# IMAGINEAR INC.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

## NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim financial statements of ImagineAR Inc. have been prepared by and are the responsibility of management and have 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)

| | February 29, 2024 | August 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 154,348 | $ 110,750 |
| Receivables (Note 5) | 12,764 | 14,887 |
| Prepaid expenses (Note 6) | 14,481 | 80,885 |
| Total current assets | 181,593 | 206,522 |
| Intangible assets (Note 10) | - | 2,903 |
| Total assets | $ 181,593 | $ 209,425 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| Current | | |
| Accounts payable and accrued liabilities (Notes 7 and 13) | $ 925,768 | $ 1,003,429 |
| Deferred revenue (Note 8) | 1,696 | 11,856 |
| Loan payable (Note 11) | 13,032 | 53,032 |
| Total current liabilities | 940,496 | 1,068,317 |
| Shareholders' deficiency | | |
| Capital stock (Note 12) | 36,199,981 | 34,886,490 |
| Shares to be issued (Note 12) | 159,707 | 116,480 |
| Reserves (Note 12) | 7,524,680 | 7,414,297 |
| Deficit | (44,643,271) | (43,276,159) |
| Total shareholders' deficiency | (758,903) | (858,892) |
| Total liabilities and shareholders' deficiency | $ 181,593 | $ 209,425 |

**Nature and continuance of operations** (Note 1)
**Subsequent event** (Note 17)

***"Alen Paul Silverrstieen"***
**Director**

***"Mike Tunnicliffe"***
**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 | | Six Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| **PROFIT (LOSS)** | | | | |
| Licensing income | $ 18,430 | $ 49,289 | $ 36,052 | $ 81,856 |
| Cost of sales | (24,864) | (8,651) | (45,141) | (38,213) |
| | (6,434) | 40,638 | (9,089) | 43,643 |
| **EXPENSES** | | | | |
| Consulting, director and management fees (Note 13) | 101,832 | 22,956 | 162,576 | 165,316 |
| Depreciation (Notes 9 and 10) | 683 | 4,205 | 3,833 | 10,696 |
| Foreign exchange | 2,211 | (77) | 12,648 | 1,391 |
| Interest expense (Note 9) | - | 74 | - | 379 |
| Office and miscellaneous | 45,247 | 40,186 | 95,599 | 87,710 |
| Professional fees | 36,423 | (12,424) | 74,130 | 87,220 |
| Share-based compensation (Notes 12 and 13) | 100,388 | 17,771 | 103,390 | 49,560 |
| Shareholder communications and promotion | 126,231 | 16,773 | 324,547 | 30,485 |
| Software (Note 14) | 16,562 | 129,270 | 47,799 | 317,765 |
| Transfer agent and filing fees | 16,312 | 5,119 | 21,877 | 12,754 |
| Wages and salaries | 10,887 | 24,087 | 21,624 | 59,504 |
| | (456,776) | (247,940) | (868,023) | (822,780) |
| **OTHER** | | | | |
| Transaction costs (Notes 12 and 13) | - | - | (500,000) | - |
| Other income (Note 11) | 10,000 | - | 10,000 | - |
| Write-off of right of use asset | - | (4,752) | - | (4,752) |
| Write-off of accounts payable | - | 100,560 | - | 100,560 |
| | 10,000 | 95,808 | (490,000) | 95,808 |
| Net loss and comprehensive loss for the period | $ (453,210) | $ (111,494) | $ (1,367,112) | $ (683,329) |
| **Basic and diluted net loss per common share** | $ (0.00) | $ (0.00) | $ (0.01) | $ (0.00) |
| **Weighted average number of common shares outstanding – basic and diluted** | 264,428,341 | 203,645,782 | 247,271,198 | 203,645,782 |

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 six months ended February 29, 2024 | February 28, 2023 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (1,367,112) | $ (683,329) |
| Items not affecting cash: | | |
| Accretion interest on lease liabilities | - | 379 |
| Depreciation | 3,833 | 10,696 |
| Foreign exchange | 12,648 | (1,391) |
| Other income | (10,000) | - |
| Share-based compensation | 103,390 | 49,560 |
| Shares for services | 43,227 | - |
| Transaction cost | 500,000 | - |
| Write-off of right of use asset | | 4,752 |
| Write off of accounts payable | | (100,560) |
| Changes in non-cash working capital items: | | |
| Receivables | 2,123 | (81,367) |
| Prepaid expenses | 66,404 | 38 |
| Accounts payable and accrued liabilities | (35,235) | 365,356 |
| Deferred revenue | (10,164) | - |
| Cash used in operating activities | (690,886) | (435,886) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Loan repayment | (30,000) | - |
| Proceeds from private placement | 764,484 | - |
| Cash provided by financing activities | 734,484 | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Repayment of lease liabilities | - | (4,885) |
| Cash used in investing activities | - | (4,885) |
| **Change in cash** | 43,598 | (440,751) |
| **Cash, beginning of period** | 110,750 | 481,242 |
| **Cash, end of period** | $ 154,348 | $ 40,491 |
| Cash paid for taxes during the period | $ - | $ - |
| Cash paid for interest during the period | $ - | $ - |

**Supplemental disclosure with respect to Cash Flows (Note 16)**

See accompanying notes to the condensed interim consolidated financial statements.

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

| | Number of shares | Capital stock | Reserves: Share-based payment reserve | Reserves: Warrant reserve | Shares to be issued | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, August 31, 2022 | 203,645,782 | $ 34,388,295 | $ 6,219,103 | $ 922,649 | $ - | $ (41,489,158) | $ 40,889 |
| Share-based compensation | - | - | 49,560 | - | - | - | 49,560 |
| Net and comprehensive loss for the period | - | - | - | - | - | (683,329) | (683,329) |
| Balance, February 28, 2023 | 203,645,782 | 34,388,295 | 6,268,663 | 922,649 | - | (42,172,487) | (592,880) |
| Issued pursuant to private placement | 12,905,315 | 425,875 | - | - | - | - | 425,875 |
| Shares for services | 584,936 | 72,320 | - | - | 116,480 | - | 188,800 |
| Share-based compensation | - | - | 222,985 | - | - | - | 222,985 |
| Net and comprehensive loss for the period | - | - | - | - | - | (1,103,672) | (1,103,672) |
| Balance, August 31, 2023 | 217,136,033 | 34,886,490 | 6,491,648 | 922,649 | 116,480 | (43,276,159) | (858,892) |
| Issued pursuant to private placement | 36,700,000 | 757,491 | - | 6,993 | - | - | 764,484 |
| Transaction costs – potential property purchase | 10,000,000 | 500,000 | - | - | - | - | 500,000 |
| Shares for services | 700,000 | 56,000 | - | - | 43,227 | - | 99,227 |
| Share-based compensation | - | - | 103,390 | - | - | - | 103,390 |
| Net and comprehensive loss for the period | - | - | - | - | - | (1,367,112) | (1,367,112) |
| Balance, February 29, 2024 | 264,536,033 | $ 36,199,981 | $ 6,595,038 | $ 929,642 | $ 159,707 | $ (44,643,271) | $ (758,903) |

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 six months ended February 29, 2024 and 2023 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.

The Company incurred a net loss and comprehensive loss of $1,367,112 during the six months ended February 29, 2024 (February 28, 2023 - $683,329) and incurred negative operating cash flows of $690,886 (February 28, 2023 - $435,866). As at February 29, 2024, the Company had an accumulated deficit of $44,643,271 (August 31, 2023 - $43,276,159).

There is a material uncertainty related to these conditions 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 April 26, 2024 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 February 29, 2024. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending August 31, 2024 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.

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.

(EXPRESSED IN CANADIAN DOLLARS)

## 2. BASIS OF MEASUREMENT AND PRESENTATION (continued)

**Basis of consolidation**

These condensed interim 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 condensed interim 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 material 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 *February 29, 2024* | Ownership Interest at August 31, 2023 | 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 (dormant) |

## 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 current or non-current based on when the Company expects to recognize the expense. Current and non-current 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 assets 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).

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

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

| Financial Assets and Liabilities | Classification and measurement |
|---|---|
| Cash | FVTPL |
| Trade receivables | 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 in the period incurred.

*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 February 29, 2024, 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 grants**

The Company recognizes government grants when it is probable that the grant will be received, and all grant conditions are complied with. When the grant is in the form of a forgivable loan, the loan is initially recognized as a deferred income liability. The Company then relieves the deferred income liability on a systematic and rational basis in those periods over which the entity recognizes the expenses that the grant is intended to offset. The Company recognizes the impact of the loan forgiveness as an offset against related expense.

Assistance for operating expenses is recorded as a reduction of expenses when the assistance is receivable.

A forgivable loan from the government is treated as government assistance when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan. If there is no reasonable assurance that the entity will meet the terms for forgiveness of the loan, the loan is recognized as a liability in accordance with IFRS 9 Financial Instruments. The liability would become a government grant (forgivable loan) when there is reasonable assurance that the entity will meet the terms of forgiveness.

## 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 February 29, 2024 and February 28, 2023.

**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 the common shares are issued. 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 condensed interim 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 could materially affect the fair value estimates.

ii) Provision for expected credit losses
The Company maintains a provision for expected credit losses that may arise if any of its customers are unable to make required payments. If the Company determines that the financial condition of any of its customers with outstanding accounts receivable has deteriorated significantly, increases in the provision may be made to reduce the Company's accounts receivable balance accordingly.

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 condensed interim consolidated 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 $758,903 at February 29, 2024.

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:

| | *February 29, 2024* | *August 31, 2023* |
|---|---|---|
| Sales tax receivable from the Canadian Federal Government | $ 4,123 | $ 14,512 |
| Trade receivables | 8,641 | 375 |
| | $ 12,764 | $ 14,887 |

Trade receivables are net of a provision for uncollectable amounts of $Nil (August 31, 2023 - $173,547).

## 6. PREPAID EXPENSES AND DEFERRED CONTRACT COSTS

The prepaid expenses balance is comprised of the following items:

| | *February 29, 2024* | *August 31, 2023* |
|---|---|---|
| Advertising and promotion | $ 11,540 | $ 63,076 |
| Insurance | 2,941 | 17,809 |
| | $ 14,481 | $ 80,885 |

During the year ended August 31, 2022, the Company recorded upfront revenue guarantees of $81,501 pursuant to terms of various agreements. During the year ended August 31, 2023, the Company determined that it would not be able to recover these costs from future augmented reality content revenue and expensed the 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:

| | *February 29, 2024* | *August 31, 2023* |
|---|---|---|
| Trade payables | $ 847,398 | $ 881,685 |
| Related parties (Note 13) | 19,400 | 16,800 |
| Accrued liabilities | 58,970 | 104,944 |
| Total | $ 925,768 | $ 1,003,429 |

During the year ended August 31, 2023, the Company recovered accounts payable of $126,785 due to the statute of limitations on amounts having lapsed.

## 8. DEFERRED REVENUE

| | | |
|---|---|---|
| Balance, August 31, 2022 | $ | 19,560 |
| Recognized as revenue | | (8,468) |
| Foreign exchange translation | | 764 |
| Balance, August 31, 2023 | | 11,856 |
| Recognized as revenue | | (10,164) |
| Foreign exchange translation | | 4 |
| Balance, February 29, 2024 | $ | 1,696 |

## 9. RIGHT OF USE ASSET AND LEASE LIABILITIES

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

For the period ending February 29, 2024, the depreciation of the right of use assets was $Nil (February 28, 2023 - $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, 2022 | $ | 9,021 |
| Depreciation of right of use asset | | (4,510) |
| Write-off of right of use asset | | (4,511) |
| Right of use asset, August 31, 2023 and February 29, 2024 | $ | - |

For the period ending February 29, 2024, interest on the lease liabilities was $Nil (February 28, 2023 - $379).

| | | |
|---|---|---|
| Lease liabilities, August 31, 2022 | | 9,243 |
| Accretion of interest | | 379 |
| Payment of lease liabilities | | (9,622) |
| Lease liabilities, August 31, 2023 and February 29, 2024 | $ | - |

During the year August 31, 2023, the Company terminated the office rental agreement before the end of term which resulted in a loss of $4,748 consisting of $4,511 for the write-off of the right of use asset and $237 from foregoing a security deposit.

(EXPRESSED IN CANADIAN DOLLARS)

## 10. INTANGIBLE ASSETS

| | | |
|---|---|---|
| Intangible assets, August 31, 2022 | $ | 15,365 |
| Depreciation of intangible assets | | (12,462) |
| Intangible assets, August 31, 2023 | | 2,903 |
| Depreciation of intangible assets | | (3,833) |
| Foreign exchange translation | | 930 |
| Intangible assets, February 29, 2024 | $ | - |

During the period ended February 29, 2024, 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 January 18, 2024, after which it will incur interest at 5% per annum.

During the period ended February 29, 2024, $30,000 was repaid before repayment deadline and remaining $10,000 was included in profit and loss.

## 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 February 29, 2024, the Company:

i) closed a non-brokered private placement and issued 36,700,000 units at a price of $0.021 per unit for gross proceeds of $770,700. Each unit is comprised of one common share and one non-transferable common share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of $0.05 for a period of thirty-six months from the closing of the offering. Warrants were valued at $Nil using the residual value method.

   A total of $6,216 cash finder's fees were paid, and 296,000 broker's warrants (valued at $6,993) were issued in connection with the private placement.

ii) entered into an agreement with a director of the Company, and an arm’s length individual to which the Company issued 10,000,000 common shares (valued at $500,000) in consideration of a refundable deposit into escrow on behalf of the Company for the potential purchase of a property located in the Southern United States (Note 13).

iii) issued 700,000 common shares valued at fair market value of $56,000 for promotional services.

During the year ended August 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 at a price of $0.05 for a period of up to thirty-six months from the date of issue. Warrants were valued at $Nil using the residual value method.

(EXPRESSED IN CANADIAN DOLLARS)

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

ii) issued 584,936 common shares valued at $72,320 for consulting services. Fair value of the common shares was determined using the cost of the services provided.

**Shares to be issued**

During the year ended August 31, 2023, the Company recorded 2,296,727 common shares at a fair value of $116,480 as shares to be issued under a consulting agreement with a third party.

During the period ended February 29, 2024, the Company recorded 864,533 common shares at a fair value of $43,227 as shares to be issued under a consulting agreement with a third party.

As of February 29, 2024, the Company is obliged to issue 3,161,260 common share at a fair value of $159,707.

**Share purchase warrants**

At February 29, 2024, 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 |
| October 31, 2026 | 0.05 | 36,996,000 | 36,996,000 |
| | | 49,901,315 | 49,901,315 |

The following is a summary of the warrant transactions:

| | *Period ended February 29, 2024* | | *Year ended August 31, 2023* | |
|---|---|---|---|---|
| | Number Of Warrants | Weighted Average Exercise Price | Number Of Warrants | Weighted Average Exercise Price |
| Balance, beginning of the period | 12,905,315 | $ 0.05 | 1,795,640 | $ 0.10 |
| Warrants granted | 36,996,000 | 0.05 | 12,905,315 | 0.05 |
| Warrants expired | - | - | (1,795,640) | 0.10 |
| Balance, end of period | 49,901,315 | $ 0.05 | 12,905,315 | $ 0.05 |

The outstanding warrants on February 29, 2024, had a weighted average remaining life of 2.56 years (August 31, 2023 – 2.75 years).

(EXPRESSED IN CANADIAN DOLLARS)

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

### Share purchase warrants (continued)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of broker's warrants granted:

| | *Period ended February 29, 2024* | *Year ended August 31, 2023* |
|---|---|---|
| Risk-free interest rate | 4.50% | - |
| Expected life of options | 3.00 years | - |
| Expected annualized volatility | 155.80% | - |
| Exercise price | $0.05 | - |
| Expected dividend rate | 0% | - |

The weighted average fair value of broker's warrants granted during the period ended February 29, 2024 was $0.024 (August 31, 2023 – $Nil).

### 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 February 29, 2024, the following incentive stock options were outstanding:

| Expiry Date | Exercise price ($) | Number of Options Outstanding | Exercisable |
|---|---|---|---|
| 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 | 250,000 |
| February 22, 2025 | 0.05 | 500,000 | 500,000 |
| April 25, 2025 | 0.05 | 250,000 | 200,000 |
| June 5, 2025 | 0.05 | 200,000 | 200,000 |
| June 9, 2025 | 0.065 | 200,000 | 200,000 |
| January 17, 2026 | 0.07 | 3,000,000 | 1,000,000 |
| June 5, 2026 | 0.05 | 900,000 | 900,000 |
| June 27, 2026 | 0.05 | 5,750,000 | 5,250,000 |
| February 25, 2027 | 0.075 | 500,000 | 500,000 |
| | | 14,500,000 | 11,950,000 |

* options expired subsequently

(EXPRESSED IN CANADIAN DOLLARS)

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

**Stock options (continued)**

The following is a summary of the option transactions:

| | *Period ended February 29, 2024* | | *Year ended August 31, 2023* | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of the period | 14,950,000 | $ 0.19 | 11,987,500 | $ 0.27 |
| Options granted | 3,000,000 | 0.07 | 8,350,000 | 0.05 |
| Options expired | (3,450,000) | 0.23 | (5,387,500) | 0.16 |
| Balance, end of the period | 14,500,000 | $ 0.15 | 14,950,000 | $ 0.19 |

The outstanding options at February 29, 2024, had a weighted average remaining life of 1.70 years (August 31, 2023 – 1.67 years).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted:

| | *Period ended February 29, 2024* | *Year ended August 31, 2023* |
|---|---|---|
| Risk-free interest rate | 4.04% | 4.11% |
| Expected life of options | 3.00 years | 2.89 years |
| Expected annualized volatility | 177.34% | 154.40% |
| Exercise price | $0.07 | $0.051 |
| Expected dividend rate | 0% | 0% |

The weighted average fair value of options granted during the period ended February 29, 2024 was $0.062(August 31, 2023 – $0.03).

(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* | |
|---|---|---|
| | February 29, *2024* | February 28, 2023 |
| Consulting, director, and management fees | $ 117,742 | $ 100,934 |
| Share based compensation | 97,419 | - |
| Total | $ 215,161 | $ 100,934 |

The table above includes:

i) management and consulting fees of $105,742 (February 28, 2023 - $88,934), to the CEO of the Company.

ii) consulting fees of $12,000 (February 28, 2023 - $12,000) to the CFO of the Company.

As of February 29, 2024, $19,400 (August 31, 2023 - $16,800) remained outstanding to related parties and is included in accounts payable and accrued liabilities.

During the period ended February 29, 2024, a director of the Company received 5,000,000 shares (valued at $250,000) in consideration of a refundable deposit into escrow on behalf of the Company for the potential purchase of a property located in the Southern United States.

During the period ended February 29, 2024, the Company issued 3,000,000 (August 31, 2023 – 4,800,000) stock options to a director of the Company, resulting in share-based compensation of $185,408 (August 31, 2023 – $155,071), of which vested portion of $97,419 was recorded in profit and loss.

During the year ended August 31, 2023, accounts payable of $32,474, owed to the CEO, were written off.

## 14. SOFTWARE

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

| *For the period ended* | *February 29, 2024* | *February 28, 2023* |
|---|---|---|
| Research | $ 11,950 | $ 79,441 |
| Development of new features, architecture, and functions | 35,849 | 238,324 |
| | $ 47,799 | $ 317,765 |

## 15. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's condensed interim consolidated financial statements are summarized below. There have been no changes to the Company's approach to mitigating risk exposures during the period ended February 29, 2024.

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 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.

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 trade receivables. The maximum exposure to credit risk is the aggregate carrying amount of cash and trade receivables of $162,989 (August 31, 2023 - $111,125). 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, which are immaterial in amount. Management does not consider the Company to have significant concentrations of credit risk. Management analyzes the age of outstanding customer balances, historical bad debt experience, current economic conditions, forward-looking information, customer credit-worthiness and changes in customer payment terms when making estimates of collectability of the Company's accounts receivable balance. As of February 29, 2024, the Company wrote off $Nil (August 31, 2023 - $173,547) of trade receivable due to uncertainty with collectability.

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 February 29, 2024, the Company had cash of $154,348 (August 31, 2023 - $110,750) to settle $925,768 (August 31, 2023 - $1,003,429) of accounts payable and accrued liabilities due on standard trade payable terms not exceeding 90 days. The Company's management of liquidity risk has not changed materially from that of the prior year.

## 15. FINANCIAL RISK FACTORS (continued)

Market risk

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. The Company's management of and exposure to market risk has not changed materially from that of the prior year.

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 February 29, 2024, the Company has cash balances and no material interest-bearing debt, therefore, interest rate risk is considered to be immaterial.

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 February 29, 2024, the Company has US$60,540 included in cash, US$198,515 included in accounts payable and accrued liabilities. A 5% change in the exchange rate would result in an $6,900 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 (other than interest rate risk or foreign currency risk), 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. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the period ended February 29, 2024 consisted of:

i) issuance of 296,000 broker warrants valued at $6,993.
ii) issuance of 700,000 shares valued at $56,000 for promotional services.

There were no significant non-cash investing and financing transactions for the period ended February 28, 2023.

## 17. SUBSEQUENT EVENT

Subsequent to February 29, 2024, the Company issued 700,000 common shares for promotional services.