed to former director due to the statute of limitations on the outstanding amounts have lapsed.

14. SOFTWARE

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

For the period ended May 31,		*2023*		*2022*
Research	$	88,726	$	344,134
Development of new features, architecture, and functions		266,177		1,032,400
	$	354,903	$	1,376,534

15. 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 period ended May 31, 2023.

<u>Fair value</u>

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 short-terms to 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 measured at fair value using Level 1 inputs for the years presented.

<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 trade 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 and trade receivables.

<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, 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 May 31, 2023, the Company had $897,056 (August 31, 2022 - $520,406) of accounts payable and accrued liabilities due on standard trade payable terms not exceeding 90 days.

<u>Market risk</u>

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

15. FINANCIAL RISK FACTORS (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at May 31, 2023, 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 May 31, 2023, the Company has US$47,794 included in cash, US$211,889 included in accounts payable and accrued liabilities. A 5% change in the exchange rate would result in an $8,205 change in profit or loss.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. The Company is not exposed to material other price risk.

16. SUBSEQUENT EVENTS

Subsequent to period ended May 31, 2023, the Company:

i) granted 200,000 stock options to consultants of the Company exercisable at $0.05 until June 5, 2025.

ii) granted 900,000 stock options to directors and officers of the Company exercisable at $0.05 until June 5, 2026.

iii) granted 5,750,000 stock options to directors and officers of the Company exercisable at $0.05 until June 27, 2026.