

## **BUSINESS ACQUISITION REPORT (the “Report”)**

### **Item 1 Identity of Company**

#### **1.1 Name and Address of Company**

Alpha Metaverse Technologies Inc. (the “**Company**”)  
1930 - 1177 West Hastings Street, Vancouver, British Columbia V6E 4T5

#### **1.2 Executive Officer**

Eli Dusenbury, Chief Financial Officer of the Company, is an executive officer of the Company who is knowledgeable about the significant acquisition and this Report, and can be contacted by telephone at 604-359-1256.

### **Item 2 Details of Acquisition**

#### **2.1 Nature of Business Acquired**

Shape Immersive Entertainment Inc. (“**Shape**”) is a private company metaverse creator engaged in the development of non-fungible token (“**NFT**”) technology, augmented reality experiences, and three dimensional (“**3D**”) products to transform user experiences. Shape has partnered or worked with many well-known Fortune 1000 and other category leading companies such as RTFKT<sup>®</sup> (recently acquired by Nike<sup>®</sup>), Red Bull<sup>®</sup>, Intel<sup>®</sup> and the Olympics<sup>®</sup>.

On April 12, 2022, the Company entered into a share purchase agreement (the “**Share Purchase Agreement**”) with Shape and the shareholders of Shape (the “**Vendors**”), pursuant to which, and subject to the terms and conditions of the Share Purchase Agreement, the Company agreed to acquire all of the issued and outstanding shares of Shape (the “**Shape Shares**”).

For the purposes of go-forward accounting treatment, Shape is considered the acquired company.

#### **2.2 Acquisition Date**

The acquisition of Shape (the “**Acquisition**”) was completed on May 4, 2022 (the “**Closing Date**”).

### **2.3 Consideration**

On the Closing Date, the Company acquired (a) the 26,100,000 issued and outstanding class A common voting shares in the capital of Shape; (b) the 3,900,000 issued and outstanding class B common non-voting shares in the capital of Shape; (c) the 100 issued and outstanding class C non-voting shares in the capital of Shape; (d) the 100 issued and outstanding class D non-voting shares in the capital of Shape, representing 100% of the issued and outstanding Shape Shares. As consideration for the Shapes Shares, the Company: (a) paid an aggregate \$500,000 in cash to the Vendors (collectively) on the Closing Date; (b) issued an aggregate 14,000,000 common shares in the capital of the Company (each, a “**Alpha Share**”) to the Vendors (collectively) on the Closing Date; (c) agreed to pay an aggregate \$500,000 in cash to the Vendors (collectively) within one-hundred and eighty (180) days following the Closing Date (the “**Additional Cash Consideration**”); (d) issued an aggregate of 840,000 Alpha Shares to certain individuals for services rendered in connection with the Acquisition; (e) granted a general security interest in favour of the Vendors for the purposes of securing the payment of the Additional Cash Consideration; and (f) agreed to issue up to an aggregate of 9,000,000 Alpha Shares to certain Vendors (collectively) who joined Alpha upon completion of the Acquisition as employees or consultants based on certain performance milestones.

### **2.4 Effect on Financial Position**

Upon completion of the Acquisition, Shape became a wholly-owned subsidiary of the Company. Shape continues to function as a business unit within the Company for the purposes of accelerating the Company’s metaverse production capabilities, provide cross-selling opportunities across business units and allow further gaming intellectual property development and speed to market.

### **2.5 Prior Valuations**

To the knowledge of the Company there has not been any valuation opinions obtained within the last 12 months by Shape or the Company required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company or any of its subsidiaries in connection with the Acquisition.

### **2.6 Parties to Transaction**

The Acquisition was not with an “informed person” (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of the Company.

**2.7 Date of Report**

July 6, 2022

**Item 3 Financial Statements and Other Information**

The following is attached at Schedule “A” to this Report:

The audited financial statements of Shape for the years ended December 31, 2021 and 2020, together with the auditor’s report thereon and notes thereto.

**SCHEDULE "A"**

Please see attached.

**SHAPE IMMERSIVE ENTERTAINMENT INC.**

Financial Statements

For the years ended December 31, 2021 and 2020

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charlton & company  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Directors of:  
Shape Immersive Entertainment Inc.

### Opinion

We have audited the financial statements of Shape Immersive Entertainment Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2021 and 2020 and the statements of comprehensive (loss) income, cash flows, and changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 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.

### Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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 in the auditor's report. We have nothing to report in this regard.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the Management 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 in the auditor's report. We have nothing to report in this regard.

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

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

In preparing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Charlton & Company*

**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC  
June 14, 2022



**Shape Immersive Entertainment Inc.****Statements of Financial Position**

Expressed in Canadian dollars, unless noted

	Notes	December 31, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 95,289	\$ 50,991
Accounts receivable	3, 8, 9	54,401	58,607
Prepays and deposits		9,148	2,150
		158,838	111,748
<b>Non-current assets</b>			
Equipment	4	5,608	873
<b>Total assets</b>		<b>\$ 164,446</b>	<b>\$ 112,621</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 61,883	\$ 54,764
Other payables	5	13,304	3,567
		75,187	58,331
<b>Non-current liabilities</b>			
Government loan	6	54,887	33,677
<b>Total Liabilities</b>		<b>130,074</b>	<b>92,008</b>
<b>EQUITY</b>			
Share capital	7	2,450,008	150,006
Deficit		(2,415,636)	(129,393)
<b>Total equity</b>		<b>34,372</b>	<b>20,613</b>
<b>Total liabilities and equity</b>		<b>\$ 164,446</b>	<b>\$ 112,621</b>

The accompanying notes are an integral part of these financial statements.

Nature of operations (Note 1)

Subsequent events (Note 13)

Approved on behalf of the Board of Directors:

DocuSigned by:

James Basnett

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"James Basnett", Director

DocuSigned by:

Alex Chuang

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"Yi-Chun Chuang", Director

**Shape Immersive Entertainment Inc.**  
**Statements of comprehensive (loss) income**

Expressed in Canadian dollars, unless noted

Year ended December 31,	Notes	2021	2020
Service revenue	8	\$ 667,155	\$ 329,917
Cost of service		(383,803)	(183,283)
<b>Gross margin</b>		<b>283,352</b>	<b>146,634</b>
<b>EXPENSES</b>			
Accretion	6	4,129	1,965
Advertising		1,685	2,423
Bad debt	3	6,514	-
Contractors	8	63,998	77,599
Depreciation	4	3,038	1,116
General and administrative		20,972	9,721
Legal and professional		29,065	19,233
Research and development		-	2,324
Salaries and wages	8, 9	137,899	10,897
Share-based payment	7, 8	2,299,977	-
Travel		2,964	341
<b>Total expenses</b>		<b>(2,570,241)</b>	<b>(125,619)</b>
<b>(Loss) income before other items</b>		<b>(2,286,889)</b>	<b>21,015</b>
<b>Other items</b>			
Gain on favourable interest rate	6	2,919	8,288
Foreign exchange loss		(2,273)	(6,915)
		646	1,373
<b>Net and comprehensive (loss) income</b>		<b>\$ (2,286,243)</b>	<b>\$ 22,388</b>
Basic and diluted earnings per share		\$ (0.14)	\$ 0.00
Weighted average number of shares outstanding		16,244,462	7,000,000

*The accompanying notes are an integral part of these financial statements.*

**Shape Immersive Entertainment Inc.****Statements of Changes in Equity**

Expressed in Canadian dollars, unless noted

	Share Capital		Deficit	Total Equity
	#	\$	\$	\$
<b>Balance, December 30, 2019</b>	7,000,000	150,006	(151,781)	(1,775)
Net income for the year	-	-	22,388	22,388
<b>Balance, December 31, 2020</b>	7,000,000	150,006	(129,393)	20,613
Issuance of shares	23,000,200	2,300,002	-	2,300,002
Net loss for the year	-	-	(2,286,243)	(2,286,243)
<b>Balance, December 31, 2021</b>	30,000,200	2,450,008	(2,415,636)	34,372

*The accompanying notes are an integral part of these financial statements.*

# Shape Immersive Entertainment Inc.

## Statements of Cash Flows

Expressed in Canadian dollars, unless noted

Year ended December 31,	Notes	2021	2020
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the year		\$ (2,286,243)	\$ 22,388
Items not affecting cash:			
Depreciation	4	3,038	1,116
Bad debt	3	6,514	-
Accretion	6	4,129	1,965
Gain on favourable interest rate	6	(2,919)	(8,288)
Share-based payment	7, 8	2,299,977	-
Change in non-cash working capital items:			
Accounts receivable		(2,283)	(58,602)
Prepays and deposits		(6,998)	(2,062)
Accounts payable and accrued liabilities		7,119	(10,937)
Other payables		9,737	(1,111)
<b>Cash provided by (used in) operating activities</b>		<b>32,071</b>	<b>(55,531)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from government loan	6	20,000	40,000
<b>Cash provided by financing activities</b>		<b>20,000</b>	<b>40,000</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment	4	(7,773)	-
<b>Cash used in investing activities</b>		<b>(7,773)</b>	<b>-</b>
Net change in cash		44,298	(15,531)
Cash, beginning of year		50,991	66,522
<b>Cash, end of year</b>		<b>\$ 95,289</b>	<b>\$ 50,991</b>

*The accompanying notes are an integral part of these financial statements.*

*During the years ended December 31, 2021 and 2020, there were no non-cash financing or investing activities and the Company paid \$nil in interest and taxes.*

# Shape Immersive Entertainment Inc.

## Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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### 1. NATURE OF OPERATIONS

Shape Immersive Entertainment Inc. (the “Company”) was incorporated under the laws of British Columbia on February 8, 2018. The Company’s registered office is 403-134 Abbott Street, Vancouver, British Columbia, Canada V6B 2K4. The Company is a software service company with principal business activity of developing 3D non-fungible tokens (NFTs), holograms, augmented and virtual reality, and play-to-earn game assets in the metaverse space.

On May 5, 2022, 100% of the Company’s outstanding share capital was acquired by Alpha Metaverse Technologies Inc. (formerly Alpha Esports Tech Inc.) (“Alpha”) whose shares are traded on the Canadian Securities Exchange under the symbol, “ALPA”. Consequently, the transaction constituted a change of control of the Company by Alpha, with the Company representing a wholly-owned subsidiary of Alpha for accounting and reporting purposes (Note 13).

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. It has adversely affected global workforces, economies, and financial markets, triggering an economic downturn. It is not possible at this time for the Company to predict the duration or magnitude of the adverse results of the outbreak nor its effects on the Company’s business or operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretation Committee (“IFRIC”).

These financial statements were approved by the Board of Directors on June 14, 2022.

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and presentation currency:

These financial statements are, unless otherwise indicated, presented in Canadian dollars, which is the Company’s functional currency.

(d) Use of judgments and estimates:

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amount of assets and liabilities in the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates. The 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 if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Use of judgments and estimates (continued):

The key accounting estimates and judgments applied in these financial statements are as follows:

##### ***Judgments***

i. Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements.

ii. Recoverability of account receivables

The Company assesses the collectability of receivables on an ongoing basis. A provision for the impairment of receivables involves significant management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts.

iii. Impairment indicators of equipment

Assessing whether internal or external indicators of impairment exist requires management to make assumptions and judgements that may change from period to period.

iv. Revenue recognition

The Company uses significant judgment to determine the estimated time of completion which affects the timing of revenue recognized for fixed cost contracts as customers pay the fixed amount based on a payment schedule.

##### ***Estimates***

v. Deferred tax assets and liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected. Tax losses have been estimated and are subject to changes as a result of reviews from regulatory authorities.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Use of judgments and estimates (continued):

vi. Useful life of equipment

Equipment is depreciated over its useful life. Estimated useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations.

(e) Prepays:

Prepaid expenses primarily represent amounts previously paid to vendors for various operating expenses.

(f) Equipment:

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount if it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive (loss) income during the period in which they are incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset. The Company recognizes depreciation of equipment on a straight-line basis over a useful life of 3 years.

Equipment that is withdrawn from use or has no reasonable prospect of being recovered through use or sale is regularly identified and written off. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying value of the asset) is included in the statement of comprehensive (loss) income in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date.

(g) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted.

(h) Earnings per share:

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

During the years ended December 31, 2021 and 2020, the Company did not have any dilutive equity instruments.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments:

Financial assets

The Company classifies its financial assets, as amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL"). Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Financial assets classified as amortized cost are initially measured at fair value and are subsequently measured at amortized cost.

Financial assets classified as FVTPL are initially measured at fair value with unrealized gains and losses recognized through profit and loss. Regular way purchases and sales of FVTPL financial assets are accounted for at trade date, as opposed to settlement date.

Financial assets classified as FVOCI are initially measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for recognition of credit impairment gains and losses, foreign exchange gains and losses, and interest revenue which are recorded in profit or loss. When the financial assets are derecognized, the amount in other comprehensive income (loss) is reclassified to profit and loss.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Impairment of financial assets

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. The Company shall recognize in the statements of loss and comprehensive 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.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities, including derivatives, are designated as FVTPL upon initial recognition. They are initially recorded at their fair market value. They are subsequently measured at their fair market value, with gains or losses recognized in the income statement. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Financial Liabilities Measured at Amortized Cost

Financial liabilities are measured at amortized cost and are initially recorded at fair value, net of transaction costs, and are subsequently measured at amortized cost. Subsequent to initial measurement, financial liabilities measured at amortized cost are carried at amortized cost using the effective interest method. Transaction costs on liabilities other than those classified as FVTPL are treated as part of the carrying value of the liability. Transaction costs for liabilities at FVTPL are expensed as incurred.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired.



## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued):

The Company classifies its financial instruments as follows:

<b>Financial assets</b>	
Cash	FVTPL
Trade receivables	Amortized cost
<b>Financial liabilities</b>	
Accounts payable and accrued liabilities	Amortized cost
Other payables	Amortized cost
Government loan	Amortized cost

(j) Revenue recognition:

Revenues are recognized when control of the promised goods or services are transferred to a customer in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its arrangements:

- i. Identify the contract with a customer,
- ii. Identify the performance obligations in the contract,
- iii. Determine the transaction price,
- iv. Allocate the transaction price to performance obligations in the contract, and
- v. Recognize revenue as the performance obligation is satisfied

Revenue represents the amount the Company expects to receive for services in its contract with customers, net of discounts and sales taxes. The Company reports revenue under two revenue categories: immersive experience and consulting services.

Immersive experience revenue is recognized in the accounting year in which the services are rendered. For fixed-price contracts, revenue is recognized based on the stage of completion of the arrangement determined using the percentage of completion method by measuring outputs. The revenue from these contracts is recognized when the outcome of the contract can be estimated reliably.

Revenue associated with consulting services is recognized over time as it is earned, when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably and collection is reasonably assured.

(k) Government grants:

Government grants are recognized when the Company has reasonable assurance that it has complied with the relevant conditions of the grant and that it will be received. The Company recognizes the grants that compensate the Company for expenses incurred against the financial statement line item that it is intended to compensate, if the grant is recognized in the same period as the underlying transaction. Other grants are recognized as other income in the statement of comprehensive (loss) income.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes:

The Company's income tax expense consists of current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

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

Deferred tax is provided for unused tax loss carry-forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

The Company's income tax expense consists of current and deferred taxes.

(n) Related party transactions:

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the fair value of the goods and services provided.

(o) Recent accounting pronouncements not yet adopted:

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financial statements properly reflect the change.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

#### 3. ACCOUNTS RECEIVABLE

	December 31, 2021		December 31, 2020	
Trade receivables	\$	37,414	\$	40,679
Government subsidy receivable		16,956		17,922
Subscription receivables		31		6
	\$	<b>54,401</b>	\$	<b>58,607</b>

During the year ended December 31, 2021, the Company recorded bad debt of \$6,514 (2020 – \$nil), as a result of a dispute with a certain customer who refused to pay its outstanding invoices in full. The dispute was settled during the year through a mutual release of liability and without formal legal action. During the years ended December 31, 2021 and 2020, there were no additional expected credit losses recorded on the trade receivables.

#### 4. EQUIPMENT

Cost	Equipment	
Balance, December 30, 2019	\$	3,720
Additions		-
Balance, December 30, 2020		3,720
Additions		7,773
<b>Balance, December 30, 2021</b>	<b>\$</b>	<b>11,493</b>

Accumulated Depreciation	Equipment	
Balance, December 30, 2019	\$	1,731
Depreciation		1,116
Balance, December 30, 2020		2,847
Depreciation		3,038
<b>Balance, December 30, 2021</b>	<b>\$</b>	<b>5,885</b>

Net Book Value	Equipment	
Balance, December 30, 2020	\$	873
Balance, December 30, 2021		5,608

#### 5. OTHER PAYABLES

Other payables consist of the following:

	December 31, 2021		December 31, 2020	
Payroll liabilities	\$	7,680	\$	3,364
GST payable and other		5,624		203
	\$	<b>13,304</b>	\$	<b>3,567</b>

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

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#### 6. GOVERNMENT LOAN

During the year ended December 31, 2020, the Company entered into an agreement with Western Economic Diversification Canada to receive a term loan under the Regional Relief and Recovery Fund program (the "Government Loan"). The Government Loan may be used to pay for operating costs during a period where the Company's revenues have been temporarily reduced, due to economic impacts of the COVID-19 virus. Under the terms of the agreement, the Company received an initial advance of \$40,000. Provided that 75% of the Government Loan's outstanding balance is repaid on or before December 31, 2022, the remaining 25% outstanding balance will be forgiven.

The Government Loan was recognized at fair value using the Company's discount rate of 10%. The difference between the discounted value of \$31,712 and the proceeds received of \$40,000 was recognized as a gain on favourable interest rate of \$8,288 for the year ended December 31, 2020.

The agreement was subsequently amended in 2021 to provide the Company with an additional \$20,000 in Government Loan and such that, provided that \$40,000 of the Government Loan's outstanding balance is repaid on or before December 31, 2022, the remaining \$20,000 in outstanding balance will be forgiven. This amount was discounted to a present value of \$17,081 and an additional \$2,919 of gain on favourable interest rate was recorded for the year ended December 31, 2021.

The outstanding balance of the Government Loan that is not repaid by December 31, 2022 becomes immediately repayable in 36 consecutive monthly instalments beginning January 1, 2023 until fully repaid at December 31, 2025. The Government Loan is non-interest-bearing until December 31, 2015, after which date any outstanding amount of the Government Loan not repaid by that date is immediately due in full and bears interest at the average bank rate plus 3%, compounded monthly.

On February 15, 2022, the repayment terms for the Government Loan were amended such that, provided that \$40,000 of the Government Loan's outstanding balance is repaid on or before December 31, 2023, the remaining \$20,000 in outstanding balance will be forgiven. The outstanding balance of the Government Loan that is not repaid by December 31, 2023 becomes immediately repayable in 24 consecutive monthly instalments beginning January 1, 2024 until fully repaid at December 31, 2025.

For the year ended December 31, 2021, the Company recognized accretion on the Government Loan of \$4,129 (2020 – \$1,965) for an ending balance of \$54,887 (2020 – \$33,677).

#### 7. SHARE CAPITAL

(a) Authorized:

The authorized capital of the Company consists of the following:

- i. An unlimited number of Class A Common Voting shares without par value;
- ii. An unlimited number of Class B Common Non-Voting shares without par value;
- iii. An unlimited number of Class C Non-Voting shares without par value;
- iv. An unlimited number of Class D Non-Voting shares without par value;

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

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#### 7. SHARE CAPITAL (continued)

(b) Issued and outstanding:

Shares issued and outstanding as at December 31, 2021 are 26,100,000 Class A common shares (2020 – 7,000,000); 3,900,000 Class B common shares (2020 – nil); 100 Class C shares (2020 – nil); and 100 Class D shares (2020 – nil).

During the year ended December 31, 2021, the Company issued the following shares (2020 – nil):

On July 29, 2021, the Company issued 7,100,000 Class A common shares to certain management and director of the Company at a price of \$0.10 for gross proceeds of \$7 (Note 8). A balance of \$709,993 was recorded as share-based payment expense. The Company received proceeds based on \$0.000001 per Class A common share and recorded the difference between \$0.000001 per Class A common share and the fair value of \$0.10 per Class A common share as share-based payment expense.

On August 10, 2021, the Company issued 13,500,000 Class A common shares to certain management and director of the Company for gross proceeds of \$13 (Note 8). A balance of \$1,349,987 was recorded as share-based payment expense. The Company received proceeds based on \$0.000001 per Class A common share and recorded the difference between \$0.000001 per Class A common share and the fair value of \$0.10 per Class A common share as share-based payment expense.

On August 10, 2021, the Company issued 1,700,000 Class B common shares to a former employee of the Company at a price of \$0.10 for gross proceeds of \$2. A balance of \$169,998 was recorded as share-based payment expense. The Company received proceeds based on \$0.000001 per Class B common share and recorded the difference between \$0.000001 per Class A common share and the fair value of \$0.10 per Class B common share as share-based payment expense.

On August 10, 2021, the Company issued 700,000 Class B common shares to certain management and director of the Company at a price of \$0.10 for gross proceeds of \$1. (Note 8). A balance of \$69,999 was recorded as share-based payment expense. The Company received proceeds based on \$0.000001 per Class B common share and recorded the difference between \$0.000001 per Class B common share and the fair value of \$0.10 per Class A common share as share-based payment expense.

On August 10, 2021, the Company issued 100 Class C shares to certain management and director of the Company at a price of \$0.01 for gross proceeds of \$1.

On August 10, 2021, the Company issued 100 Class D shares to certain management and director of the Company at a price of \$0.01 for gross proceeds of \$1.

On August 10, 2021, 1,500,000 Class A common shares were exchanged for 1,500,000 Class B common shares.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

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#### 8. RELATED PARTY TRANSACTIONS

Key management are those personnel having the authority and responsibility for planning, directing, and controlling the Company and include both executive and non-executive directors, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

The aggregate value of transactions relating to key management personal during the years ended December 31, 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
Service revenue	\$ (209,728)	\$ -
Salaries and wages	129,991	32,147
Contractor fees	14,000	116,938
Share-based payments	2,129,979	-
	<b>\$ 2,064,242</b>	<b>\$ 149,085</b>

As at December 31, 2021, \$1,036 (2020 – \$22,612) was owing to key management personnel for contractor fees and expenses incurred on behalf of the Company with these amounts included in accounts payable. \$36,609 (2020 – \$nil) was due from a company controlled by a director of the Company and included in accounts receivable. The amounts payable are non-interest bearing, unsecured, and have no specific terms of repayment.

During the year ended December 31, 2021, the Company issued 20,600,000 (2020 – nil) Class A Common Voting Shares, 700,000 (2020 – nil) Class B Common Non-Voting Shares, 100 (2020 – nil) Class C Non-Voting Shares, and 100 (2020 – nil) Class D Non-Voting Shares to certain members of key management.

#### 9. GOVERNMENT GRANTS

During the year ended December 31, 2021, the Company applied for government pandemic relief subsidies and recorded a total of \$54,382 (2020 – \$32,147) of government financial assistance, including \$20,122 (2020 – \$26,243) from the Canada Emergency Wage Subsidy, \$15,000 (2020 – \$nil) from Small and Medium Sized Business Recovery Grant, and \$19,260 (2020 – \$5,904) from other programs. \$16,956 of these subsidies was received subsequent to year-end. The government financial assistance received under these programs intended to subsidize for wages are recorded as a reduction of wages and salaries on the statement of comprehensive (loss) income.

#### 10. INCOME TAXES

The Company's provision for income taxes differs from amounts computed by applying the combined Canadian federal and provincial tax rates, as a result of the following:

<b>Year ended December 31,</b>	<b>2021</b>	<b>2020</b>
(Loss) income for the period	\$ (2,286,243)	\$ 22,388
Combined federal and provincial rate	27%	27%
Tax (loss) income at statutory rate	(617,000)	6,000
Tax effects of:		
Permanent differences	622,000	1,000
Other	(1,000)	(7,000)
Change in unrecognized deductible temporary differences	(4,000)	-
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars, unless noted

#### 10. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant components of the deferred tax assets are as follows:

At December 31,	2021	2020
Non-capital loss carry-forwards	\$ 27,000	\$ 32,000
Equipment	1,000	-
<b>Net deferred tax assets (unrecognized)</b>	<b>28,000</b>	<b>32,000</b>

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

	2021	2020
<b>Temporary differences</b>	<b>\$ Expiry dates</b>	<b>\$ Expiry dates</b>
Non-capital loss carry-forwards	100,000 2038 to 2039	118,000 2038 to 2039
Equipment	2,000 No expiry date	1,000 No expiry date

#### 11. CAPITAL MANAGEMENT

The Company considers capital to consist of the government loan and equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance its business development and meet its obligations as they come due. The Company is in the early stages of operations and is currently developing a capital structure which will support expanded activity. The Company monitors economic conditions and the risks related to the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

#### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value of financial assets and liabilities:

The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices in markets that are not active, or inputs that are not observable, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

All assets and liabilities are initially measured and recognized at fair value, and thereafter recognized at cost, or amortized cost. As at December 31, 2021 and 2020, the carrying values of cash, trade receivables, accounts payable and accrued liabilities, other liabilities, and government loan approximate their respective fair values due to the short-term nature of these instruments.

## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

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Expressed in Canadian dollars, unless noted

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#### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Risk management:

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, market risk and foreign currency risk.

i. Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and trade accounts receivable. The Company's credit risk is limited as its cash is held in large Canadian financial institutions and its maximum exposure to credit risk is the value of its trade accounts receivable. As at December 31, 2021, the Company had \$54,401 (2020 – \$58,607) in financial assets that may be subject to credit risk defaults.

ii. Liquidity risk

Liquidity risk results from the Company's potential liability to meet its financial obligations. The Company constantly monitors its operations and cash flows to ensure that its current and future obligations will be met. The Company believes that its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations. As at December 31, 2021, the Company held \$75,187 (2020 – \$58,331) in current liabilities.

iii. Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company is actively seeking opportunities in an international environment, some of the Company's assets and liabilities are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency risk. The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time as management believes the foreign exchange risk derived from currency conversions is not significant.

The Company is exposed to currency risk through the following monetary assets and liabilities denominated in foreign currencies.

	December 31, 2021		December 31, 2020	
Cash	USD\$	46,466	USD\$	17,226
Cash	EUR\$	6,702	EUR\$	510
Accounts receivable	USD\$	28,875	USD\$	-
Accounts receivable	EUR\$	-	EUR\$	21,450
Accounts payable	USD\$	(18,160)	USD\$	(7,008)

Based on the above net exposure and assuming that all other variables remain constant a 10% change in the value of the foreign currencies against the Canadian dollar would result in an increase or decrease of approximately \$8,214 (2020 – \$5,089) in the statement of comprehensive (loss) income.



## Shape Immersive Entertainment Inc.

### Notes to Financial Statements

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#### 13. SUBSEQUENT EVENTS

##### Payment of Dividends:

On January 6, 2022, the Company declared a dividend of \$500 per Class C Non-Voting Share and \$500 per Class D Non-Voting Shares and paid such dividends in full in February 2022 for an aggregate amount of \$100,000.

##### Company Acquisition:

On April 12, 2022, the Company entered into a definitive share purchase agreement with Alpha Metaverse Technologies Inc. (formerly Alpha Esports Tech Inc.) pursuant to which Alpha Metaverse Technologies Inc. acquired 100% of the issued and outstanding shares in the capital of the Company (the "Acquisition"). The Acquisition was completed on May 5, 2022 for a total purchase price of \$4,500,000, payable in cash of \$1,000,000 and via the issuance of 14,000,000 in common shares to the Company's shareholders as follows: (i) payment of \$500,000 in cash to the Company's shareholders on closing date; (ii) issuance of 14,000,000 common shares to the Company's shareholders over a period of 20 months following the closing date; and (iii) payment of \$500,000 in cash to the Company's shareholders on or before 180 days following the closing date (the "Additional Cash Consideration"). In addition, Alpha Metaverse Technologies Inc. may issue 6,678,000 additional common shares in the event that the Additional Cash Consideration has not been paid within 180 days following the closing date.