

# **Victory Square Technologies Inc.**

## **Consolidated Financial Statements Years ended December 31, 2022 and 2021**

Expressed in Canadian dollars

### **NOTICE TO READER**

May 2, 2023

Refiling of Annual Consolidated Financial Statements for the Years Ended December 31, 2022 and December 31, 2021

The annual consolidated financial statements of the Company for the years ended December 31, 2022 and December 31, 2021 appended hereto are being refiled to revise the Independent Auditor's Report to include references to the Other Matter that the consolidated financial statements for the year ended December 31, 2021 was audited by another auditor. No other changes were made to the contents of the annual consolidated financial statements.

To the Shareholders of Victory Square Technologies Inc.

## Opinion

We have audited the consolidated financial statements of Victory Square Technologies (the "Company") Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2022, and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 1, these events, or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## Private Investments

### *Key Audit Matter Description*

The Company has a venture capital operation that makes equity investments in private, emerging technology companies generally in a start-up phase where fair value is based on unobservable inputs and are classified as Level 3 financial instruments. The valuation of these investments is inherently subjective due to the absence of quoted market values and inherent lack of liquidity. As a result, the procedures related to the valuation methodologies and unobservable market inputs required a high degree of auditor judgment and increased audit effort, where the use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Auditing the fair value of financial assets based on unobservable inputs requires the application of significant auditor judgment and in some instances, involvement of valuation specialists in assessing the valuation techniques. Given the subjectivity involved, we considered this area to be a key audit matter.

Refer to Notes 8 and 24 to the consolidated financial statements for further details.

### *Audit Response*

We responded to this matter by performing audit procedures in relation to the fair value of private company investments held at year end. Our audit work in relation to this included, but was not restricted to the following:

- We verified the Company's percentage shareholding and ownership interest in each significant investment held as of year-end based on review of share certificates, subscription agreements, central securities registers, and third-party confirmations received;
- We reviewed and obtained the documented valuation methodologies and key inputs used by the Company in determining fair value;
- With the assistance of our internal valuation specialists, we evaluated the reasonableness of the valuation methodologies, inputs and assumptions in the valuation of private company investments held as of year-end particularly in cases where recent arms-length equity raises were not identified and calibration techniques were used to adjust the last reported valuation;
- Where available, obtained financial statements of investee companies, and/or other publicly available financial information, as an input to a generally accepted valuation technique to corroborate fair value determined by management;
- We performed recalculations of the unrealized and realized gains/losses for investments and compared this to source documents; and
- We assessed the appropriateness of the disclosures relating to the valuation methodology used in the fair value assessment in the notes to the consolidated financial statements.

## Goodwill Impairment

### *Key Audit Matter Description*

The Company performs impairment testing for goodwill on an annual basis, or more frequently when there is an indication of impairment. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amounts of the CGUs were determined using the fair value less cost of disposal method, which included using discounted cash flow projection models as well as applying industry multiples. Management used key assumptions in the discounted cash flow projection models, which included forecasted operating results, long-term growth rates and discount rates, as well as used information from comparable companies in determining suitable market multiples.

We considered this a key audit matter due to the subjectivity and complexity involved in performing procedures to test key assumptions in determining the recoverable amounts of the CGUs, which involved significant judgment from management. Refer to Notes 10 and 15 to the consolidated financial statements for further detail.

### *Audit Response*

We responded to this matter by performing audit procedures in relation to the impairment of goodwill. Our audit work in relation to this to this included, but was not restricted to the following:

- We evaluated the reasonability of key inputs such as forecasted revenues, gross margin, operating expenses, long-term growth rates and the discount rates determined by management in the discounted cash flow projection models;
- We performed a sensitivity analysis on key inputs to assess the impact of reasonable changes on the determination of the recoverable amounts;
- We tested management's key assumptions, including a 'retrospective review' to compare management's assumptions in prior year expected future cash flows to the actual results to assess the Company's budgeting process;
- With the assistance of internal valuation specialists, we evaluated the reasonableness of the discount rates used by management by comparing the Company's weighted average cost of capital against publicly available market data, as well as the earnings multiple by assessing comparable market data and transactions;
- We assessed the appropriateness of the disclosures relating to the assumptions used in the impairment assessment in the notes to the consolidated financial statements; and
- We tested the mathematical accuracy of management's impairment model and supporting calculations.

### **Acquisition**

#### *Key Audit Matter Description*

During the year ended December 31, 2022, the Company's subsidiary, XR Immersive Tech Inc., acquired Synthesis VR Inc. The acquisition was treated as a business combination. In determining the fair value of consideration paid, the fair value of the net identifiable assets acquired, and the resulting goodwill, management used a discounted cash flow model to measure the business enterprise value and the acquired net identifiable assets, where significant estimation was exercised in the determination of projected revenues, operating expenses, and the discount rate used.

We considered this a key audit matter due to the subjective nature of estimating the fair value of identified assets and liabilities as at the date of acquisition, particularly for technology assets. Refer to Note 10 to the consolidated financial statements for further detail

#### *Audit Response*

We responded to this matter by performing audit procedures in relation to an acquisition of a business. Our audit work in relation to this included, but was not restricted to the following:

- We read the purchase agreements to obtain an understanding of the key terms and conditions involved in the acquisition;
- We evaluated the appropriateness of the acquisition being a business combination rather than an asset acquisition;
- We evaluated the reasonability of key inputs used in the discounted cash flow model, such as forecasted revenues, gross margin, operating expenses, long-term growth rates and the discount rates used by management;
- We involved our internal valuation specialists to assess the valuation methodology applied, and the various inputs utilized to determine the discount rate by referencing current industry and comparable company information; and
- We assessed the appropriateness of the disclosures relating to the assumptions used in the purchase price allocation assessment in the notes to the consolidated financial statements.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

## Other Matter

The consolidated financial statements for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on June 3, 2022.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jaspreet Chahal.

Burlington, Ontario

May 1, 2023

*MNP* LLP

Chartered Professional Accountants

Licensed Public Accountants

Victory Square Technologies Inc.  
Consolidated statements of financial position  
(Expressed in Canadian dollars)

	Notes	December 31, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	\$ 3,836,815	\$ 4,376,374
Prepays	5	471,762	510,545
Trade receivables	6	27,034	289,291
Government sales tax receivable		86,085	121,835
Inventories	7	104,271	144,018
		4,525,967	5,442,063
<b>Non-current assets</b>			
Investments - fair value	8	10,623,417	22,625,739
Investments - equity accounted	9	1,184,648	1,319,319
Due from related parties	22	272,169	210,597
Right of use asset	12	402,736	621,361
Property and equipment	13	31,655	284,247
Intangible assets	14	4,639,881	5,187,174
Goodwill	10,15	2,495,550	1,640,653
<b>TOTAL ASSETS</b>		<b>\$ 24,176,023</b>	<b>\$ 37,331,153</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	22	\$ 783,819	\$ 384,578
Accrued liabilities	22	1,213,765	727,702
Current portion of deferred revenue	20	1,703,821	373,817
Related party loans	22	1,187,700	959,921
Current portion of loans payable	16	417,604	2,560,172
Income taxes payable		80,581	-
Other payables	18	158,765	158,765
Current portion of convertible debt	19	121,136	-
Current portion of lease liability	12	212,196	172,690
		5,879,387	5,337,645
<b>Non-current liabilities</b>			
Convertible debt	19	160,452	-
CEBA loans	17	135,222	122,150
Deferred revenue	20	18,045	13,343
Deferred tax liability	28	367,750	235,655
Lease liability	12	235,993	463,349
Loans payable	16	4,133,337	-
<b>TOTAL LIABILITIES</b>		<b>10,930,186</b>	<b>6,172,142</b>
<b>EQUITY</b>			
Share capital	21	43,916,621	42,795,726
Reserve	21	12,419,613	2,226,661
Equity portion of debt	21	511,620	89,944
Broker's warrants	21	427,165	427,165
Obligation to issue shares	21	300,000	1,120,895
Accumulated other comprehensive income		(81,822)	59,400
Deficit		(43,527,088)	(19,337,171)
Equity attributable to owners of the Company		13,966,109	27,382,620
Non-controlling interest	29	(720,272)	3,776,391
<b>EQUITY</b>		<b>13,245,837</b>	<b>31,159,011</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 24,176,023</b>	<b>\$ 37,331,153</b>

Nature of operations and going concern – Note 1

Subsequent event – Note 30

See accompanying notes to the consolidated financial statements.

Victory Square Technologies Inc.  
Consolidated statements of loss and comprehensive loss  
(Expressed in Canadian dollars)

	Note	Year ended December 31,	
		2022	2021
<b>Revenue</b>	26	\$ 5,929,096	\$ 1,494,450
<b>Cost of goods sold</b>	26	2,672,672	584,314
		3,256,424	910,136
<b>Expenses</b>			
Amortization and depreciation	12,13,14	2,921,288	2,595,222
Donations		(95,519)	288,358
Foreign exchange (gain) loss		(11,364)	63,786
General and administration		1,203,450	746,693
Insurance		97,824	61,511
Investor relations		337,956	617,779
Listing expense	11	3,938,641	-
Management fees	22	75,142	387,516
Professional and consulting fees	22	3,271,269	1,841,594
Rent		112,689	115,470
Research and development		274,242	2,307,999
Sales and marketing		905,626	1,259,442
Share based payments	21	1,043,948	2,794,297
Transfer agent and regulatory fees		133,713	247,535
Wages		2,273,212	1,755,645
<b>Total expenses</b>		<b>(16,482,117)</b>	<b>(15,082,847)</b>
<b>Other Items</b>			
Fair value gain on marketable securities	8	-	46,375
Gain on exercise of warrants	8	-	1,688,148
Equity loss on investments	9	(134,671)	(17,473)
Fair value loss on investments	8	(11,876,869)	(12,936,782)
Impairment of investments	8	-	(801,466)
Impairment of related party loans		(71,005)	(22,696)
Impairment of goodwill	15	(1,592,644)	-
Loss on recognition of convertible debenture		-	(427,778)
Gain (loss) on disposal of assets	8,14	(18,185)	6,664,727
Loss on settlement of payables		-	(12,877)
Loss on settlement of debt	8,22	(149,082)	-
Provision	7,12,13	(565,023)	-
Gain on CEBA loans	16	-	8,649
Loss on derivative liability	22	(251,301)	-
Interest expense	12,16,17	(1,173,298)	(330,017)
Interest and other income	27	239,884	784,503
		(15,592,194)	(5,356,687)
Current income tax expense	28	(94,576)	-
Deferred tax recovery	28	324,095	99,030
Net loss from continuing operations for the year		(28,588,368)	(19,430,368)
Net loss from discontinued operations for the year	3	-	(2,423,705)
Gain on deconsolidation of subsidiaries	3	-	6,108,408
Net loss for the year		(28,588,368)	(15,745,665)
<b>Other Comprehensive Income (Loss)</b>			
Currency translation adjustment		(141,222)	322
Comprehensive loss for the year		(28,729,590)	(15,745,343)
<b>Net loss attributable to:</b>			
Shareholders of the parent company		(24,189,917)	(13,853,938)
Non-controlling interest	29	(4,398,451)	(1,891,727)
		\$ (28,588,368)	\$ (15,745,665)
<b>Basic loss from continuing operations per share attributable to the shareholders of the parent company</b>		\$ (0.25)	\$ (0.15)
<b>Diluted loss from continuing operations per share attributable to the shareholders of the parent company</b>		\$ (0.25)	\$ (0.15)
<b>Weighted average number of common shares outstanding for the year - basic</b>		<b>98,418,743</b>	<b>94,240,905</b>
<b>Weighted average number of common shares outstanding for the year - diluted</b>		<b>113,289,461</b>	<b>94,240,905</b>

See accompanying notes to the consolidated financial statements.



Victory Square Technologies Inc.  
Consolidated statements of changes in equity  
(Expressed in Canadian dollars)

	Note	Share Capital		Accumulated other comprehensive income	Reserve	Obligation to issue shares	Equity portion of debt	Special Warrants	Broker's Warrants	Deficit	Non-controlling interest	Total
		Number of shares	Amount									
<b>Balance at December 31, 2020</b>		<b>76,491,818</b>	<b>\$ 31,865,593</b>	<b>\$ 59,078</b>	<b>\$ 442,591</b>	<b>\$ -</b>	<b>\$ 199,703</b>	<b>\$ 4,889,021</b>	<b>\$ 427,165</b>	<b>\$ (4,938,669)</b>	<b>\$ 5,760,345</b>	<b>\$ 38,704,827</b>
Conversion of special warrants, net of issuance costs		11,713,053	4,889,021	-	-	-	-	(4,889,021)	-	-	-	-
Shares issued - acquisition of Hydreight	10,21	3,007,058	1,543,185	-	-	1,120,895	-	-	-	-	-	2,664,080
Shares issued for finder's fee - acquisition of Hydreight	10,21	232,066	162,446	-	-	-	-	-	-	-	-	162,446
Shares issued - acquisition of intangible assets	14,21	4,600,048	3,542,037	-	-	-	-	-	-	-	-	3,542,037
Shares issued - investment in Stardust	10,21	674,157	438,202	-	-	-	-	-	-	-	-	438,202
Shares issued - investment in Shop and Shout	10,21	1,000,000	425,000	-	-	-	-	-	-	-	-	425,000
Share buybacks	21	(562,000)	(270,543)	-	-	-	-	-	-	-	-	(270,543)
Exercise of warrants	21	62,000	45,239	-	-	-	-	-	-	-	-	45,239
Share-based payments	21	-	-	-	1,707,261	-	-	-	-	-	1,087,036	2,794,297
Deconsolidation of GameOn Entertainment	3	-	-	-	(5,178)	-	(199,703)	-	-	-	(4,587,549)	(4,792,430)
Exercise of stock options	21	712,500	155,546	-	(48,673)	-	-	-	-	-	-	106,873
Equity portion of loan	16	-	-	-	-	-	89,944	-	-	-	-	89,944
Related party debt forgiveness, net	3	-	-	-	130,660	-	-	-	-	-	(542,383)	(411,723)
Dividend in kind	3,8,21	-	-	-	-	-	-	-	-	(544,564)	305,075	(239,489)
Currency translation adjustment		-	-	322	-	-	-	-	-	-	-	322
Discontinued operations		-	-	-	-	-	-	-	-	-	1,125,725	1,125,725
Shares issued - subsidiary company	21	-	-	-	-	-	-	-	-	-	2,519,869	2,519,869
Net loss for the year		-	-	-	-	-	-	-	-	(13,853,938)	(1,891,727)	(15,745,665)
<b>Balance at December 31, 2021</b>		<b>97,930,700</b>	<b>42,795,726</b>	<b>59,400</b>	<b>2,226,661</b>	<b>1,120,895</b>	<b>89,944</b>	<b>-</b>	<b>427,165</b>	<b>(19,337,171)</b>	<b>3,776,391</b>	<b>31,159,011</b>
Shares issued - Hydreight earn out	10,21	1,634,271	1,120,895	-	-	(1,120,895)	-	-	-	-	-	-
Share-based payments	21	-	-	-	373,662	-	-	-	-	-	-	373,662
Subsidiary company shares issued - Finders fee	10,21	-	-	-	-	-	-	-	-	-	10,952	10,952
Subsidiary company shares issued - SVR acquisition	10,21	-	-	-	3,365,356	-	-	-	-	-	65,406	3,430,762
Equity portion of debt	16,19	-	-	-	-	-	421,676	-	-	-	-	421,676
Shares issued and distributed - subsidiary	21	-	-	-	73,169	-	-	-	-	-	(34,149)	39,020
RTO transaction	11	-	-	-	6,380,765	-	-	-	-	-	(140,421)	6,240,344
Subsidiary equity obligation	20,21	-	-	-	-	300,000	-	-	-	-	-	300,000
Currency translation adjustment		-	-	(141,222)	-	-	-	-	-	-	-	(141,222)
Net loss for the period		-	-	-	-	-	-	-	-	(24,189,917)	(4,398,451)	(28,588,368)
<b>Balance at December 31, 2022</b>		<b>99,564,971</b>	<b>\$ 43,916,621</b>	<b>\$ (81,822)</b>	<b>\$ 12,419,613</b>	<b>\$ 300,000</b>	<b>\$ 511,620</b>	<b>\$ -</b>	<b>\$ 427,165</b>	<b>\$ (43,527,088)</b>	<b>\$ (720,272)</b>	<b>\$ 13,245,837</b>

See accompanying notes to the consolidated financial statements.

Victory Square Technologies Inc.  
Consolidated statements of cash flows  
(Expressed in Canadian dollars)

	Year ended December 31,	
	2022	2021
<b>Operating activities</b>		
Net income (loss) for the year	\$ (28,588,368)	\$ (19,430,368)
<b>Adjustments for non-cash items:</b>		
Amortization and depreciation	2,921,288	2,595,222
Accretion and amortization of debt	962,676	330,017
Deferred tax recovery	(324,095)	(99,030)
Foreign exchange (gain) loss	(11,364)	-
Non-cash consulting costs	-	52,500
Share based payments	1,043,948	2,794,297
Listing expense	3,938,641	-
Shares to settle non cash consulting costs	-	150,000
Executive performance share issuance	-	175,000
Fair value gain on marketable securities	-	(46,375)
Provision	565,023	-
Gain on exercise of warrants	-	(1,688,148)
Gain on recognition of convertible note	-	427,778
Equity (gain) loss on investments	134,671	17,473
Fair value (gain) loss on investments	11,876,869	12,936,782
Impairment of investment	1,592,644	801,466
Impairment of related party loans	71,005	22,696
Gain on disposal of assets	18,185	(6,664,727)
(Gain) loss on settlement of payables	149,082	12,877
Loss on derivative liability	251,301	-
Gain on CEBA loans	-	(8,649)
Distribution of GameOn shares to settle VST consulting expenses	-	101,898
Distribution of XRI shares to settle VST consulting expenses	-	192,147
Accrued interest income	-	(205,099)
<b>Changes in non-cash working capital items:</b>		
Trade receivables	193,461	(217,058)
Government sales tax recoverable	3,450	(10,634)
Income tax payable	80,581	-
Prepaid expenses	(1,217)	43,342
Trade payables	399,270	85,309
Accrued liabilities	198,853	138,452
Inventories	(417,900)	(144,018)
Deferred revenue	1,334,706	122,573
Other payables	-	(5,832)
<b>Net cash flows used in operating activities by continuing operations</b>	<b>(3,607,290)</b>	<b>(7,520,109)</b>
<b>Net cash flows used in operating activities by discontinued operations</b>	<b>-</b>	<b>(1,049,522)</b>
<b>Investing activities</b>		
Cash used for investments	-	(384,500)
Cash (used) reimbursed for additions to property and equipment, net of reimbursements	198,247	(286,499)
Cash used for additions to intangible assets	(564,373)	-
Cash used on Synthesis acquisition	(200,000)	-
Cash received on acquisition of subsidiary	-	28,962
Loans to portfolio companies	(349,442)	-
Proceeds received from sale of investments	107,268	3,322,753
Proceeds received from sale of marketable securities	-	44,508
<b>Net cash flows provided by (used in) investing activities by continuing operations</b>	<b>(808,300)</b>	<b>2,725,224</b>
<b>Net cash flows provided by (used in) investing activities by discontinued operations</b>	<b>-</b>	<b>(6,230,826)</b>
<b>Financing activities</b>		
Cash used for lease payments	(295,609)	(92,787)
Cash used for (proceeds from) payments to related parties	(192,605)	117,009
Cash used for interest payments	(163,736)	-
Cash used for share buybacks	-	(270,543)
Cash used on loan to investee company	-	(200,000)
Proceeds from convertible debt	325,000	-
Proceeds on loan from PCL to AssetCo	-	-
Proceeds from Loan Payable, net	2,000,000	2,834,000
Proceeds from related party loans	-	-
Proceeds received for exercise of warrants	-	45,240
Proceeds received for exercise of stock options	-	106,875
Proceeds received for share issuance of subsidiary, net	2,194,399	2,194,869
Proceeds received from CEBA loans	-	20,000
<b>Net cash flows provided by financing activities by continuing operations</b>	<b>3,867,449</b>	<b>4,754,663</b>
<b>Net cash flows provided by financing activities by discontinued operations</b>	<b>-</b>	<b>7,144,871</b>
<b>Effect of foreign exchange on cash</b>	<b>8,582</b>	<b>322</b>
Change in cash and cash equivalents	(539,559)	(175,377)
Cash and cash equivalents, beginning	4,376,374	4,551,751
<b>Cash and cash equivalents, ending</b>	<b>\$ 3,836,815</b>	<b>\$ 4,376,374</b>

See accompanying notes to the consolidated financial statements.

## 1. Nature of Operations and Going Concern

Victory Square Technologies Inc. (“Victory Square Technologies”, “VST”, or the “Company”) was incorporated under the Business Corporation Act (British Columbia) on February 10, 2015. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries Draft Label Technologies Inc. (“Draft Label”), PDL USA Inc. (“PDL USA”), BlockX Capital Corp. (“BlockX Capital”), VS Blockchain Assembly (“VS Blockchain”), Hydreight Technologies Inc. (“HTI”), Hydreight Canada Holdings Inc (“HCH”), IV Hydreight Inc. (“Hydreight”), Healthcare Prosoft LLC (“Prosoft”), Victory Entertainment Inc. (“Victory Entertainment”), Victory Square Digital Health Inc. (“VS Digital Health”), Victory Square Digital Health Inc. (“VS Digital Health USA”), XR Immersive Tech Inc. (“XRI”) and Synthesis VR Inc. (“SVR”). The Company reports Non-Controlling Interest (“NCI”) on XRI and its subsidiary SVR., of which the Company holds 54.55% (2021 – 69.8%) and on HTI and subsidiaries HCH, Hydreight, and Prosoft, of which the Company holds 73.72% (2021 – 100%) as of December 31, 2022. XRI was formerly known as Fantasy 360 Technologies Inc. and changed its name on February 3, 2022. The Company was determined to have lost control of the previously consolidated subsidiary GameOn Entertainment Technologies (“GameOn”) on May 26, 2021, and held this as an investment held at fair value through profit and loss as at December 31, 2022 and December 31, 2021. All of the Company’s subsidiaries are based in Canada with the exception of Hydreight, Prosoft and SVR, which are based in the United States.

Victory Square Technologies has numerous investments in emerging technologies such as artificial intelligence (AI), augmented and virtual reality (AR/VR), blockchain and digital health. Victory Square Technologies supports these companies as they grow by providing comprehensive functional expertise in commercialization, product market-fit and through access to proprietary technology solutions and to an extensive ecosystem of global partnerships.

The Company’s registered office is at Suite 401, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7. The Company’s shares are traded on the Canadian Securities Exchange (“CSE”) under the symbol “VST” and the Frankfurt Stock Exchange under the symbol “6F6”. The Company is also quoted on the OTCQX Best Markets in the United States under the symbol of “VSQTF”.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2022, the Company had working capital deficit of \$1,353,420 (December 31, 2021 – surplus of \$104,418) and an accumulated deficit of \$43,527,088 (December 31, 2021 – \$19,337,171). The continued operations of the Company are dependent upon its ability to generate future cash flows and/or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due; however, they may not be at terms that are favourable to the Company. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

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. The pandemic has not had a material impact on the operations of the Company, but Management continues to monitor the situation; however, it could have a potential impact of increasing the difficulty to raise funding, finding target investments to acquire or on its investees’ ability to obtain profitable operations.

## 1. Nature of Operations and Going Concern (continued)

In February 2022, Russia commenced a military invasion of Ukraine which generated a response in the form of strict economic sanctions from multiple countries and corporations around the world, including Canada. Although the Company does not have operations in Russia or Ukraine, the global impact of this conflict in commodity prices, foreign currency exchange rates, supply chain challenges and increased fuel prices may have adverse impacts on our costs of doing business.

On November 28, 2022, HTI completed a reverse takeover transaction (the "Reverse Takeover Transaction" or "RTO" or "Transaction") with Hydreight, the Company, 1362795 BC Ltd. ("AssetCo"), and 1203500 B.C. Ltd ("PCL AcquisitionCo"). VST is the Hydreight's ultimate controlling parent company before and after the Transaction.

The Transaction was completed (the "Closing") in accordance with the merger agreement effective July 12, 2022 (the "Merger Agreement") which resulted in HTI acquiring all of the equity interests of AssetCo, which immediately prior to the Closing issued shares to VST in exchange for all of the issued and outstanding shares in Hydreight, resulting in Hydreight becoming a wholly owned subsidiary of AssetCo. Prior to the Closing, HTI consolidated its outstanding shares on a 6.46805 to 1 basis. The share consolidation has been applied retrospectively in the consolidated financial statements and as a result, the common shares and option amounts of HTI are stated on an adjusted post-share consolidation basis. The Transaction constituted a Qualifying Transaction for HTI under Policy 2.4 of the TSX Venture Exchange (the "Exchange") Manual and resulted in AssetCo's shareholders owning the substantial majority of HTI shares. HCH was formed by way of the amalgamation of AssetCo and PCL AcquisitionCo on November 28, 2022.

HTI filed an Article of Amendment to change its name from Perihelion Capital Ltd. (PCL) to Hydreight Technologies Inc. (HTI) and resumed trading on the Exchange under the trading symbol "NURS" (TSXV:NURS.P) on December 1, 2022. See Note 11 for more details.

## 2. Significant Accounting Policies

These consolidated financial statements were authorized for issue on May 1, 2023, by the directors of the Company.

### a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as applicable to the preparation of annual financial statements.

### b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries Draft Label, XRI, BlockX Capital (incorporated on March 29, 2021), VS Blockchain (incorporated on February 28, 2021), HTI, HCH, Hydreight, Prosoft, Victory Entertainment, VS Digital Health, and VS Digital Health USA (incorporated on February 17, 2022). The consolidated financial statements include the results of operations of Hydreight and Prosoft from acquisition on February 10, 2021, and of HTI and HCH from November 28, 2022 (Note 11 and Note 29).

## 2. Significant Accounting Policies (continued)

Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated on consolidation.

All of the Company's subsidiaries have a December 31 year end and operate in the industries described in Note 1.

### Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain assets measured at fair value, and are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the Company, Draft Label, XRI, BlockX Capital, VS Blockchain, Victory Entertainment, VS Digital Health, and AssetCo. The functional currency of PDL USA, Hydreight, and SVR is the US dollar.

Certain comparative figures have been reclassified to conform to the current year's presentation. These include reclassification of expense line items and has no impact to net income.

### Business combinations

The Company uses the acquisition method to account for business combinations. This requires an entity to measure each identifiable asset and liability at fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The purchase price allocation involves judgment with respect to the identification of intangible assets acquired and estimates of the fair value of the assets acquired and liabilities assumed, including pre-acquisition contingencies and contingent consideration. Changes in any of the assumptions or estimates used to identify intangible assets acquired, determine the fair value of acquired assets and liabilities assumed, including pre-acquisition contingencies or contingent consideration, could affect the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Transaction costs incurred in a business combination are expensed.

The Company considers certain acquisitions to be asset acquisitions, on the assumption that there are no identifiable businesses acquired in the transaction. There is judgment involved in the determination of whether the acquisition involves assets or entire businesses. Direct transaction costs incurred in the acquisition of an asset or a group of assets generally are a component of the consideration transferred and are capitalized as a component of the cost of the assets acquired and liabilities assumed. Where contingent consideration is included in an asset acquisition, the Company has adopted a policy choice to record a liability for any expected variable payments at the time the obligating event or related activity that gives rise to the variability occurs. Changes in the fair value of the contingent consideration upon recognition are recognized in profit or loss during the periods in which the obligating event occurs.

### Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 15 for a description of the Company's annual impairment testing procedures.

## 2. Significant Accounting Policies (continued)

### Cash and cash equivalents

Cash and cash equivalents, which may include highly liquid, guaranteed short-term instruments, are presented net of outstanding items, including cheques written but not cleared by the related banks as at the statement of financial position date. Cash and cash equivalents are classified as a liability in the statement of financial position when the total amount of all cheques written but not cleared by the related banks exceeds the amount of cash and cash equivalents.

### Inventory

Inventory is valued and recorded at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Cost includes all direct expenses in bringing inventory to its present condition and location, net of consideration received from suppliers and vendors. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Inventory is written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, shrinkage or declining retail prices. The Company records consideration received from suppliers and vendors as a reduction to the cost of inventory, and these amounts are recognized in cost of sales when the associated inventory is sold.

### Intangible assets

#### Initial recognition of intangible assets

##### Blockchain Technology

Blockchain technology acquired in an asset purchase agreement that qualify for separate recognition as intangible assets, is initially recognized at the fair value of the consideration paid.

##### Hydreight App

The core Hydreight App acquired in a business combination that qualifies for separate recognition, is initially recognized at fair value as at the acquisition date.

#### Internally developed software

Development costs are capitalized where the expenditure is incurred on developing an income generating mobile application and when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- It's intention to complete the intangible asset and use or sell it;
- It's ability to use or sell the asset;
- How the asset will generate probable future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

## 2. Significant Accounting Policies (continued)

All research costs are expensed as incurred. Subsequent expenditures are capitalized only if it increases the future economic benefits embodied in the mobile application. All other expenditures, including operating costs, are recognized in the consolidated statement of loss and comprehensive loss.

Intangible assets consist of the costs capitalized to build and develop the Company's mobile application white label functionality. Commencing April of 2022, the white-label mobile application went live, and the Company began amortizing the intangible asset on a straight-line basis with an estimated useful life of 10 years.

### Synthesis VR

The intangible assets acquired in a business combination that qualify for separate recognition include trademarks and developed technology.

### Subsequent measurement

All finite-lived intangible assets, including capitalized internally developed software, are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date.

Indefinite life assets are not amortized but are tested for impairment annually.

Class of intangible asset	Amortization policy
Hydreight App and Blockchain Technology	3 years
Hydreight White-Label	10 years
SVR Trademark	6 years
SVR Developed Technology	6 years

### Convertible debt

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. A conversion feature of the convertible debt meets the definition of a derivative liability if the conversion rate is variable, otherwise the conversion feature is treated as equity.

At the date of issue, the Company determines if the conversion feature is equity or liability based on the conversion terms. If the conversion feature is determined to be equity, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity and is not subsequently remeasured.

## 2. Significant Accounting Policies (continued)

In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. If the conversion feature is determined to be a liability, the fair value of the conversion is measured separately at fair value on issuance date. The residual amount is then allocated to the debt host liability and the conversion feature liability is subsequently measured at FVTPL.

Upon conversion, the carrying amount of the host debt liability along with the fair value of the conversion feature will be transferred to share capital. Transaction costs are divided between the various components in proportion to their values recorded at issuance. The portion of transaction costs allocated to the derivative liability is expensed immediately in net loss.

In the event that the instruments are not converted, and the conversion option expires at maturity, the Company accounts for the settlement of the instruments at the redemption value, which is equal to the stated principal amount of the instruments. The debt element is derecognized and the carrying amount of the conversion feature within equity portion is reclassified to deficit.

### NCI

The Company has two subsidiaries, HTI and XRI, with material non-controlling interests (Note 11 and 29). Non-controlling interests represent ownership interests in consolidated subsidiaries by parties that are not shareholders of Northfield. They are shown as a component of total equity in the consolidated statements of financial position, and the share of income (loss) attributable to non-controlling interests is shown as a component of net loss in the consolidated statements of operations. Changes in the Company's ownership that do not result in a loss of control are accounted for as equity transactions.

### Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation and amortization are calculated using the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation and amortization rates applicable to each category of equipment are as follows:

Class of property and equipment	Depreciation rate
Computer equipment	3 years
Furniture and other equipment	3 years
Leasehold Improvements	Term of the lease



## 2. Significant Accounting Policies (continued)

### Financial Instruments

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company classifies its financial assets and liabilities as outlined below:

Cash and cash equivalents	Amortized cost
Trade receivables	Amortized cost
Other receivables	Amortized cost
Investments	FVTPL
Due from / to related parties	Amortized cost
Trade and other payables	Amortized cost
Contingent consideration	FVTPL
Borrowings	Amortized cost

#### (ii) Measurement

##### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and are subsequently carried at amortized cost less any impairment.

##### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net income (loss) in the period in which they arise.

##### Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

## 2. Significant Accounting Policies (continued)

### Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company recognizes in the consolidated statements of net loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### (iv) Derecognition

#### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

#### Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are recognized in profit or loss.

### Investments

Investments which are classified as financial instruments under IFRS 9 are initially recorded at the fair value at the time of acquisition. Subsequent measurement depends on the classification of the financial instrument as noted above.

For those investments in which the Company has significant influence the Company uses either the equity method of accounting whereby an equity investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net profit or loss of the investee, and any distributions received from the investee company reduce the carrying amount of the investment, or it elects to use the exemption in IAS 28 – Investments in Associates (“IAS 28”) for venture capital companies. Under this exemption, the Company may designate all investments managed in the same way at fair value through profit or loss (“FVTPL”). As at December 31, 2022, and December 31, 2021 the exemption has been applied to the Company's venture organization investment in GameOn (Note 8) and Stardust Solar (Note 8).

## 2. Significant Accounting Policies (continued)

The exemption is not taken for investments in which the Company has significant influence where the Company is not managing the investment as a venture organization. The Company has determined that it has significant influence over the following: Cassia Research Inc. (“Cassia”, dba CoPilot AI, “CoPilot”) and GrowTech Academy (“GrowTech”) (inactive) (Note 9) and for the year ended December 31, 2021, Next Decentrum (Note 8).

Investments classified as held at FVTPL under IFRS 9 include FansUnite Entertainment Inc. (“FansUnite”), Victory Square Health (“VSH”), Turnium Technology Group Inc. (“Turnium”, formerly Multapplied Networks Inc., “Multapplied”), Next Decentrum Technologies Inc. (“Next Decentrum”), Cloud Benefit Solutions Inc. (“Cloud Benefit”, dba Cloud Advisors, “Cloud Advisors”), Shop & Shout Ltd. (“Shop & Shout”, dba Creator.co, “Creator.co”), Cloud Nine Web Technologies Inc. (“Cloud Nine”), GameOn Entertainment Technologies Inc. (“GameOn”), Stardust Solar Inc (“Stardust”), and MLVX Technologies Inc. (“MLVX”) (Note 8). MLVX is included in Other.

### Website Development Costs

The Company capitalizes website development costs that consist of costs incurred to develop internet websites to earn revenue with respect to the Company’s business operations. Costs are capitalized in accordance with International Accounting Standard (“IAS 38”), Intangible assets and SIC Interpretation 32, Intangible assets – website costs and are amortized on a straight-line basis over 3 years from when the internet web site has been completed.

### Foreign Currency Translation

These consolidated financial statements are presented in Canadian dollars. At the time of consolidation and financial reporting the following conversion methods are used:

#### *Translation of Foreign Currency Transactions*

At each statement of financial position date, foreign currency monetary items are translated to reflect the exchange rate at the statement of financial position date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Exchange differences are recorded in profit and loss.

#### *Translation of Foreign Operations*

The financial results and position of foreign operations whose functional currency is different from the Company’s presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company’s foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

## 2. Significant Accounting Policies (Continued)

### Income Taxes

#### *Current Income Tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred Income Tax*

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### Impairment of Non-financial Assets

The carrying amount of the Company's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company considers Hydreight and SVR to be distinct cash-generating units for which impairment of non-financial assets are performed at each reporting date.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

## 2. Significant Accounting Policies (continued)

### Income (Loss) per Share

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted income (loss) per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

### Revenue Recognition

Revenue from Contracts with Customers, IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company determines the amount of revenue to be recognized through application of the following steps:

- Identification of the contract, or contracts with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

The Company, through its investment in subsidiaries, generates its revenue from the following sources:

#### Hydreight

##### *Digital applications/Telehealth revenue*

The Company generates telehealth services revenue by providing support, hosting and related services to business partners across the US that use the digital app platform. The business partners are the Company’s professional provider network of medical practitioners that use the telehealth platform to service their patients. Telehealth revenue is typically for an annual term, except for exclusivity contracts, and prepaid by business partners in advance and earned over a period of time and generated from the Company rendering the service. These arrangements are non-cancelable, do not contain refund-type provisions and generally contain an option to renew. The Company’s performance obligation is shared with the commission revenue described in the following section and the digital applications/telehealth revenues are satisfied as services are rendered over the term of service arrangement.

##### *Commission revenue*

The Company generates commissions from patients that visit its platform to have access to and hire a provider within the Company’s network of medical practitioners. Commission revenue is generated mainly on a per-telehealth visit basis, as the patients enter into a contractual relationship with the business partner. The Company’s performance obligation is shared with the digital applications/telehealth revenue described in the previous section. Commission revenue is considered to be variable consideration and is recognized on a net basis, as the Company’s obligation is to act as intermediary between the patient and the business partner.

## 2. Significant Accounting Policies (continued)

The commission revenue is earned based on the level of activity the business partner generates. Commission revenue is recognized upon the completion of the patient and business partner service.

### *Pharmacy sales*

The Company offers an online pharmacy to its subscribers, which allow its network of medical practitioners to purchase pharmacy products from federally regulated pharmacies. Sales orders are received through the Company's online store and products are sourced and shipped by independent pharmacies. The Company collects payment upon the completion of the online ordering by the customer, and revenue is recognized when the products are delivered to the customer. Although the independent pharmacies are sourced to ship the products to the customer, the Company develops specialized products that are distributed through the pharmacies, has access and control over the contents of the online store, determines the pharmacy to source the delivery of the products, sets the prices for the products paid by the customer, and therefore acts as the principal point of contact with the customer and correspondingly recognizes revenue on a gross basis.

### *Licensor configuration fee revenue*

Licensor configuration fee revenue is recognized at the point in time the white label customer receives the right to use the intellectual property, which is typically at the point in time the configuration and onboarding is substantially complete. The performance obligation of configuring the white label software is considered distinct from the recurring monthly services charged over the course of the white label customer's agreement.

### XRI and SVR

#### *Immersive experiences revenue*

Revenue from providing immersive experiences is recognised in the fiscal year in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting year as a proportion of the total services to be provided. This is determined based on the actual total costs spent relative to the expected total costs.

Estimates of revenues, costs, or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that gave rise to the revision become known to management. In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset (receivable) is recognised. If the payments exceed the services rendered, a contract liability (deferred revenue) is recognized.

#### *Revenue from Location-Based Virtual Reality ("LBVR")*

SVR offers a platform that serves the LBVR segment. SVR charges LBVR operators' subscription fees that can be customized to the customers needs and are based on the utilization of SVR's platform and the content available therein. The platform allows for the use of content made available to SVR through game licenses with various developers. SVR acts as an agent in its revenue generating activity, recording revenue on a net basis by deducting the cost of content license fees from gross revenue. SVR has license agreements with licensors where the licensors grant SVR the right to use their license in exchange of between 75% to 80% of gross revenue earned from LBVR customers. The licensors set the price of their content and maintain control over the content, while SVR bears no credit risk to pay developers should it not collect subscription and usage fees from its customers.

## 2. Significant Accounting Policies (Continued)

### Comprehensive Income

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the statement of loss and comprehensive loss. For the year ended December 31, 2022, and 2021, other comprehensive income is related to the currency translation adjustments.

### Share-based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using a Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Vesting conditions are determined by the Board of Directors.

### Leases

The Company assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the customer has the following through the period of use:

1. The right to obtain substantially all of the economic benefits from use of the identified asset; and
2. The right to direct the use of the identified asset.

At the lease commencement date, the Company recognizes a right of use asset and a lease liability. The right of use asset is initially measured at cost. The cost of the right of use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Company measures right of use assets related to property and equipment by applying the cost model, whereby the right of use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right of use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the estimated useful life of the right of use asset. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right of use asset reflects that the Company will exercise a purchase option.

## 2. Significant Accounting Policies (continued)

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Company under a residual value guarantee, the exercise price of a purchase option that the Company is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Company exercising an option to terminate the lease. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's assessment of an option to purchase the underlying asset, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, 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.

The Company has elected to not recognize right of use assets and lease liabilities for short term leases and low value leases. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of \$5,000 USD or less. The Company recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

### Recent Accounting Pronouncements

As the date of authorization of these consolidated financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Company. Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

#### *IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements*

Amendments to IAS 1 were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2021. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

- Replacing the requirement to disclose “significant” accounting policies under IAS 1 with a requirement to disclose “material” accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.



## 2. Significant Accounting Policies (continued)

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments on its financial statements.

### *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

Amendments to IAS 8, issued in February 2021, introduces a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments on its financial statements.

### *IAS 12 Income Taxes*

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities.

The amendments are effective for annual periods beginning on or after January 1, 2023.

New standards, interpretations and amendments not adopted are not expected to have a material impact on the Company’s consolidated financial statements.

### Critical Accounting Estimates and Judgements

The preparation of the financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

### Critical accounting estimates

#### *Fair Value of Investments*

The Company reviews certain investments and records their fair value at each financial statement reporting date. For investments in public companies, fair value is determined based on the quoted market price. For investments in private companies, certain subjective measures, including recent share transactions, prices for comparable entities, review of cash flow projections and the investee’s prospects, financial ratios and discounted cash flows are techniques used to determine fair value. Privately held investments are initially recorded at the transaction price being the fair value at the time of acquisition. Thereafter, the fair value is adjusted using various valuation techniques such as subsequent equity financing or share performance of comparable public companies. Where possible the Company uses inputs obtained from observable market data for its valuation models. However, if observable market data is not available the Company uses judgement to determine fair value (Note 23(e)).

## 2. Significant Accounting Policies (continued)

### *Impairment of Non-Financial Assets*

When there are indications that intangible assets may be impaired, the Company is required to estimate their recoverable amounts. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flow associated with the assets and a suitable discount rate in order to calculate the present value (refer to Note 15 for details of the impairment loss on goodwill)

### *Recognition and Valuation of Deferred Tax Assets*

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities of the particular legal entity in which the deferred tax assets have been recognized.

### *Estimated Useful Life of Intangible Assets*

The relative size of the Company's intangible assets makes the judgements surrounding the estimated useful lives critical to the Company's financial position and performance. The useful life of intangible assets relates to the future performance of the assets and management's judgement of the period over which economic benefit will be derived from the assets. The useful life is determined by management and is regularly reviewed for appropriateness. The amortization of Company's finite-life intangible assets begins when the assets are available for use. The useful life is based on historical experience with similar development costs as well as anticipation of future events which may impact their life such as changes in technology.

### *Valuation of Inventory*

The Company measures inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to sell. The actual selling price less costs to sell could deviate from this estimate.

### *Business combination*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair value. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied

### *Leases*

Critical judgements required in the application of IFRS 16 Leases include identifying whether a contract (or a part of a contract) includes a lease and determining whether it is reasonably certain that an extension or termination option will be exercised. Key sources of estimation uncertainty in the application of IFRS 16 include the estimation of the lease terms and the determination of the appropriate rate to discount the lease payments.

## **2. Significant Accounting Policies (continued)**

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use (“ROU”) asset. The IBR, therefore, requires estimation when no observable rates are available. The Company estimates the IBR using observable inputs such as market interest rates and is required to make certain entity specific estimates such as the stand-alone credit rating.

### *Share-based payments*

The cost of equity settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity settled transactions with non-employees is measured by reference to the fair value of services or products received if reliably measurable, or alternative by reference to the fair value of equity instruments granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The fair value of the options is measured by use of the Black-Scholes pricing model. The valuation of these share-based payments requires several judgements and inputs to the valuation model. The Company issued share capital and share options as a form of consideration pursuant to the Hydreight RTO which involved significant estimation on the market price of the shares at the grant date.

### *Convertible Debt*

The identification of convertible debt and conversion feature on debt are based on the interpretations of the substance of the contractual arrangement, and therefore require judgment from management. The separation of the components affects the initial recognition at issuance and the subsequent recognition of interest on the liability component.

Critical estimates and assumptions used in the assessment of the fair value of the components are discussed in Note 19 and include the discount rate applied.

### Critical accounting judgements

#### *Going Concern*

Management has applied judgments in the assessment of the Company’s ability to continue as a going concern when preparing its consolidated financial statements for the years ended December 31, 2022, and 2021. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecasts and access to replacement financing for the future twelve months.

## 2. Significant Accounting Policies (continued)

### *Determination of Significant Influence*

Management applies judgement in determining whether it controls or has significant influence over an investee in which it has equity interest in. In determining its judgement, management reviews any agreements in place with the investee, as well as board representation.

### *Business versus Asset Acquisition*

Determining whether or not the February 10, 2021, share acquisition from Hydreight (Note 10(a)) constituted a business combination or acquisition of assets. At acquisition, Hydreight had an application, a user base, and contracts with a number of subscriber partners as well as revenues. As such the acquisition was considered a business combination and the fair value of the consideration paid was allocated to the identifiable assets acquired with the remaining value allocated to goodwill.

Determining whether or not the January 4, 2022, share acquisition of SVR by XRI (Note 10(b)) constituted a business combination or acquisition of assets. At acquisition, SVR had an application, a user base, and contracts with a number of customers as well as revenues. As such the acquisition was considered a business combination and the fair value of the consideration paid was allocated to the identifiable assets acquired with the remaining value allocated to goodwill.

### *Research and Development Costs for Applications*

Evaluating whether or not costs incurred by the Company in developing its applications meet the criteria for capitalizing as intangible assets, recognition of which involves significant management judgement. Specifically, assessing whether the internally generated intangible assets can demonstrate the following during the development phase:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- It's intention to complete the intangible asset and use or sell it;
- It's ability to use or sell the asset;
- How the asset will generate probable future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

## 3. Discontinued Operations

Prior to May 26, 2021, the Company had control over GameOn and, as a result, the Company presented the assets, liabilities, certain reserves, and results of operations of GameOn in its consolidated financial statements.

On December 31, 2020, the Company held 24,293,101 or 55.87% of GameOn. On May 13, 2021, the Company transferred 2,020,000 shares of GameOn, with a fair value of \$101,898, to various parties for no consideration decreasing the Company's holding to 22,273,101 shares or 50.16%. This transaction was recorded to consulting expense. On May 14, 2021, the Company cancelled 6,125,933 shares of GameOn pursuant to GameOn's indenture debenture dated May 10, 2021, and to settle the outstanding convertible debentures in GameOn for the same number of shares with a value of \$1,538,481 or \$0.25 per share in GameOn but for no consideration to the Company. This transaction decreased the Company's holding to 16,147,168 or 36.37%.

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**3. Discontinued Operations (Continued)**

On May 26, 2021, GameOn completed a private placement which increased the total common shares outstanding and reduced the Company's ownership to 26.51%. Accordingly, at May 26, 2021, the Company deconsolidated GameOn and recognized a gain on deconsolidation of \$6,108,408.

On May 27, 2021, the Company issued a dividend in kind of 1,999,974 GameOn common shares to the Company shareholders valued at \$499,992. As at May 28, 2021, the Company held 14,149,373 out of 62,936,922 or 22.48%. On September 9, 2021, the Company transferred 200,000 shares as part of the consideration paid for an investment in Silota. As at December 31, 2021, the Company held 13,949,373 shares or 22.07% of GameOn. After the deconsolidation, the investment was recorded as an investment measured at fair value under IFRS 9 (Note 8).

For the period from January 1, 2021, to May 26, 2021, the net loss from GameOn was reported as loss from discontinued operations of \$2,423,705.

On December 31, 2021, as the result of an agreement between the Company, DLT, and GameOn, the Company recorded a net increase to contributed surplus of \$130,660 resulting from the write-off of several related party balances between GameOn, DLT, and VST.

The net loss from GameOn Entertainment was as follows:

	January 1, 2021 to May 26, 2021
<b>Revenue</b>	\$ 5,862
<b>Cost of goods sold</b>	39,879
	(34,017)
<b>Expenses</b>	
Amortization and depreciation	165,291
Foreign exchange gain	(1,239)
General and administration	190,265
Interest and accretion	195,465
Management fees	57,553
Professional and consulting fees	590,486
Sales and marketing	132,840
Share based compensation	958,526
Transfer agent and regulatory fees	21,237
Wages	377,333
<b>Total expenses</b>	<b>(2,687,757)</b>
<b>Other items</b>	
Impairment of related party receivable	(10,819)
Impairment of investments	-
Fair value loss on investments	-
Gain on derivative liability	27,008
Gain on disposal of assets	-
Gain on conversion of related party debt	-
Gain on settlement of debt	281,880
Gain on CEBA loan	-
Interest and other income	-
	298,069
Income taxes	-
<b>Net loss</b>	<b>\$ (2,423,705)</b>

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**4. Cash and Cash Equivalents**

Cash and cash equivalents include \$11,500 (December 31, 2021 – \$11,500) of cash held in a GIC.

**5. Prepaids**

Prepaids consist of the following:

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Marketing fees	\$	344,175	\$	177,672
Insurance		15,602		-
Rental deposits		26,043		77,085
Transfer agent		28,331		31,928
Consulting		15,851		156,616
Software		-		30,000
Deposit on medical supplies		-		9,382
Listing fees		18,031		18,823
Legal		23,729		9,039
	\$	471,762	\$	510,545

**6. Trade Receivables**

Trade receivables consists of the following:

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Immersive services	\$	-	\$	200,054
Other		27,034		89,237
	\$	27,034	\$	289,291

Other receivables consist of amounts invoiced to related parties for sub-lease revenue (Note 26).

**7. Inventories**

In a previous year, Hydreight entered into a purchase commitment with a pharmacy vendor for the production of a specific number of customized branded kits and packaging, which were sold and delivered in the normal course of operations. On December 20, 2021, a final purchase commitment settlement agreement was executed with the vendor whereby the Company agreed to purchase and take possession of the remaining unsold units. Prior to accepting delivery of the inventory, these customized units were shipped directly from the pharmacy product supplier, with sales occurring throughout the year ending December 31, 2022. Pharmacy sales, including these customized units, are reflected in cost of sales on the consolidated statement of loss and comprehensive loss.

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**7. Inventories (continued)**

The Company has recognized a \$169,269 impairment charge, included in provision expense, on the consolidated statement of loss and comprehensive loss as a result of certain inventory items included in the customized branded kits and packaging expiring during the year ended December 31, 2022.

XRI also recognized \$288,377 in impairment charges on the consolidated statement of loss and comprehensive loss as a result of certain self-contained units and supplies inventory items considered to have no realizable value as at December 31, 2022.

		Units under Construction	Supplies Inventory	Pharmacy Supplies	Total
Balance, January 1, 2022	\$	140,699	\$ 3,319	\$ -	\$ 144,018
Additions		60,739	83,620	300,390	444,749
Expensed to cost of sales		-	-	(36,595)	(36,595)
Provision		(201,438)	(86,939)	(169,269)	(457,646)
Foreign currency translation		-	-	9,745	9,745
Balance December 31, 2022	\$	-	\$ -	\$ 104,271	\$ 104,271

		Units under Construction	Supplies Inventory	Pharmacy Supplies	Total
Balance, January 1, 2021	\$	-	\$ -	\$ -	\$ -
Additions		140,699	3,319	-	144,018
Balance, December 31, 2021	\$	140,699	\$ 3,319	\$ -	\$ 144,018

**8. Investments Measured at Fair Value**

The Company's investments measured at fair value consist of the following:

	December 31, 2022		December 31, 2021		Cost
	Fair Value	% holding	Fair Value	% holding	
FansUnite (1)	\$ 573,473	2.73%	\$ 3,258,057	4.15%	\$ 3,319,423
Victory Square Health	5,347,000	20.00%	11,691,937	20.00%	1,048,000
Turnium (1)(2)	328,330	4.51%	1,148,000	6.40%	175,000
Next Decentrum	901,000	13.89%	-	21.63%	175,003
Cloud Benefit, dba Cloud Advisors (3)	475,000	5.43%	263,500	5.43%	300,000
Shop & Shout, dba Creator.co	1,193,000	10.46%	1,116,115	10.46%	1,096,257
Cloud Nine (1)(3)	242,206	5.95%	1,294,430	9.04%	1,816,544
GameOn (1)(4)	694,210	20.73%	2,605,185	22.07%	1,102,000
Stardust Solar (5)	770,000	20.00%	1,153,000	20.00%	600,000
Other (2)(6)	99,198		95,515		233,000
	\$ 10,623,417		\$ 22,625,739		\$ 9,865,227

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**8. Investments Measured at Fair Value (Continued)**

	Fair Value - Opening	Unrealized (losses) gains	Proceeds of disposal	Realized losses	Fair Value - Ending
FansUnite (1)	\$ 3,258,057	\$ (2,684,584)	\$ -	\$ -	\$ 573,473
Victory Square Health	11,691,937	(6,344,937)	-	-	5,347,000
Turnium (1)(2)	1,148,000	(819,670)	-	-	328,330
Next Decentrum	-	901,000	-	-	901,000
Cloud Benefit, dba Cloud Advisors (3)	263,500	211,500	-	-	475,000
Shop & Shout, dba Creator.co	1,116,115	76,885	-	-	1,193,000
Cloud Nine (1)(3)	1,294,430	(926,271)	107,768	18,185	242,206
GameOn (1)(4)	2,605,185	(1,910,975)	-	-	694,210
Stardust Solar (5)	1,153,000	(383,000)	-	-	770,000
Other (2)(6)	95,515	3,683	-	-	99,198
	\$ 22,625,739	\$ (11,876,369)	\$ 107,768	\$ 18,185	\$ 10,623,417

- (1) Denotes Level 1 investments (listed) subject to certain trading and hold restrictions and have been discounted for a lack of marketability factor.
- (2) On June 22, 2022, Turnium underwent a going public transaction whereby its shares began trading on the TSX Venture Exchange under the ticker symbol TTGI.V.
- (3) During the year ended December 31, 2022, the Company sold 278,000 common shares for gross proceeds of \$107,768 before transaction fees and recognized a loss on disposal of \$18,185. The Company has the right to dividend up to 15% of its interest in this investment to its shareholders. On March 15, 2021, the Company sold a license to certain intangible assets to Cloud Nine for 4,411,765 common shares of Cloud Nine with a fair value of \$1.76 per share or \$7,764,706 total consideration.
- (4) On May 26, 2021, the Company deconsolidated GameOn and recorded an investment in GameOn of \$4,036,729 for 16,147,168 common shares held (Note 3). After de-consolidation, the investment is recorded as an investment measured at fair value under IFRS 9 and the Venture Capital Exemption. Subsequently, on May 27, 2021, the Company issued a dividend in kind of 1,999,974 GameOn Entertainment common shares to Company shareholders valued at \$499,492. This consideration was valued at \$46,000 at the transaction date.
- (5) On June 8, 2021, the Company issued 674,157 common shares to Stardust Solar Inc. ("Stardust Solar") with a fair value of \$438,202 for 25,000 shares or a 20% ownership of Stardust Solar (Note 21). As the purchase price is defined in the share purchase agreement and consideration is payable in the Company's common shares, the Company recorded a liability relating to the consideration required to be transferred in order to reach the purchase price as per the terms of the agreement ("Adjustment Value"). The liability was recorded at a value of \$130,918 in related party loans (Note 22) at the time of the transaction. Upon initial recognition, this investment was recorded as an investment measured at fair value under IFRS 9 and the Venture Capital Exemption was applied. On April 25, 2022, each common share in the capital of Stardust Solar was subdivided into 96 common shares, such that the Company owns 2,400,000 common shares of Stardust Solar. On May 22, 2022, an amending agreement to the share purchase agreement was executed wherein \$280,000 was fixed as the Adjustment Value and set off against \$280,000 loaned to Stardust Solar up to the date of the amending agreement. The result of the amending agreement is a \$149,082 loss on settlement of contingent consideration, calculated by deducting the \$130,918 liability recorded on acquisition from the \$280,000 loan.
- (6) On November 23, 2020, the Company invested \$100,300 for 118,000 shares of Creator.co at a price of \$0.85 per share. This interest represents 1% of the issued and outstanding shares of Shop & Shout (dba



## 8. Investments Measured at Fair Value (Continued)

Creator.co). The Company was also issued 58,824 stock options with an exercise price of \$0.85 vesting in two equal installments of 29,412 being on the date of grant (December 3, 2020) and one year thereafter (December 3, 2021). The options were valued using the Black-Scholes Option Pricing Model resulting in an asset and gain of \$20,605. The total investment held in Creator.co as of December 31, 2020, was \$120,905. In October 2021, the Company closed a follow-on investment in Creator.co of 1,052,941 common shares of Creator.co in consideration for \$1,000,000, composed of 1,000,000 common shares of VST with a fair value of \$425,000 on the date of issuance and a deemed value of \$1,000,000 (Note 21). The agreement contemplated contingent consideration should the fair market value of VST shares be less than the agreed consideration of \$1,000,000 after the subjected holding period. This contingent consideration, presented in related party loans, was to be settled in cash or VST shares at the option of the Company and was valued at \$550,352 on closing and at December 31, 2021. The total value added to the investment as a result of this add-on investment was \$975,352. The contingent consideration was revalued to \$801,654 based on VST's share price as of December 31, 2022 (Note 22). With this add-on investment, the Company's holdings of Creator.co increased to 10.46% as of December 31, 2021, and remains unchanged at December 31, 2022. During the year ended December 31, 2022, the fair value was \$1,193,000 (December 31, 2021 - \$1,116,115) resulting in a fair value gain of \$76,885 (December 31, 2021 - \$Nil).

- (7) The Company has minor investments in other companies with no disposals occurring in the year ended December 31, 2022. On May 4, 2022, Alpha Metaverse Technologies Inc ("Alpha"), a company traded on the CSE, completed the acquisition of 100% of the issued and outstanding share capital of Shape Immersive Inc. ("Shape"). Prior to the acquisition, XRI held an equity interest in Shape. Prior to issuing its annual financial statements, management of XRI could not reliably measure the amount to be allocated to its interest in Shape, resulting in management's decision to write-down the investment to the consideration paid for the non-voting class of shares per the August 11, 2021, transaction, being a nominal amount. On closing of the acquisition, XRI received 700,000 Class A common shares of Alpha, of which 630,000 were restricted in escrow with scheduled release in equal instalments through January 2024. XRI recognized a gain on investments of \$89,235 on the closing of the transaction. For the period from May 4, 2022, to December 31, 2022, the Company recognized a fair value loss of \$56,510 (December 31, 2021 - \$Nil), for a net fair value gain of \$32,725 (December 31, 2021 - \$Nil) for the year ended December 31, 2022 (December 31, 2021 - \$Nil), which is included with the change in fair value of other minor investments to total a gain of \$3,683.

A summary of investment transactions recorded in the Consolidated Statement of Income (Loss) and Comprehensive (Loss) for the year ended December 31, 2021, are as follows:

December 31, 2020							December 31, 2021	
Fair Value - Opening	Unrealized (losses) gains	Proceeds of disposal	Realized losses	Impairment of investments	Amortization	Gain on exercise of warrants	Fair Value - Ending	
\$ 28,876,300	\$ (12,936,782)	\$ 3,199,677	\$ (6,682,451)	\$ (801,466)	\$ (713,833)	\$ 1,688,148	\$ 22,625,739	

## 9. Investments Accounted for Using Equity Method

### Cassia, dba CoPilot

During the year ended December 31, 2018, the Company entered into an agreement to purchase a 23.1% interest in the issued and outstanding common shares of CoPilot for cash of \$1,000,000 and 187,266 common shares of the Company with a fair value of \$514,982 for total consideration of \$1,514,982. As at December 31, 2022, the Company holds an interest of 24.65% in Cassia (December 31, 2021 – 25.7%). The Company reports its investment in Cassia under IAS 28, Investments in Associates and Joint Ventures as is presented separately on the consolidated statement of financial position as investment – equity accounted.

During the year ended December 31, 2022, the Company reported an equity loss of \$134,671 (December 31, 2021 – \$42,892).

As at December 31, 2022, the value of the Company's investment in Cassia is \$1,184,648 (December 31, 2021, \$1,319,319).

Selected information as at December 31,	2022		2021	
		Unaudited		Unaudited
Cash and cash equivalents	\$	1,773,681	\$	44,242
Current assets	\$	383,785	\$	703,849
Non-current assets	\$	157,811	\$	195,491
Total assets	\$	2,315,276	\$	943,582
Current liabilities	\$	1,371,763	\$	1,275,182
Total liabilities	\$	3,250,722	\$	1,275,182
Net assets	\$	(935,446)	\$	(331,600)
Total income	\$	6,472,272	\$	6,514,017
Cost of sales	\$	413,421	\$	449,605
Total expenses	\$	7,016,003	\$	6,375,324
Other income	\$	651,847	\$	285,676
Other expenses	\$	240,996	\$	141,593
Net loss and comprehensive loss	\$	(546,300)	\$	(166,828)

## 10. Acquisitions

### a) Hydreight

On February 10, 2021, the Company closed the acquisition of the shares of Hydreight for total consideration of USD \$1,600,000 by the issuance of 3,007,058 common shares of the Company. The CEO of Hydreight was also granted an earn-in feature valued at USD\$1,000,000 or 1,634,271 common shares contingent on future operating metrics of Hydreight. The Company issued 232,066 common shares with a fair value of \$162,446 as a Finder's Fee on the transaction. The fair value of common shares issued on the acquisition date was determined to be \$1,543,185 as recorded in share capital for the period (Note 20). The remaining value of \$1,120,895 was recorded as an obligation to issue shares in equity for the future earn-out shares under the agreement.

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**10. Acquisitions (continued)**

The acquisition was treated as a business combination. In accordance with IFRS 3 Business Combinations, the fair value of the common shares in excess of the fair value of the identifiable assets and liabilities acquired was recognized as goodwill.

The acquisition was recorded as follows:

Fair value of consideration		
Common shares	\$	2,074,870
Adjustment for restrictive stock discount		(531,685)
Earn-out shares		1,120,895
	\$	2,664,080
Assets and liabilities acquired		
Cash	\$	36,940
Intangible assets (Note 14)		1,593,740
Deferred income tax liability		(334,685)
Deferred revenue and accrued liabilities		(272,568)
Goodwill		1,640,653
	\$	2,664,080

Goodwill calculated in this acquisition represents the expected synergies from combining the operations of Hydreight with those of the Company, revenue growth, future market development and customer relations. These benefits are not recognized separately from goodwill since the resulting economic impact cannot be measured reliably. Goodwill is non-deductible for tax purposes.

Included in the consolidated statement of loss for the year ended December 31, 2021, is \$1,051,800 of revenue and \$182,036 in loss. Had the acquisition occurred on January 1, 2021, the unaudited consolidated revenue and comprehensive loss reported in the statement of comprehensive loss would have been \$1,681,891 and \$15,851,374 respectively during the year ended December 31, 2021.

On September 13, 2022, as a result of achieving the operating metrics specified in the earn-out feature, the CEO of Hydreight was granted the full 1,634,271 common shares.

**b) Synthesis**

On January 4, 2022, XRI signed a share purchase agreement to acquire all of the shares of Synthesis VR Inc. ("Synthesis"), a location-based Virtual Reality content store and technology engine, for an aggregate purchase price of \$4,800,000 as follows (i) \$500,000 in cash with \$150,000 payable upon closing, \$50,000 payable by January 31, 2022, and a further \$300,000 payable upon the completion of certain milestones related to rounds of financings; and (ii) common shares of XRI with an aggregate value of \$4,300,000 at a deemed price per share equal to the market price of XRI's shares minus permitted discounts per policies of the CSE with a minimum price per share of \$0.35, which such shares shall be subject to contractual escrow subject to CSE mandated hold periods. In addition, subject to applicable laws and the policies of the CSE, XRI may issue additional shares with an aggregate value of up to

**10. Acquisitions (continued)**

**b) Synthesis (continued)**

\$5,000,000 upon the achievement of certain mutually agreed upon performance milestones. In connection with the transaction, XRI also paid a finder's fee by the issuance of 2,057,142 common shares at a fair market value of \$370,285, reported in share-based payments expense.

The acquisition was treated as a business combination. In accordance with IFRS 3 Business Combinations, the fair value of consideration in excess of the fair value of the identifiable assets and liabilities acquired will be recognized as goodwill. The acquisition was recorded as follows:

Fair value of consideration		
Common shares of XRI (Notes 20,29)	\$	3,071,429
Cash		494,311
Contingent consideration		295,333
	\$	<u>3,861,073</u>
Assets and liabilities acquired		
Cash and cash equivalents acquired		276,819
Deferred income tax liability		(441,695)
Trademark (Note 14)		585,866
Developed Technology (Note 14)		992,542
Goodwill		2,447,541
	\$	<u>3,861,073</u>

**11. Reverse Takeover Transaction**

Pursuant to the Merger Agreement effective July 12, 2022, HTI completed an arm's length reverse-takeover transaction on November 28, 2022, which resulted in HTI acquiring all of the equity interests of Hydreight.

In connection with and in anticipation of the Transaction, HTI provided Hydreight with a refundable, unsecured, non-interest-bearing loan of \$25,000 concurrently with the signing of the Letter of Intent, which Hydreight used for working capital purposes. Pursuant to the Merger Agreement, HTI provided a refundable, secured, non-interest bearing loan to Hydreight in the amount of \$200,000 for the purposes of funding Hydreight's working capital requirements. Pursuant to the \$200,000 loan, Hydreight issued a promissory note to HTI and entered into a general security agreement with HTI, each effective as of September 13, 2022. As a result of the RTO effective November 28, 2022, both loans have been eliminated upon consolidation.

### 11. Reverse Takeover Transaction (Continued)

Immediately prior to the Closing and in consideration for the issuance by AssetCo to VST of 27,896,725 AssetCo Shares, VST, Hydreight and AssetCo executed an agreement to transfer the equity interest of Hydreight from VST to AssetCo ("Hydreight Equity Transfer"), such that, immediately following the Hydreight Equity Transfer, Hydreight became a wholly owned subsidiary of AssetCo. As a condition to the Closing, AssetCo completed a non-brokered private placement offering of an aggregate of 614,654 shares ("Concurrent Financing Shares") to subscribers ("Concurrent Financing Subscribers") for aggregate gross proceeds of \$387,232 at a price per Concurrent Financing Share of \$0.63. Prior to the Transaction Closing, HTI consolidated its shares on a 6.46805 to 1 basis. Immediately before Closing, there were (a) 51,333,727 Pre-Consolidation PCL Shares; (b) 100,000 Pre-Consolidation PCL Options; (c) 100 AssetCo Shares, excluding Concurrent Financing Shares; and (d) 614,654 Concurrent Financing Shares issued and outstanding.

On Closing HTI issued 28,511,479 shares at an estimated fair value of \$0.63 per share in exchange for all of the issued and outstanding AssetCo Shares, including the Concurrent Financing Shares and reserve for issuance 15,460 shares in connection with the exercise of any Post-Consolidation PCL Options following the Amalgamation. Immediately prior to the Closing, AssetCo and PCL AcquisitionCo, a wholly owned subsidiary of HTI, amalgamated to form Hydreight Canada Holdings Inc. and each AssetCo Shareholder received that number of HTI shares as is equal to the number of AssetCo Shares held by such AssetCo Shareholder immediately prior to closing. Shortly after closing, HTI paid a finder's fee in the amount of \$878,750 to Hike Capital Inc. ("Hike"), an arm's length party to HTI, VST and Hydreight, through the issuance of 1,394,841 shares at a deemed issuance price of \$0.63.

After Closing, 37,842,815 shares are issued and outstanding on a non-diluted basis, of which approximately 27,896,825 shares are held by VST, 614,654 shares are held by Concurrent Financing Subscribers, and 7,936,507 shares are held by former HTI shareholders, and 1,394,841 shares are held by Hike. Accordingly, approximately 73.72% of the total issued and outstanding shares are owned by VST, 1.62% of the total issued and outstanding shares are owned by Concurrent Financing Subscribers, approximately 20.97% of the total issued and outstanding shares are owned by pre-Transaction HTI Shareholders, and approximately 3.69% of the total issued and outstanding shares are owned by Hike on a non-diluted basis.

The substance of the Transaction was a reverse acquisition of a non-operating company. For accounting purposes, the Transaction does not constitute a business combination under IFRS 3, since PCL, the predecessor entity, was a Capital Pool Company and did not meet the accounting definition of a business. As a result, the Transaction has been accounted for as an asset acquisition, with the consideration paid being determined as an equity-settled share-based payments transaction under IFRS 2, with Hydreight being identified as the accounting acquirer. As Hydreight was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in the consolidated financial statements at their historical carrying values. The cost of listing in excess of the net identifiable assets of PCL acquired is charged as a listing expense on the statement of loss and comprehensive loss.

## 11. Reverse Takeover Transaction (Continued)

The following table represents the fair value of the share-based consideration provided and net assets acquired.

<b>Fair value of consideration:</b>	
Shares issued	\$ 5,000,000
Share-based payment reserve	6,826
Assumption of related party debt	(225,000)
<b>Total consideration</b>	<b>\$ 4,781,826</b>
<b>Net assets acquired:</b>	
Cash	\$ 1,851,148
Prepaid expenses	1,365
Accounts payable and accrued liabilities	(932,138)
<b>Total net assets acquired</b>	<b>\$ 920,375</b>
<b>Non-cash listing expense</b>	<b>\$ 3,861,451</b>
<b>Transaction costs:</b>	
Legal and professional fees	77,190
<b>Total listing expense</b>	<b>\$ 3,938,641</b>

### Escrowed Shares

Pursuant to regulatory restrictions upon Closing of the RTO, a total of 28,253,442 common shares were subject to escrow conditions. As at December 31, 2022, a total of 26,796,245 common shares remained subject to these escrow conditions.

## 12. Right of Use Asset and Lease Liability

On June 23, 2021, the Company entered into a sub-lease agreement with an underlying lease commitment term from September 1, 2021, to December 30, 2024. The lease agreement provides for a monthly payment of \$21,503, comprised of a monthly base rent of \$2,766 and fixed operating costs of \$18,737, for the duration of the term of the lease commitment.

On June 21, 2021, XRI entered into a lease agreement with an underlying lease commitment term from September 1, 2021, to June 30, 2024. The lease agreement provides for a monthly base rent of \$1,694 for the period from September 1, 2021— June 30, 2022, \$1,976 for the period from July 1, 2022 – June 30, 2023, and \$2,258 for the period from July 1, 2023 – June 30, 2024.

In accordance with IFRS 16, the Company recognized a right-of-use asset and lease obligation in relation to its lease commitments. The lease liability has been recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate estimated at 20% per annum. The associated right-of-use asset is measured at the amount equal to the corresponding lease liability and subsequently depreciated. Included in the right-of-use asset is \$44,000, representing the last two months' rent, prepaid in advance.

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**12. Right of Use Asset and Lease Liability (Continued)**

Right-of-use asset at December 31, 2022 is as follows:

		VST		Hydreight		XRI		Total
Balance, January 1, 2022	\$	576,049	\$	-	\$	45,312	\$	621,361
Additions		-		37,481		-		37,481
Amortization		(192,016)		(19,912)		(13,593)		(225,521)
Foreign currency translation		-		1,134		-		1,134
Derecognition		-		-		(31,719)		(31,719)
Balance, December 31, 2022	\$	384,033	\$	18,703	\$	-	\$	402,736

Lease liability at December 31, 2022 is as follows:

		VST		Hydreight		XRI		Total
Balance, January 1, 2022	\$	588,239	\$	-	\$	47,800	\$	636,039
Additions		-		37,481		-		37,481
Interest expense		99,319		2,266		6,310		107,895
Lease payment		(258,032)		(22,217)		(16,092)		(296,341)
Foreign currency translation		-		1,133		-		1,133
Derecognition		-		-		(38,018)		(38,018)
		429,526		18,663		-		448,189
Less: Current portion		193,533		18,663		-		212,196
Balance, December 31, 2022	\$	235,993	\$	-	\$	-	\$	235,993

Future fixed lease payments at December 31, 2022 is as follows:

		VST		Hydreight		XRI		Total
2023		258,032		-		-		258,032
2024		258,032		-		-		258,032
	\$	516,065	\$	-	\$	-	\$	516,065

Right-of-use asset at December 31, 2021 is as follows:

		VST		XRI		Total
Balance, January 1, 2021 and 2020	\$	-	\$	-	\$	-
Additions		640,055		51,353		691,408
Amortization		(64,006)		(6,041)		(70,047)
Balance, December 31, 2021	\$	576,049	\$	45,312	\$	621,361

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**12. Right of Use Asset and Lease Liability (Continued)**

Lease liability at December 31, 2021 is as follows:

		VST		XRI		Total
Balance, January 1, 2021 and 2020	\$	-	\$	-	\$	-
Additions		634,523		51,353		685,876
Interest expense		39,727		3,223		42,950
Lease payment		(86,011)		(6,776)		(92,787)
		588,239		47,800		636,039
Less: Current portion		158,713		13,977		172,690
Balance, December 31, 2021	\$	429,526	\$	33,823	\$	463,349

Future fixed lease payments at December 31, 2021 is as follows:

		VST		XRI		Total
2022	\$	258,032	\$	22,020	\$	280,052
2023		258,032		25,404		283,436
2024		258,032		13,548		271,580
	\$	774,097	\$	60,972	\$	835,069

**13. Property and Equipment**

Property and equipment at December 31, 2022 consist of the following:

		Computer Equipment		Furniture and Other Equipment		Leasehold Improvements		Total
<b>Cost</b>								
Balance, January 1, 2022	\$	35,167	\$	22,108	\$	250,835	\$	308,110
Additions (reimbursements)		4,880		2,473		(198,246)		(190,893)
Balance, December 31, 2022	\$	40,047	\$	24,581	\$	52,589	\$	117,217
<b>Accumulated depreciation</b>								
Balance, January 1, 2022	\$	19,979	\$	3,884	\$	-	\$	23,863
Depreciation		3,555		1,583		21,035		26,173
Balance, December 31, 2022	\$	23,534	\$	5,467	\$	21,035	\$	50,036
Net book value, January 1, 2022	\$	15,188	\$	18,224	\$	250,835	\$	284,247
Provision		(16,412)		(19,114)		-		(35,526)
Net book value, December 31, 2022	\$	101	\$	-	\$	31,554	\$	31,655

During the year ended December 31, 2022, the Company recovered \$198,246 in amounts spent on leasehold improvements in the year ended December 31, 2021, in accordance with its sub-lease agreement and property manager.



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### 13. Property and Equipment (Continued)

Property and equipment at December 31, 2021 consist of the following:

	Computer Equipment	Furniture and Other Equipment	Leasehold Improvements	Total
<b>Cost</b>				
Balance, January 1, 2021	\$ 18,877	\$ 3,886	\$ -	\$ 22,763
Additions	17,442	18,222	250,835	286,499
Disposals (Note 3)	(1,153)	-	-	(1,153)
Balance, December 31, 2021	\$ 35,166	\$ 22,108	\$ 250,835	\$ 308,109
<b>Accumulated depreciation</b>				
Balance, January 1, 2021	\$ 15,070	\$ 1,943	\$ -	\$ 17,013
Depreciation	6,062	1,941	-	8,003
Disposals (Note 3)	(1,153)	-	-	(1,153)
Balance, December 31, 2021	\$ 19,979	\$ 3,884	\$ -	\$ 23,863
Net book value, January 1, 2021	\$ 3,808	\$ 1,943	\$ -	\$ 5,751
Net book value, December 31, 2021	\$ 15,188	\$ 18,224	\$ 250,835	\$ 284,247

### 14. Intangible Assets

Intangible assets at December 31, 2022 consist of the following:

	Blockchain Technology	DiscreetCare Website	SVR Technology and Trademarks	Hydreight - White Label	Hydreight App	Total
<b>Cost</b>						
Balance, January 1, 2022	\$ 5,536,298	\$ -	\$ -	\$ -	\$ 1,593,739	\$ 7,130,037
Additions	-	18,900	1,578,408	532,648	-	2,129,956
Foreign currency translation	-	-	-	20,135	-	20,135
Balance, December 31, 2022	\$ 5,536,298	\$ 18,900	\$ 1,578,408	\$ 552,783	\$ 1,593,739	\$ 9,259,993
<b>Accumulated depreciation</b>						
Balance, January 1, 2022	\$ (1,471,290)	\$ -	\$ -	\$ -	\$ (471,573)	\$ (1,942,863)
Depreciation	(1,845,431)	-	(263,069)	(37,503)	(531,246)	(2,677,249)
Balance, December 31, 2022	\$ (3,316,721)	\$ -	\$ (263,069)	\$ (37,503)	\$ (1,002,819)	\$ (4,620,112)
Net book value, January 1, 2022	\$ 4,065,008	\$ -	\$ -	\$ -	\$ 1,122,166	\$ 5,187,174
Net book value, December 31, 2022	\$ 2,219,577	\$ 18,900	\$ 1,315,339	\$ 515,280	\$ 590,920	\$ 4,639,881

Intangible assets at December 31, 2021 consist of the following:

	GameOn App Intellectual Property	Blockchain Technology	Hydreight App	Total
<b>Cost</b>				
Balance, January 1, 2021	\$ 941,000	\$ -	\$ -	\$ 941,000
Additions	-	5,536,298	1,593,739	7,130,037
Foreign currency translation	-	-	-	-
Balance, December 31, 2021	\$ 941,000	\$ 5,536,298	\$ 1,593,739	\$ 8,071,037
<b>Accumulated depreciation</b>				
Balance, January 1, 2021	\$ -	\$ -	\$ -	\$ -
Depreciation	-	(1,471,290)	(471,573)	(1,942,863)
Disposals (Note 3, 10)	(941,000)	-	-	(941,000)
Balance, December 31, 2021	\$ (941,000)	\$ (1,471,290)	\$ (471,573)	\$ (2,883,863)
Net book value, January 1, 2021	\$ 941,000	\$ -	\$ -	\$ -
Net book value, December 31, 2021	\$ -	\$ 4,065,008	\$ 1,122,166	\$ 5,187,174

#### **14. Intangible Assets (Continued)**

##### **Blockchain Technology**

On March 5, 2021, the Company acquired certain intangible assets related to blockchain technology for 4,600,048 common shares of the Company with a fair value of \$3,542,037 as well as forgiveness of outstanding debts of \$1,587,001 and other debts totalling \$407,260. After acquisition, the Company incurred costs to bring these assets to saleable state, resulting in additional costs of \$29,357, which were expensed.

During the year ended December 31, 2021, the Company sold a version of certain of these technologies to Cloud Nine for 4,411,765 common shares of Cloud Nine with a fair value of \$1.76 per share.

##### **Hydreight App**

On February 10, 2021, the Company acquired Hydreight through a share purchase agreement (Note 10). The purchase price allocation of this acquisition was finalized during the year ended December 31, 2021, and \$1,593,739 was allocated to intangible assets as a result. The intangible asset is being amortized on a straight-line basis over three years, commencing on acquisition.

Hydreight also incurred a further \$357,072 in research and development costs during the period from the date of acquisition to December 31, 2021, which was expensed.

##### **Hydreight White Label**

Throughout 2021 and the first quarter of the 2022 fiscal year, Hydreight incurred costs to develop a white-label product built off its core technology. The technology was primarily financed by VST. The capitalized costs of the internally generated software consisted of the directly attributable costs of external labor and an allocation of Hydreight employee and contractor labour.

##### **Synthesis**

On January 4, 2022, XRI acquired Synthesis through a share purchase agreement (Note 10). The purchase price allocation of this acquisition was finalized during the year ended December 31, 2022, and \$1,578,408 was allocated to intangible assets as a result. The intangible assets include an allocation for trademarks and developed technology. Each component of the intangible asset acquired is being amortized on a straight-line basis over 6 years, commencing on acquisition.

## 15. Goodwill

Goodwill was recognized in the acquisition of Hydreight and SVR (Note 10) and represents the expected synergies from combining the operations of the acquired companies with those of the acquiring Company, revenue growth, future market development and customer relations. These benefits are not recognized separately from goodwill since the resulting economic impact cannot be measured reliably. Goodwill is non-deductible for tax purposes. For the purpose of annual impairment testing, goodwill is allocated to the operating segments, or cash-generating units (“CGU”), expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below, and is compared to its recoverable value. The Company has identified Hydreight and SVR as their own CGUs for the purposes of goodwill impairment testing:

		Hydreight		SVR	Total
Balance, January 1, 2022	\$	1,640,653	\$	-	\$ 1,640,653
Additions (Note 10(b))		-		2,447,541	2,447,541
Impairment		-		(1,592,644)	(1,592,644)
Balance December 31, 2022	\$	1,640,653	\$	854,897	\$ 2,495,550

		Hydreight		SVR	Total
Balance, January 1, 2021	\$	-	\$	-	-
Additions (Note 10(a))		1,640,653		-	1,640,653
Balance, December 31, 2021	\$	1,640,653	\$	-	\$ 1,640,653

The Company tests CGUs with goodwill annually for impairment, or more frequently if there is an indication that a CGU to which goodwill has been allocated may be impaired. The recoverable amount of a CGU is the higher of the CGU’s fair value less cost of disposal (“FVLCD”) and its value-in-use. FVLCD is determined based on an implied enterprise value calculation using a market capitalization approach. Value-in-use is calculated using a discounted cash flow analysis based on detailed forecasts provided by management to estimate enterprise value.

The Company recognized a goodwill impairment loss on the SVR CGU of \$1,592,644 based on the excess of the carrying value of the acquired assets over the calculated recoverable amount using a value-in-use calculation. Key assumptions used in the impairment calculation were revenue growth rates and the discount rate of 3.0% and 16% respectively.

## 16. Loans Payable

On August 26, 2022, the Company entered into a non-dilutive loan agreement with an arm’s length individual for \$2,000,000. The loan bears interest at 13% per annum payable in advance in cash or marketable securities held by VST calculated and compounded monthly based on a 365-day year basis and matures on the two-year anniversary of the closing date of the Loan. The loan is secured against certain shares of publicly traded companies currently held by VST, including the resulting issuer shares involving HTI disclosed in Note 11.

In connection with the Loan as an inducement to the lender, VST also granted the lender the right to acquire up to 1,222,222 resulting issuer shares to be received by VST in connection with the subsequently closed transaction at a price per resulting issuer share of \$0.63 at any time after 4 months following the completion of the Transaction (Note

## 16. Loans Payable (Continued)

11) subject to certain additional conditions. VST intends to use the proceeds from the loan for strategic opportunities and general working capital purposes.

The fair value of the debt component of the loan payable was determined at inception using the Company's incremental borrowing rate of 17%. A total of \$154,770, representing the difference between the discounted value of \$1,845,230 and the proceeds received of \$2,000,000, was allocated to the equity component. The Company paid a finder's fee to an arm's length party in the amount of \$100,000 and incurred legal fees of \$23,087, allocated to the debt and equity component in the amount of \$113,561 and \$9,525 respectively. The resulting carrying value of the debt at inception was \$1,731,669. Included in interest expense on the consolidated statement of loss and comprehensive loss is accretion costs totalling \$20,748 (December 31, 2021 - \$Nil), resulting in an ending carrying value of \$1,752,417 (December 31, 2021 - \$Nil). Accrued interest as at December 31, 2022 is \$108,333 (December 31, 2021 - \$Nil) and included in accrued liabilities.

On December 17, 2021, XRI entered into a loan agreement for a principal amount of \$3,000,000, maturing on the earliest of 180 days from the closing date and either a financing or business combination transaction. The loan bears interest at a rate of 12% per annum and is, payable monthly, on the first business day of each month. As an inducement to the lender, 2,000,000 lender warrants were issued at an exercise price of \$0.52 for a period of 4 years. Further, the loan is secured by a General Security Agreement over all of XRI's assets and property. XRI paid costs including a finder's fee of \$150,000 and \$16,000 in legal costs. XRI also issued 966,332 finder warrants at an exercise price of \$0.52 for a period of 4 years. The costs and fair value of the finder warrants of \$238,216 was allocated to the issuance cost of the loan payable.

The fair value of the debt component of the loan payable was determined at inception using XRI's incremental borrowing rate of 20%. A total of \$89,944, representing the difference between the discounted value of \$2,910,056 and the proceeds received of \$3,000,000, was allocated to the equity component.

On August 31, 2022, the loan agreement was amended to extend the maturity date to August 31, 2024. XRI had paid its coupon interest monthly through May 2022, but defaulted on the June, July, and August payments. As per the amended agreement, the interest rate effective June 1, 2022, was increased to 15% from 12%, with interest accruing and payable on August 31, 2023. From September 1, 2023, until the maturity date, interest is payable monthly on the first Business Day of the month.

In addition, the amended agreement amended the exercise price of the 2,000,000 lender warrants from \$0.52 per common share to \$0.08 per common share. As an additional inducement for the lender to close the loan amendment agreement, XRI agreed to issue share purchase warrants exercisable to purchase up to 3,000,000 additional common shares at an exercise price of \$0.00 per common share (the "Additional Warrants"), expiring on the fourth anniversary of loan amendment date. As at December 31, 2022, and through the date of these Financial Statements, the amended lender warrants, and Additional Warrants had not been issued.

Included in interest expense on the consolidated statement of loss and comprehensive loss is accretion expense and amortization of debt costs of \$475,592 for the year ended December 31, 2022 (December 31, 2021 - \$54,332). Accrued interest as at December 31, 2022 is \$262,500 (December 31, 2021 - \$14,795) and included in accrued liabilities.

On January 15, 2021, GameOn settled a loan payable through the issuance of shares. During the year ended December 31, 2021, a gain on settlement of debt of \$65,902 was recognized. This amount was deconsolidated on May 26, 2021 (Note 3).

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**16. Loans Payable (Continued)**

Loans payable as at December 31, 2022, consists of the following:

	VST secured loan		XRI	Total
Balance, January 1, 2022	\$ -	\$ 2,560,172	\$	2,560,172
Amount funded	2,000,000	-		2,000,000
Equity portion allocated to reserve	(154,770)	(237,240)		(392,010)
Transaction costs	(113,561)	-		(113,561)
Amortization of transaction costs, accretion, and interest	20,748	475,592		496,340
Balance December 31, 2022	1,752,417	2,798,524		4,550,941
Less: Current portion	129,004	288,600		417,604
Balance, December 31, 2022	\$ 1,623,413	\$ 2,509,924	\$	4,133,337

	VST secured loan		XRI	Total
Balance, January 1, 2021	\$ -	\$ -	\$	-
Amount funded	-	3,000,000		3,000,000
Equity portion allocated to reserve	-	(89,944)		(89,944)
Transaction costs	-	(404,216)		(404,216)
Amortization of transaction costs, accretion, and interest	-	54,332		54,332
Balance December 31, 2021	-	2,560,172		2,560,172
Less: Current portion	-	2,560,172		2,560,172
Balance, December 31, 2021	\$ -	\$ -	\$	-

**17. CEBA loans**

The Canada Emergency Business Account (CEBA) loan originally launched on April 9, 2020, and is intended to support businesses during the COVID-19 pandemic. The value of the government loan received at below market rate of interest is treated as a government grant. Four of the Company's subsidiaries applied for and received the first \$40,000 in funds, and the same four entities applied the additional \$20,000. Only three entities received this additional amount in the year ended December 31, 2020. The full value of the grant was spent in the course of business operations and the gain has been recognized in other income.

The loans were recognized at fair value using the Company's incremental borrowing rate of 20%. The difference between this discounted value of \$114,828 and the proceeds received of \$220,000 was recognized as a gain on CEBA loans of \$105,172.

During the year ended December 31, 2021, one Company received the additional \$20,000 and recognized a gain on CEBA loans of \$8,649. The loan also had accretion of \$13,072 (December 31, 2021 - \$8,577) for the year ended December 31, 2022. The balance of the loans as at December 31, 2022, was \$135,222 (December 31, 2021 - \$122,150).

## 18. Other Payables

Other payables consist of the following:

	December 31, 2022	December 31, 2021
Funds received from investors for investments not proceeding	\$ 158,765	\$ 158,765
	\$ 158,765	\$ 158,765

Other payables include amounts advanced by third parties in connection with investments which did not proceed. The amounts are unsecured, non-interest bearing and payable on demand.

## 19. Convertible Note

On September 28, 2022, the Company executed a Share Exchange Agreement (the "Agreement") with 1288273 B.C. Ltd. ("1288273"), a company incorporated under the laws of British Columbia. Pursuant to the Agreement, the Company proposed to sell all of its issued and outstanding common shares to 1288273 with the intention of the Company and 1288273 completing a going public transaction (the "Proposed Transaction") on or before March 31, 2023, with provisions for extensions by both parties. Upon completion of Agreement, the Company would become a wholly-owned subsidiary of 1288273.

In connection to the Proposed Transaction, on August 21, 2022, the Company issued a \$200,000 convertible debenture to an arm's length investor. The convertible note is non-interest bearing, unsecured, and upon a Liquidity Event, becomes convertible at the option of the holder into common shares of the Company at a conversion price of \$0.15 per common share. The convertible debenture will mature two years after the closing date if no Liquidity Event occurs. Liquidity Event for the convertible debenture is defined as:

- the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is party (including, without limitation, any stock acquisition,
- reorganization, merger, amalgamation, arrangement, consolidation or other transaction but excluding any bona fide sale of stock for capital raising purposes);
- the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any subsidiary of the Company of all or substantially all the assets of the Company and its subsidiaries taken as a whole, or (2) the sale or disposition (whether by merger, amalgamation, arrangement, consolidation or otherwise and whether in a single transaction or a series of related transactions) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where the sale, lease, transfer, exclusive license or other disposition is to a wholly-owned subsidiary of the Company; or
- the closing of the transfer (whether by merger, amalgamation, arrangement, consolidation or otherwise), in a single transaction or series of related transactions, to a "person" or "group", of the Shares if, after such closing, such person or group would become the "beneficial owner" of more than 50% of the outstanding voting securities of the Company (or the surviving or acquiring entity).

On November 1, 2022, the Company received \$125,000 from 1288273. The loan is unsecured, non-interest bearing and is due on the earlier of:

- the date of closing a Proposed Transaction with 1288273, or
- the termination of the Agreement in accordance with its respective terms and conditions.

**19. Convertible Note (Continued)**

If the loan is not repaid upon the aforementioned maturity date, the loan will bear interest at 10% per annum. Interest will accrue on the loan until the total outstanding principal and interest is repaid in full.

Upon closing the Proposed Transaction, the outstanding principal amount of the loan shall automatically convert into common shares of the Company at a deemed price of \$0.10 per common share.

Both the 1288273 convertible debt and the arm's length convertible debt have been assessed to be compound instruments with fixed conversion rates, and therefore the conversion feature is determined to be an equity component. The fair value of the 1288273 convertible debt has had its debt host liability fair valued using an market rate of interest of 16.51%, with \$117,392 being allocated to the debt host and \$7,608 being allocated to equity using the residual method. The fair value of the arm's length convertible debt has had its debt host liability fair valued using an market rate of interest of 13.99%, with \$153,921 being allocated to the debt host and \$46,079 being allocated to equity using the residual method.

The following table illustrates the movement of convertible debt's during the year ended December 31, 2022.

	<b>2022</b>	<b>2021</b>
Convertible debt	\$ 325,000	\$ -
Interest accretion	11,188	-
Amount allocated to equity	(39,192)	-
	\$ 296,996	\$ -
Short-term	\$ 121,136	\$ -
Long-term	175,860	-
	\$ 296,996	\$ -

On December 1, 2020, GameOn issued a convertible promissory note for USD \$92,000 to Matthew Bailey in relation to the asset purchase agreement with GameOn App Inc. The note was non-interest bearing, convertible at any time by the holder at a price of \$0.25 per share and matured on December 1, 2022. The conversion feature of the debentures was classified as a derivative liability due to the exercise price being denominated in a different currency than the face value of the note. The derivative is recorded at fair value on recognition and at each subsequent reporting date the changes in fair value are recognized in the statement of income and comprehensive income. On recognition, the fair value of the derivative was calculated using the Black Scholes Option Pricing Model with the residual value attributed to the convertible note. On May 19, 2021, the convertible note was settled by the payment of USD \$92,000 or \$103,132. For the period then ended, GameOn recognized a gain on derivative liability of \$27,008 and accretion on the convertible note of \$15,547. The balance in both the convertible note and derivative liability as at December 31, 2021 was \$Nil. These amounts were deconsolidated on May 26, 2021 (Note 3).

## 20. Deferred Revenue

Deferred revenue for the year ended December 31, 2022, consists primarily of Hydreight deferred revenue related to the unearned portion of annual subscription sales and an amount of pharmacy product sales for which the delivery of goods occurred after the year ended December 31, 2022. Also included in deferred revenue in the year ended December 31, 2021, and recognized in the year ended December 31, 2022, is deferred revenue on immersive experience contract sales. The following table is a summary of deferred revenue from contracts with customers and the change in those balances during the years ended December 31, 2022, and 2021. As at December 31, 2022, \$105,626 (2021 - \$9,254) of deferred revenue relates to goods and services transferred at a point in time, with the remaining \$1,616,240 (2021 - \$364,563) relating to its services transferred over time as outlined in Note 2(t).

	2022	2021
Balance, January 1	\$ 373,817	\$ 275,274
Revenue deferred in previous period and recognized as revenue in current period	(356,508)	(73,032)
New additions from contracts with customers during the current period	1,704,557	171,576
Balance, December 31	\$ 1,721,866	\$ 373,817
Current portion	\$ 1,703,821	\$ 360,474
Long-term portion	18,045	13,343
	\$ 1,721,866	\$ 373,817

## 21. Share Capital

### Authorized Share Capital

Unlimited common shares without par value.

### Issued Share Capital

As at December 31, 2022, there were 99,564,971 common shares outstanding (December 31, 2021— 97,930,700).

#### *Shares Issued during the year ended December 31, 2022:*

The Company issued 1,634,271 common shares to the CEO of Hydreight pursuant to an equity earn-out clause payable in VST shares as per the Share Purchase Agreement (the “SPA”) of Hydreight dated January 29, 2021. The equity earn-out, valued at \$1,120,895 on the acquisition date, was based the satisfaction of certain earn-out milestones as agreed to in the SPA and subject to certain issuance limitations set out in the SPA. The common shares were issued on September 13, 2022, with the obligation to issue shares of \$1,120,895 reclassified to share capital.

#### *Shares Issued during the year ended December 31, 2021:*

On February 10, 2021, the Company issued 3,239,124 common shares with a fair value of \$1,705,631 in relation to the acquisition of Hydreight (Note 10).

On February 16, 2021, the Company issued 11,713,053 common shares for a net addition to share capital of \$4,889,021 in relation to the automatic conversion of previously outstanding special warrants.

On March 5, 2021, the Company issued 4,600,048 common shares with a fair value of \$3,542,037 in relation to the purchase of intangible assets as disclosed in Note 14.



## 21. Share Capital (Continued)

### *Shares Issued during the year ended December 31, 2021:*

On March 22, 2021, the Company issued 8,400 common shares for proceeds of \$4,367 in relation to the exercise of broker's warrants.

On March 24, 2021, the Company issued 50,000 common shares for proceeds of \$39,000 in relation to the exercise of warrants.

On March 9 and 18, 2021, the Company bought back 55,000 and 50,000 common shares at prices of \$0.70 to \$0.83 for a total buyback value of \$81,830.

On May 6, 19, and June 7, 2021, the Company issued 712,500 common shares for proceeds of \$155,546 in relation to the exercise of stock options.

On May 11, 2021, the Company issued 3,600 common shares for proceeds of \$1,872 in relation to the exercise of warrants.

On June 8, 2021, the Company issued 674,157 common shares with a fair value of \$438,202 in relation to the investment in Stardust (Note 9).

On November 11, 2021, the Company issued 1,000,000 common shares with a fair value of \$425,000 in relation to the follow-up investment in Creator.Co (Note 9).

On October 31, November 1, and December 15, 2021, the Company bought back 187,500, 30,500, and 239,000 common shares respectively at prices of \$0.34 to \$0.41 for a total buyback value of \$188,713.

### **Reserve**

The Company has a stock option plan whereby share purchase options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's shares on the date of the grant and, unless otherwise stated, vest on the grant date and with a term not to exceed ten years.

Under the plan, the board of directors may grant up to 10% of the issued number of shares outstanding as at the date of the share purchase option grant.

The Company did not grant any stock options during the year ended December 31, 2022.

The Company's board of directors authorized the issue of 3,540,000 stock options to employees, officers, directors, and consultants during the comparative year ended December 31, 2021. Share-based payments of \$111,311 was recorded in the statement of income and comprehensive income for the Company for the year ended December 31, 2022 (December 31, 2021 - \$1,707,261) relating to the vesting of the options. The fair value of the options was calculated using the Black-Scholes option pricing model with the following assumptions:

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**21. Share Capital (Continued)**

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
Issued March 17, 2020 <sup>(1)</sup>	116%	0.15%	0%	5
Issued January 11, 2021	176%	0.30%	0%	3
Issued February 24, 2021	199%	0.25%	0%	2
Issued April 23, 2021	197%	0.30%	0%	2
Issued July 22, 2021	174%	0.60%	0%	3
Issued July 28, 2021	194%	0.42%	0%	2
Issued December 21, 2021	185%	1.00%	0%	2
Issued December 21, 2021	79%	0.85%	0%	1
Issued December 28, 2021	185%	0.99%	0%	2

The options were authorized for issuance in December of 2019 and formally issued in March 17, 2020. The options vested immediately. The share-based compensation was recognized in the year ended December 31, 2019.

Options outstanding as at December 31, 2022, are as follows:

Exercise Price	Number of Shares Issuable upon Exercise	Expiry Date
\$0.15	4,162,500	March 17, 2025
\$0.60	2,765,000	January 11, 2024
\$0.94	150,000	February 24, 2023
\$0.51	250,000	July 22, 2024
\$0.53	75,000	July 28, 2023
\$0.43	65,000	December 21, 2022
\$0.43	125,000	December 21, 2023
\$0.43	300,000	March 17, 2025
	7,892,500	

Stock options continuity for the year ended December 31, 2022, is as follows:

	Number of options	WAV option price
Balance, December 31, 2020	4,875,000	\$0.15
Granted	3,830,000	\$0.58
Exercised	(712,500)	\$0.15
Balance, December 31, 2021	7,992,500	\$0.36
Cancelled	(100,000)	\$0.43
Balance, December 31, 2022	7,892,500	\$0.36

## 21. Share Capital (Continued)

### Special Warrants

On November 9, 2020, the Company closed a special warrant financing transaction, issuing 11,713,053 special warrants at \$0.52 per special warrant for gross proceeds of \$5,590,788 and settlement of \$500,000 in debt to the CEO of the Company. After agent, legal, and syndicate costs, the net proceeds received by the Company were \$4,889,021. Each special warrant converts to 1 common share and ½ warrant, of which each full warrant can be exercised to purchase a common share of the Company at \$0.78.

On February 16, 2021, the special warrants automatically converted to 11,713,053 common shares and 5,856,526 warrants.

### Warrants

As a part of a special warrants financing transaction during the year ended December 31, 2020, 784,867 broker's warrants were issued, which convert to 1 common share and ½ agent's warrant, of which each full agent's warrant can be exercised to purchase a common share of the Company at \$0.52. Additionally, 292,825 warrants were issued which are exercisable to purchase a common share of the Company at \$0.78. The fair value of warrants issued excluding the special warrants was \$427,165.

All warrants and broker's warrants are exercisable until November 9, 2023.

	Warrants	Broker's Warrants	Special warrants
Balance, January 1, 2021	292,825	784,867	11,713,053
Issued	6,000	-	-
Exercised	(50,000)	(12,000)	-
Converted	5,856,526	-	(11,713,053)
Balance, December 31, 2022 and December 31, 2021	6,105,351	772,867	-

### Non-Controlling Interest

#### *Share-based payments of subsidiary company*

During the year ended December 31, 2022, XRI recorded \$632,637 in share-based compensation expense.

On May 1, 2021, XRI granted 4,300,000 stock options to employees, consultants, and directors exercisable at \$0.25 and expiring on May 1, 2026. On August 12, 2021, XRI granted 3,100,000 stock options to employees and consultants exercisable at \$0.25 and expiring on August 12, 2026. These stock options vest according to specific terms on each employee, consultant, or director's stock option agreements. The total number of stock options vested as of December 31, 2021, was 1,526,587.

The following weighted average assumptions were used in calculating the fair value of stock options granted during the year ended December 31, 2021, using the Black-Scholes Option Pricing Model:

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
Issued May 1, 2021	167%	0.92%	0%	5
Issued August 12, 2021	162%	0.91%	0%	5

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**21. Share Capital (Continued)**

The following weighted average assumptions were used in calculating the fair value of broker warrants and consultant warrants granted during the year ended December 31, 2021, using the Black-Scholes Option Pricing Model:

	<b>Expected Volatility</b>	<b>Risk-free Interest Rate</b>	<b>Expected Dividend</b>	<b>Expected Life (in years)</b>
Consultant Warrants, August 11, 2021	194%	0.45%	0%	2
Performance Warrants, August 11, 2021	162%	0.45%	0%	5
Broker Warrants August 12, 2021	194%	0.45%	0%	2
Lender and Finder Warrants, December 17, 2021	157%	1.14%	0%	4

Total share-based payments expense for the years ended December 31, 2022, and 2021:

	<b>December 31, 2022</b>
Stock-based compensation for options vested	373,663
SVR finder's fee (Note 10(b))	370,285
Hydreight CEO Transaction bonus (Note 21)	300,000
<b>Stock-based compensation</b>	<b>1,043,948</b>

	<b>December 31, 2021</b>
Stock-based compensation for options vested	739,854
Consultant warrants	332,517
CEO performance warrants	14,668
<b>Stock-based compensation</b>	<b>1,087,039</b>

*Subscriptions receipts issued of subsidiary company*

On August 12, 2021, XRI closed a private placement financing for 6,750,803 subscription receipts at \$0.35 per unit, consisting of one common shares and one-half warrant, for gross proceeds of \$2,362,781, which reduced VST's ownership in the subsidiary from 100% as of December 31, 2020, to 84.02% as of the transaction closing date. In relation to the financing the Company paid finders' fees and share issuance costs of \$167,912.

*Shares issued of subsidiary company*

During the year ended December 31, 2022, XRI issued 12,285,714 common shares with a fair value of \$3,071,428 on the acquisition of Synthesis to the vendors of Synthesis and 2,057,142 common shares with a fair value of \$370,285 for a finder's fee (Note 10) recorded as transaction cost expense.

On April 1, 2021, XRI issued 4,691,180 common shares to settle the deposit on shares received in the prior year for a value of \$1,172,795. The shares were issued at a price of \$0.25 per share to two parties.

## 21. Share Capital (Continued)

On September 8, 2021, 600,000 common shares were issued to the CEO of XRI at a fair value of \$150,000 upon the Company's listing on the CSE. The transaction was recorded as a consulting fee.

Between November 22, 2021, and December 20, 2021, a total of 700,000 shares were issued at a fair value of \$175,000 for consulting fees.

### *Share purchase rights agreement*

The \$2,000,000 loan agreement (Note 16) contains a share purchase rights clause whereby the lender has the right to acquire up to 1,222,222 of HTI shares from VST at the Transaction price over the term of the loan any time after 4 months following the completion of the Transaction. The lender has not exercised any share purchase rights as of the date of these consolidated financial statements.

### *Shares of subsidiary company transferred by Company*

On August 26, 2021, the Company distributed 4,500,000 of its shares held in XRI to the Company's shareholders as a dividend and reduced its ownership to 78.7%. On September 10, 2021, the Company distributed 1,220,300 of its shares held in XRI to various related parties and reduced its ownership to 77%. The fair value of the transaction was \$305,075, with \$192,147 and \$112,928 recorded to consulting expense and prepaids respectively. On November 11, 2021, the Company distributed 4,500,000 for the second tranche of the dividend of its shares held in XRI to the Company's shareholders reducing its ownership to 70.5%. As at December 31, 2022, the Company's ownership interest was 54.55% (December 31, 2021-- 69.8%), reduced further by the shares of XRI issued on the acquisition of Synthesis (Note 10).

## 22. Related Parties

### Related Party Transactions

During the year ended December 31, 2022, and 2021, the Company entered into the following transactions with related parties:

	December 31, 2022	December 31, 2021
Management fees expense	\$ -	\$ 32,500
Management fees revenue	\$ 197,073	\$ -
Professional and consulting fees	\$ 252,121	\$ 250,044
Executive compensation	\$ 893,284	\$ 569,723
Interest	\$ -	\$ 2,168
Equity-based compensation - HTI	\$ 300,000	\$ -
Share-based compensation of the Company	\$ -	\$ 942,196
Share-based compensation of subsidiaries	\$ 69,437	\$ 206,371

## 22. Related Parties (Continued)

### Key Management Compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing, and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's executive leadership team. Such compensation was comprised of:

- \$Nil (December 31, 2021 - \$32,500) in management fees to the CEO;
- \$893,284 (December 31, 2021 - \$569,723) in executive compensation to the CEO and Chief Growth Officer of VST and executive officers of XRI and Hydreight.
- \$252,121 (December 31, 2021 - \$250,044) in professional fees to company controlled by the CFO, for controller, bookkeeping, corporate secretarial and CFO services;
- \$Nil (December 31, 2021 - \$942,196) in share-based compensation to various Directors and Management of the Company;
- \$69,437 (December 31, 2021 - \$206,371) in share-based compensation related to GameOn Entertainment and XRI stock options to the CEO and CFO.

### Due from Related Parties

	December 31, 2022	December 31, 2021
Due from a Director	\$ 250	\$ 250
Due from Subsidiary Management	215	8,252
Due from GameOn Entertainment	67,159	-
Due from Shop & Shout (Note 8)	185,450	-
Due from Stardust Solar (Note 8)	-	200,000
Due from Victory Square Health	7,000	-
Due from Safetest	10,000	-
Due from Cassia, dba CoPilot	2,095	2,095
	\$ 272,169	\$ 210,597

The amount due from a Director is related to a prepayment made in 2018 for the sponsorship of a speaker series which has been cancelled. Amounts are unsecured, non-interest bearing, and due on demand.

As part of the Company's investment in Stardust Solar, the Company originally pledged up to \$100,000 in cash as a loan to Stardust Solar. As of December 31, 2021, this amount was increased due to additional funding requirements by Stardust Solar. For the year ended December 31, 2022, an additional \$80,000 had been advanced to Stardust Solar and was recorded as a related party loan. On May 22, 2022, the Company and Stardust Solar executed an amending agreement to the original share purchase agreement whereby the \$280,000 indebtedness was extinguished as consideration for the value of compensation shares issued to Stardust Solar as per the purchase price (Note 8). At the time of the share purchase transaction, a contingent liability of \$130,918 was recognized for the future consideration to be owed on expiration of the Holding Period. On settlement of the indebtedness, the Company recognized a \$149,082 loss on settlement of debt.

The amount due from CoPilot relates to payment of supplier invoices on behalf of the entity. The balance does not have a fixed repayment date and is non-interest bearing.

## 22. Related Parties (Continued)

The amount due from Shop & Shout are funds advanced to finance working capital in accordance with the Company's follow-on investment in Shop & Shout (Note 8).

Amounts are unsecured, non-interest bearing, and due on demand.

### Due to Related Parties

	December 31, 2022	December 31, 2021
Due to former owners of SVR	\$ 300,000	\$ -
Due to Shop & Shout (Note 8)	801,654	550,352
Due to Stardust Solar (Note 8)	-	130,918
Due to CEO	86,046	278,651
	\$ 1,187,700	\$ 959,921

These related party loans are unsecured, due on demand, and non-interest bearing.

The amount due to SVR is owed by XRI to the former shareholders of SVR, being the balance of the initial purchase price to be settled in cash (Note 10).

The amount due to Shop & Shout relates to a clause within the Shop & Shout investment agreement from the fourth quarter of 2021 wherein the Company shall pay amount equal to difference between aggregate value of already issued or transferred VST shares and the sum of \$1,000,000 to reach a total sum of \$1,000,000. On the date of closing of the investment transaction, the value of VST common shares issued for the investment was \$425,000 (Note 8) and using historical stock price data and scenario modelling, the contingent consideration was valued at \$550,352, such that the total investment book value on the date of investment was \$975,352 (Note 8). The value of this contingent consideration as of December 31, 2022, was determined to be \$801,654 (December 31, 2021 - \$550,352) after a \$101,894 (December 31, 2021 - \$Nil) revaluation of the contingent liability based on the Company's share price as at December 31, 2022. During the year ended December 31, 2022, the Company advanced a total of \$185,450 to Shop & Shout in anticipation of a final settlement to be agreed upon at a later date.

The amount due to Stardust Solar relates to a clause within the Stardust Solar investment agreement wherein the Company shall pay amount equal to difference between aggregate value of already issued or transferred VST shares and the sum of \$600,000 to reach total sum of \$600,000. On the date of closing of the investment transaction, the value of VST common shares issued for the investment was \$438,202 (Note 8). The value of this financial instrument as of December 31, 2022, and 2021, was determined to be \$130,918 using historical stock price data and scenario modelling such that the total investment value was \$569,120 (Note 8). This amount was extinguished in the year.

As at December 31, 2022, the Company has \$50,575 (December 31, 2021 - \$278,651) in related party loans due to the CEO, which includes \$2,168 (December 31, 2021 - \$2,168) in accrued interest. This related party loan is unsecured, due on demand, and bear interest at 3%.

### Related Party Balances

As at December 31, 2022, the Company has \$34,735 (December 31, 2021 - \$106,508) due to related parties included in trade payables and accrued liabilities. As at December 31, 2022, the Company has \$225,080 (December 31, 2021 - \$71,060) due from related parties included in trade receivables. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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### 23. Operating Segments

The Company operates in several segments, broken down by entity as follows:

Legal Entities	Segment
Draft Label	Software
PDL USA	Software
XRI	Immersive Services
SVR	Immersive Services
GameOn <sup>(1)</sup>	Gaming
Victory Entertainment	Investments
Victory Square Technologies <sup>(2)</sup>	Investments
BlockX Capital	Investments
VS Blockchain	Investments
VS Digital Health	Health
VS Digital Health (Delaware)	Health
Hydreight Technologies Inc	Health
Hydreight Canada Holdings Inc	Health
IV Hydreight Inc	Health

<sup>(1)</sup> GameOn was deconsolidated as of May 26, 2021

<sup>(2)</sup> Parent corporation

Segmented operations were as follows as at and for the year ended December 31, 2022:

	Investments	Software	Immersive Services	Health	Total
Current assets	\$ 1,263,217	\$ 88,230	\$ 541,288	\$ 2,633,232	\$ 4,525,967
Non-current assets	19,280,082	-	1,057,312	(687,338)	19,650,056
	\$ 20,543,299	\$ 88,230	\$ 1,598,600	\$ 1,945,894	\$ 24,176,023
Current liabilities	\$ 2,321,133	\$ 324,805	\$ 781,954	\$ 2,451,495	\$ 5,879,387
Non-current liabilities	2,225,418	36,683	2,770,035	18,663	5,050,799
	\$ 4,546,551	\$ 361,488	\$ 3,551,989	\$ 2,470,158	\$ 10,930,186

	Investments	Software	Immersive Services	Health	Total
Revenue	\$ 463,218	\$ 2,252	\$ 1,195,195	\$ 4,268,431	\$ 5,929,096
Cost of goods sold	-	-	(409,012)	(2,263,660)	(2,672,672)
Gross margin	463,218	2,252	786,183	2,004,771	3,256,424
Expenses	(5,015,801)	(536,527)	(7,043,624)	(3,886,165)	(16,482,117)
Deferred tax recovery	111,562	14,495	-	-	126,057
Other gains (losses)	(11,687,624)	(6,240)	46,227	(3,944,557)	(15,592,194)
Net income (loss)	(16,128,645)	(526,020)	(6,211,214)	(5,825,951)	(28,691,830)
Non-controlling interest	4,398,451	-	-	-	4,398,451
Other Comprehensive Income	-	(37,338)	13,517	(117,401)	(141,222)
Comprehensive income (loss)	\$ (11,730,194)	\$ (563,358)	\$ (6,197,697)	\$ (5,943,352)	\$ (24,434,601)



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**23. Operating Segments (Continued)**

Segmented operations were as follows as at and for the year ended December 31, 2021:

	Investments	Gaming	Software	Immersive Services	Health	Total
Current assets	\$ 2,029,676	\$ -	\$ 50,274	\$ 3,341,442	\$ 20,671	\$ 5,442,063
Non-current assets	32,099,804	-	(143,425)	23,833	(91,122)	31,889,090
	\$ 34,129,480	\$ -	\$ (92,526)	\$ 3,365,275	\$ (70,451)	\$ 37,331,153
Current liabilities	\$ (768,728)	\$ -	\$ (38,271)	\$ (3,997,958)	\$ (546,031)	\$ (5,350,988)
Non-current liabilities	(705,909)	-	(40,696)	(74,549)	-	(821,154)
	\$ (1,474,636)	\$ -	\$ (78,967)	\$ (4,072,508)	\$ (546,031)	\$ (6,172,142)

	Investments	Gaming	Software	Immersive Services	Health	Total
Revenue	\$ 297,887	\$ -	\$ 36,803	\$ 107,960	\$ 1,051,800	\$ 1,494,450
Cost of goods sold	-	-	(15,205)	(108,737)	(460,372)	(584,314)
Gross margin	297,887	-	21,598	(777)	591,428	910,136
Expenses	(8,980,567)	-	(360,001)	(4,852,215)	(890,064)	(15,082,847)
Discontinued loss	-	(2,423,705)	-	-	-	(2,423,705)
Gain on deconsolidation of subsidiaries	6,108,408	-	-	-	-	6,108,408
Deferred tax recovery	99,030	-	-	-	-	99,030
Other gains (losses)	(5,925,833)	-	106,764	469,395	(7,013)	(5,356,687)
Net income (loss)	(8,401,075)	(2,423,705)	(231,639)	(4,383,597)	(305,649)	(15,745,665)
Other Comprehensive Income	322	-	-	-	-	322
Comprehensive income (loss)	\$ (8,400,753)	\$ (2,423,705)	\$ (231,639)	\$ (4,383,597)	\$ (305,649)	\$ (15,745,343)

## 24. Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### a) 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 primary exposure to credit risk is on its cash held in bank accounts. The cash is deposited in bank accounts in Canada and the USA. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a bank that is a high credit quality financial institution as determined by rating agencies. Credit risk on cash is assessed as low.

The Company's receivables consist of trade receivables, loan receivable, advances, and due from related parties. Based on the evaluation of receivables at December 31, 2022, the Company believes that its receivables are collectable, however, due to the current COVID-19 pandemic, there is an increase in the uncertainty of collectability and management has determined credit risk to be high.

### b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risks.

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's main source of funding has been the issuance of equity securities through private placements and loans from related parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

<b>Contractual Obligations As at December 31, 2022</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>
Trade payables and accrued liabilities	\$1,997,584	\$1,997,584	\$ -	\$ -	\$ -
Other payables	158,765	158,765	-	-	-
Related party loans	1,187,700	\$1,187,700	-	-	-
Leases	448,189	212,196	235,993	-	-
Loans payable	4,550,941	417,604	4,133,337	-	-
CEBA Loans	135,222	-	135,222	-	-
<b>Total Contractual Obligations</b>	<b>\$6,480,817</b>	<b>\$1,976,265</b>	<b>\$4,504,552</b>	<b>\$ -</b>	<b>\$ -</b>

## 24. Financial Risk Management (Continued)

<b>Contractual Obligations As at December 31, 2021</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>
Trade payables and accrued liabilities	\$1,112,280	\$1,112,280	\$ -	\$ -	\$ -
Other payables	158,765	158,765	-	-	-
Related party loans	959,921	959,921	-	-	-
Leases	636,039	172,690	463,349	-	-
Loans payable	2,560,172	2,560,172	-	-	-
CEBA Loans	122,150	-	122,150	-	-
<b>Total Contractual Obligations</b>	<b>\$4,437,047</b>	<b>\$3,851,548</b>	<b>\$ 585,499</b>	<b>\$ -</b>	<b>\$ -</b>

### d) Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company's subsidiaries, Hydreight and SVR, have a functional currency of the USD and therefore the Company bears the risk of fluctuations in the exchange rate between the USD and CAD with respect to Hydreight and SVR's results of operations and financial position. A +/- 10% in the exchange rate of the USD/CAD would have resulted in a combined impact of \$205,000 in loss and equity for the year.

### e) Fair value risk

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Quoted market prices for an identical asset or liability represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models.

When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the use of significant unobservable inputs are considered Level 3.

Cash, marketable securities, and unrestricted public company investments are measured using Level 1 inputs. Public company investments subject to restrictions are considered Level 2.

Private company investments and contingent consideration derivative liabilities are considered Level 3.

#### **24. Financial Risk Management (Continued)**

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.

Investments in which there has been a recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate.

Investments in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by a sophisticated, arm's-length investor are valued at the price of the recent trade.

Investments in established companies for which there has not been any recent independent funding or secondary private market transaction are valued using revenue or earnings multiples. When valued on a multiple basis, the maintainable revenue or earnings of a portfolio company are multiplied by an appropriate multiple. The multiple is derived from the market capitalization of a peer group. Companies are selected for the peer group that are comparable with the portfolio company to be valued as to their business model and size. If the portfolio company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple or resulting valuation.

Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgment and is based on the facts and circumstances of each investment.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties, and the resulting values may differ significantly from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

During the year there has been no movement of investments from Level 3 to Level 1 or Level 2, other than those disclosed in Note 8.

The table below presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at December 31, 2022.

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**24. Financial Risk Management (Continued)**

Investment	Valuation Method	Inputs	FV Change \$ (+/-10%)
Cassia Research Inc. (dba CoPilot AI)	Multiple of revenue	Multiple	428,000
Cloud Benefit Solutions	Market calibration and multiple of revenue	Multiple	25,000
Shop & Shout, dba, Creator.co	Market calibration and multiple of revenue	Multiple	110,000
Next Decentrum Inc.	Option pricing model	Implied company value	97,000
Stardust Solar Inc.	Discounted cash flow	Discount rate	70,000
Victory Square Health	Market calibration and multiple of revenue	Multiple	868,000

The Company's financial instruments consist of cash and cash equivalents, trade receivables, marketable securities, certain investments, amounts due from related parties, advances, trade payables, loan payable, other payables, convertible debentures, and related party loans. The carrying value of financial instruments approximates the fair value at December 31, 2022.

**25. Capital Management**

The Company manages its cash and common shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. The Company will require capital resources to carry its plans and operations through its current operating period. The Company currently is not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year.

**26. Revenue and Cost of Goods Sold**

**Revenue**

	Year ended December 31,	
	2022	2021
Immersive experiences	\$ 1,195,393	\$ 107,960
Film royalties	5,633	-
Health	4,403,245	1,051,800
Software	2,252	36,803
Management fees	197,073	267,000
Sublease	125,500	30,887
	\$ 5,929,096	\$ 1,494,450

**26. Revenue and Cost of Goods Sold (Continued)**

**Cost of Goods Sold**

	Year ended December 31,	
	2022	2021
Immersive experiences	\$ 409,012	\$ 108,737
Health	2,263,660	460,372
Software	-	15,205
	\$ 2,672,672	\$ 584,314

**27. Interest and Other Income**

During the year ended December 31, 2022, XRI had major sources of interest and other income including \$237,469 (December 31, 2021 - \$46,838) in government subsidies. Government subsidies and grants included Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS), Tourism and Hospitality Recovery Program, and a CanExport Canadian government grant that supports businesses as they explore/expand new and under-developed international markets. There are no unfulfilled conditions or other contingencies related to these grants or subsidies.

**28. Income Tax**

The following tables reconciles the expected income tax recovery at the Canadian statutory income tax rates to the amounts recognized in the statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2022 and 2021.

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**28. Income Tax (Continued)**

**INCOME TAXES**

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to income (loss) from operations before income taxes, shown as follows:

	Dec 31, 2022	Dec 31, 2021
<b>Expected Tax Rate</b>	<b>27.00%</b>	<b>27.00%</b>
Expected income tax recovery	\$ (7,740,490)	\$ (5,272,937)
Permanent Differences	1,557,347	558,352
Effect of losses not recognized	1,716,460	-
Effect of other deductible temporary differences not recognized	4,251,657	4,637,417
		-
Tax rate differences	-	(21,862)
True-up of prior years taxes	-	-
Other	(14,495)	-
<b>Income tax expense (recovery)</b>	<b>\$ (229,520)</b>	<b>\$ (99,030)</b>

The income tax expense (recovery) consists of the following:

	Dec 31, 2022	Dec 31, 2021
Current Tax Expense (Recovery)	\$ 94,576	\$ -
Deferred Tax Expense (Recovery)	(324,096)	(99,030)
<b>Net tax expense (recovery)</b>	<b>\$ (229,520)</b>	<b>\$ (99,030)</b>

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	Dec 31, 2022	Dec 31, 2021
Deferred tax asset	\$ 238,531	\$ -
Deferred tax liability	(606,281)	(235,655)
<b>Net deferred tax liability</b>	<b>\$ (367,750)</b>	<b>\$ (235,655)</b>

The Company has non-capital loss carryforwards which may be carried forward to apply against future year income tax subject to the final determination by taxation authorities, expiring in the following years:

2033	54,316
2034	9,910
2035	109,002
2036	348,105
2037	278,849
2038	272,488
2039	780,699
2040	3,373,077
2041	4,369,549
2042	6,355,847
	<b>\$ 15,951,842</b>

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**29. Non-Controlling Interest**

**HTI**

On closing of the Transaction (Note 11), 37,842,827 shares of HTI are issued and outstanding on a non-diluted basis, of which approximately 27,896,825 shares are held by VST representing a 73.27% interest, with the balance of 26.73% reported in NCI in the consolidated statements of financial position and loss and comprehensive loss. The comparative year end of December 31, 2021, includes only the financial position and statement of loss of Hydreight (Note 11 and 2(b)).

**XRI**

Prior to August 12, 2021, the Company held 63,308,820, or 93.1% of the issued and outstanding shares of XRI. On August 12, 2021, XRI completed a private placement which increased the total common shares outstanding and reduced the Company's ownership to 84.02%. On August 26, 2021, the Company issued a share dividend, distributing 4,495,154 common shares and reducing its interest to 78.05%. On September 14, 2021, the Company further distributed 1,220,300 common shares reducing its interest to 76.43%. On December 30, 2021, the Company issued a second share dividend, distributing 4,491,543 common shares reducing its interest to 69.82%. On March 28, 2022, and May 12, 2022, XRI issued a total of 14,342,856 shares on the acquisition of SVR, reducing the Company's interest in XRI to 58.75%. In the fourth quarter of 2022, the Company distributed 3,384,881 shares to various consultants and XRI issued 750,000 shares to a lender, reducing the Company's interest in XRI to 54.55%.

	HTI		XRI		GameOn	Total		
Carrying amount, December 31, 2020	\$	-	\$	47,071	\$	5,713,274	\$	5,760,345
Additions (disposals) of non-controlling interest		-		5,041,652		(4,587,549)		454,103
Net loss attributable to non-controlling interest		-		(1,312,332)		(1,125,725)		(2,438,057)
Carrying amount, December 31, 2021	\$	-	\$	3,776,391	\$	-	\$	3,776,391
Additions of non-controlling interest on acquisition date		(140,421)		42,299		-		(98,122)
Net loss attributable to non-controlling interest		(1,575,544)		(2,822,997)		-		(4,398,541)
Carrying amount, December 31, 2022	\$	(1,715,965)	\$	995,693	\$	-	\$	(720,272)

Summarized financial information of HTI and XRI are presented below, on a 100% basis:

	HTI		HTI		XRI		XRI	
	December 31, 2022		December 31, 2021		December 31, 2022		December 31, 2021	
Non-controlling interest		26.28%		0.00%		45.45%		30.20%
Current assets	\$	2,618,138	\$	46,347	\$	545,763	\$	3,341,442
Non-current assets		274,295		382,732		3,604,154		77,833
		2,892,433		429,079		4,149,917		3,419,275
Current liabilities		3,231,229		1,200,279		2,422,752		4,051,959
Non-current liabilities		18,045		13,343		3,049,270		74,549
Total liabilities		3,249,274		1,213,622		5,472,022		4,126,508
Net assets		(356,841)		(784,543)		(1,322,105)		(707,233)
Accumulated non-controlling interest	\$	(93,778)	\$	-	\$	(600,897)	\$	(213,584)



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**29. Non-Controlling Interest (Continued)**

For the year ended December 31,	HTI		XRI	
	2022	2021	2022	2021
Revenue	\$ 4,268,431	\$ 1,199,417	\$ 1,195,195	\$ 107,960
Cost of goods sold	(2,432,929)	(555,634)	(409,012)	(95,765)
Expenses	(3,886,165)	(1,160,112)	(7,043,624)	(4,909,314)
Other gains (losses)	(3,944,557)	(604)	46,227	551,649
Taxes	-	(10,898)	-	-
Net loss	\$ (5,995,220)	\$ (527,831)	\$ (6,211,214)	\$ (4,345,470)
Net loss attributable to non-controlling interest	\$ (1,575,544)	\$ -	\$ (2,822,997)	\$ (1,312,332)

**30. Subsequent Event**

Subsequent to year end, the Company negotiated a termination of its right-of-use office lease. The right-of-use asset and related liability related to this lease will be derecognized in the ensuing reporting period.