

**XR Immersive Tech Inc.**  
**(Formerly Fantasy 360 Technologies Inc.)**

**Financial Statements**  
**Years ended December 31, 2021 and 2020**

Expressed in Canadian Dollars

To the Shareholders of XR Immersive Tech Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

DMCL Chartered Professional Accountants, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board of Directors, Audit Committee and management to discuss their audit findings.

April 28, 2022

"Tim Beiber"  
CEO, Director

"Sheri Rempel"  
CFO



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of XRI Immersive Tech Inc.

### Opinion

We have audited the financial statements of XRI Immersive Tech Inc. (formerly Fantasy 360 Technologies Inc.) (the "Company"), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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.

### 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 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.

### Material Uncertainty Related to Going Concern

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

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's 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 identified above 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 Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 International Financial Reporting Standards, 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.

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

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

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
Vancouver, BC

April 29, 2022



An independent firm  
associated with Moore  
Global Network Limited

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)

Statements of financial position

(Expressed in Canadian dollars)

				As at December 31,
	Note		2021	2020
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	3	\$	2,932,795	\$ 192,475
Prepays			46,211	32,778
Other receivables	10		17,272	63,565
Government subsidy receivable	4		182,782	-
Government sales tax receivable			18,364	6,087
Inventory	5		144,018	-
			3,341,442	294,905
<b>Non-current assets</b>				
Investments	6		15	3,254
Due from related parties	10		-	542,383
Equipment	7		32,506	4,041
Right-of-use asset	8		45,312	-
<b>TOTAL ASSETS</b>		<b>\$</b>	<b>3,419,275</b>	<b>\$ 844,583</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade payables		\$	105,242	\$ 86,192
Accrued liabilities	11		188,973	141,423
Deposit on shares	13		-	1,172,796
Deferred revenue			64,486	-
Current portion of lease liability	8		13,977	-
Due to parent	10		1,119,109	99,529
Loan payable	11		2,560,172	-
			4,051,959	1,499,940
<b>Non-current liabilities</b>				
CEBA loan	12		40,727	33,667
Lease liability	8		33,822	-
<b>TOTAL LIABILITIES</b>			<b>4,126,508</b>	<b>1,533,607</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>				
Share capital	13		2,998,007	1
Reserve	13		1,329,255	-
Deficit			(5,034,495)	(689,025)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			<b>(707,233)</b>	<b>(689,024)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>\$</b>	<b>3,419,275</b>	<b>\$ 844,583</b>

Nature of operations and going concern – Note 1

Subsequent events – Note 17

See accompanying notes to the financial statements

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)

Statements of loss and comprehensive loss

(Expressed in Canadian dollars)

		Years ended December 31,	
	Note	2021	2020
<b>Revenue</b>		\$ 107,960	\$ 1,441,468
<b>Cost of goods sold</b>		95,765	888,747
		12,195	552,721
<b>Expenses</b>			
Depreciation and amortization	7,8	13,240	6,400
Bad debt expense	15	17,696	-
Consulting fees	13	471,308	104,515
Foreign exchange expense		2,232	11,796
General and administration		221,206	35,364
Interest and accretion	8,11,12	64,558	6,018
Management fees		-	54,000
Professional fees		461,726	76,528
Rent		96,638	127,567
Research and development	9	1,609,400	-
Salaries and wages		687,993	241,566
Sales and marketing		176,278	22,475
Share-based compensation	13	1,087,039	-
<b>Total expenses</b>		<b>(4,909,314)</b>	<b>(686,229)</b>
<b>Other Items</b>			
Gain (loss) on investments	6	(3,239)	2,340
Gain on government grant	12	-	29,058
Gain on settlement of related party debt	10	-	15,251
Interest and other income	4	554,888	167,652
		551,649	214,301
<b>Net (loss) income and comprehensive (loss) income for the year</b>		<b>(4,345,470)</b>	<b>80,793</b>
<b>Loss per share - basic and diluted</b>		<b>\$ (0.06)</b>	<b>\$ 0.00</b>
<b>Weighted average number of common shares outstanding for the period - basic and diluted</b>		<b>69,685,094</b>	<b>63,308,820</b>

See accompanying notes to the financial statements

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)  
Statement of changes in shareholders' equity  
(Expressed in Canadian dollars)

	Note	Share Capital		Reserve			Deficit	Total
		Number of Shares	Amount	Contributed Surplus	Warrants	Total Reserve		
<b>Balance at January 1, 2020</b>		<b>63,308,820</b>	<b>1</b>	-	-	-	<b>(769,818)</b>	<b>(769,817)</b>
Net income for the year		-	-	-	-	-	80,793	80,793
<b>Balance at December 31, 2020</b>		<b>63,308,820</b>	<b>1</b>	-	-	-	<b>(689,025)</b>	<b>(689,024)</b>
Shares issued to settle deposit on shares	13	4,691,180	1,172,795	-	-	-	-	1,172,795
Shares, warrants, and broker warrants issued for private placement, net of share issuance costs	13	6,750,803	1,500,211	-	694,655	694,655	-	2,194,866
Shares and performance warrants issued to CEO	13	600,000	150,000	-	14,668	14,668	-	164,668
Share-based payments	13	700,000	175,000	739,854	332,517	1,072,371	-	1,247,371
Warrants issued on debt financing	11,13	-	-	89,944	-	89,944	-	89,944
Related party debt forgiveness	10	-	-	(542,383)	-	(542,383)	-	(542,383)
Net loss for the year		-	-	-	-	-	(4,345,470)	(4,345,470)
<b>Balance at December 31, 2021</b>		<b>76,050,803</b>	<b>2,998,007</b>	<b>287,415</b>	<b>1,041,840</b>	<b>1,329,255</b>	<b>(5,034,495)</b>	<b>(707,233)</b>

See accompanying notes to the financial statements

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)  
Statements of cash flows  
(Expressed in Canadian dollars)

	Years ended December 31,	
	2021	2020
<b>Operating activities</b>		
Net (loss) income for the year	\$ (4,345,470)	\$ 80,793
Adjustments for non-cash items:		
Interest and Accretion	64,618	2,725
Bad debt expense	17,696	-
Depreciation	13,240	6,400
Foreign exchange gain	2,232	-
Loss (gain) on investment	3,239	(2,340)
Gain on CEBA loan	-	(29,058)
Loss on settlement of related party debt	-	(15,251)
Shares for debt to settle non cash consulting costs	150,000	-
Executive performance share issuance	175,000	-
Share-based compensation	1,087,036	-
Changes in non-cash working capital items:		
Prepays	(13,433)	(25,166)
Trade receivables	28,597	61,996
Government sales tax receivable	(12,277)	1,587
Government subsidy receivable	(182,782)	-
Inventory	(144,018)	-
Trade payables	(219,166)	16,180
Accrued liabilities	45,317	(12,065)
Deferred revenue	64,486	(310,834)
<b>Net cash flows used in operating activities</b>	<b>(3,265,685)</b>	<b>(225,033)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(35,664)	-
<b>Net cash flows used in investing activities</b>	<b>(35,664)</b>	<b>-</b>
<b>Financing activities</b>		
Proceeds from parent company	1,019,580	531,710
Repayments to parent company	-	(1,369,076)
Net proceeds received from share issuance	2,194,866	-
Proceeds received in advance of share issuance	-	1,172,796
Proceeds on short-term loan	3,000,000	-
Loan costs incurred	(166,000)	-
Payments on lease liability	(6,777)	-
Proceeds from government loans	-	60,000
<b>Net cash flows from financing activities</b>	<b>6,041,669</b>	<b>395,430</b>
Increase in cash	2,740,320	170,397
Cash, beginning	192,475	22,078
<b>Cash, ending</b>	<b>\$ 2,932,795</b>	<b>\$ 192,475</b>

See accompanying notes to the financial statements



## **1. Nature of Operations and Going Concern**

XR Immersive Tech Inc. (the “Company”) (formerly Fantasy 360 Technologies Inc.) affected a name change on February 3, 2022. The Company is 69.8% owned by Victory Square Technologies Inc. (“Victory Square”). The Company provides immersive experiences primarily through the construction of interactive real-world simulations using VR and AR.

On September 3, 2021, the Company’s common shares commenced trading on the Canadian Securities Exchange (“CSE”) under the symbol VRAR. The Company’s registered office is at Suite 401, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7. The head office and principal address of the Company is located at Unit 240, 577 Great Northern Way, Vancouver, British Columbia, V5T 1E1.

These 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, 2021, the Company had a working capital deficit of \$710,517 (December 31, 2020 – working capital deficit of \$1,205,035) and an accumulated deficit of \$5,034,495 (December 31, 2020 – \$689,025). The Company does not have sufficient cash to sustain operations for the next twelve months without additional financing. 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 favorable 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, and such adjustments could be material.

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 had an impact on the operations of the Company, including decreasing demand for the immersive experiences the Company offers and causing the Company to change focus to a scalable pre-built box product for sale. Management has monitored the effects of the pandemic on operations to date and continues to monitor the situation continuously. Management notes it could have a potential impact of increasing the difficulty to raise funding, finding target investments to acquire or to attain profitable operations.

## **2. Significant Accounting Policies**

The financial statements were authorized for issue on April 28, 2022, by the directors of the Company.

### **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 issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as applicable to the preparation of annual financial statements.

### **b) Basis of Preparation**

The 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.

## 2. Significant Accounting Policies (Continued)

### c) Use of 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, revenue 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 year in which the estimate is revised and in any future years affected.

Significant areas requiring the use of estimates include the following:

#### *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 legal entity in which the deferred tax assets have been recognized.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements include the following:

#### *Going Concern*

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the years ended December 31, 2021, and 2020. Management prepares the 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 takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting year. 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 next twelve months.

### d) Research and development costs

Expenditure on internally developed products is capitalized as an intangible asset if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Company is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

## 2. Significant Accounting Policies (Continued)

### e) 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

### f) 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.

#### (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 statements of loss and comprehensive and 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 statements of loss and comprehensive loss in the year 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)

### f) Financial instruments (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 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.

#### (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 generally recognized in profit or loss.

### g) 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 in Note 2(e).

For those investments in which the Company has significant influence the Company uses 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. Any distributions received from the investee company reduce the carrying amount of the investment.

The Company has determined that it had significant influence over Shape Immersive Entertainment Inc. ("Shape") (Note 6) up to August 11, 2021, and accounted for the investment using the equity method. After August 11, 2021, the investment was accounted at fair value as the Company's interest in Shape was diluted well below 20% and its voting equity was exchanged for non-voting shares.

## 2. Significant Accounting Policies (Continued)

### h) Foreign Currency Translation

These financial statements are presented in Canadian dollars.

#### *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.

### l) Income Taxes

#### *Current Income Tax*

Current income tax assets and liabilities for the current year 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 year 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 year. 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.

### i) 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 statements of comprehensive income and (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.

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)

### k) 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.

#### Immersive Experiences Revenue

Revenue from providing immersive experiences is recognised in the accounting 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 year 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. Any known loss on the contract is recognized immediately.

### l) Leases

On January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases ("IAS 17") using the modified retrospective approach, under which the cumulative effect of initial application was recognized on the statement of financial position as at January 1, 2019 without restating the financial statements on a retrospective basis. The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would currently be accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

### m) Government Grants

Loans received from government grants are recognized initially at fair value, with the difference between the fair value of the loan based on prevailing market interest rates and the amount received recorded as a government grant gain in the statements of loss and comprehensive loss.

Investment tax credits are recorded when the Company has complied with eligible requirements to receive the credit, using the cost reduction approach. Investment tax credits related to eligible scientific research and experimental development ("SRED") expenditures are included in profit or loss as a reduction of the expenses that they relate to. Investment tax credits related to the acquisition of property and equipment are deducted from the cost of the related assets, with any amortization calculated on the net amount, when received or when the Company has reasonable assurance that investment tax credits will be realized.

The investment tax credits are subject to review and audit by the Canada Revenue Agency ("CRA"). Although the Company has used its best judgment and understanding of the related income tax legislation in determining the amounts and timing of investment tax credits, it is possible that the amounts could change by a material amount in the near term depending on a review and audit by the CRA.

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

### **n) Income (Loss) per Share**

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the year. 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 year and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss is incurred during the year, 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.

### **o) Comprehensive Loss**

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, 2021, and 2020, the Company did not have any items recognized as other comprehensive income (loss).

### **p) Inventory**

The Company records inventory at the lower of cost and estimated net realizable value. Costs include materials, freight, duty, brokerage and non-recoverable taxes, and are assigned on a first-in first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **q) Recent Accounting Pronouncements**

At the date of authorization of these 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 year beginning after the effective date of the pronouncement. New standards, interpretations and amendments not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company’s financial statements.

Certain comparative figures have been restated to conform to the current year’s presentation.

## **3. Cash and Cash Equivalents**

As at December 31, 2021 the cash balance of \$2,932,795 (December 31, 2020 - \$192,475) was comprised entirely of cash and cash equivalents held in operating accounts.

## **4. Government subsidy receivable**

During the year ended December 31, 2021, the Company applied for Government pandemic relief subsidies (the “subsidies”), of which \$182,782 was received subsequent to year end. Included in other income for the year ended December 31, 2021, is a total of \$508,050 in subsidies (December 31, 2020 - \$50,409), including \$303,962 from the Canada Emergency Wage Subsidy, \$54,903 from the Canada Emergency Rent Subsidy and \$149,185 from the Tourism and Hospitality Recovery Program. Also included in other income is a \$46,838 in Government grant funding.

**5. Inventory**

During the year ended December 31, 2021, the Company began incurring costs related to the Company's new product, UNCONTAINED. As at December 31, 2021, inventory related to the UNCONTAINED product is comprised of the following:

		Units in Construction		Supplies Inventory		Total
Balance, January 1, 2021 and January 1, 2020	\$	-	\$	-	\$	-
Additions		140,699		3,319		144,018
Balance, December 31, 2021	\$	140,699	\$	3,319	\$	144,018

**6. Investments**

On February 8, 2018, the Company purchased a 33.34% interest of Shape Immersive ("Shape") for \$40 and advanced a working capital loan of \$150,000 to Shape. The loan was unsecured, non-interest bearing and had no specified terms of repayment. On September 27, 2018, the Company's interest in Shape was reduced to 21.42%. From the date of the acquisition, the investment was accounted for under the equity method.

On August 11, 2021, the Company's interest was further diluted, and the Company's initial investment was exchanged for non-voting common shares. As a result, the Company no longer has significant influence over Shape and accordingly as of August 11, 2021 the investment is recorded at fair value of \$15, resulting in a cumulative loss on investment of \$3,239 (December 31, 2020 – gain of \$2,340).

**7. Equipment**

		Computer Equipment		Furniture and Other Equipment		Total
<b>Cost</b>						
Balance, January 1, 2020	\$	15,312	\$	3,886	\$	19,198
Additions		-		-		-
Balance, December 31, 2020	\$	15,312	\$	3,886	\$	19,198
<b>Accumulated depreciation</b>						
Balance, January 1, 2020	\$	8,110	\$	647	\$	8,757
Depreciation		5,104		1,296		6,400
Balance, December 31, 2020	\$	13,214	\$	1,943	\$	15,157
Net book value, December 31, 2020	\$	2,098	\$	1,943	\$	4,041



**7. Equipment (Continued)**

		Computer Equipment		Furniture and Other Equipment		Total
<b>Cost</b>						
Balance, January 1, 2021	\$	15,312	\$	3,886	\$	19,198
Additions		17,443		18,221		35,664
Balance, December 31, 2021	\$	32,755	\$	22,107	\$	54,862
<b>Accumulated depreciation</b>						
Balance, January 1, 2021	\$	13,214	\$	1,943	\$	15,157
Depreciation		5,258		1,941		7,199
Balance, December 31, 2021	\$	18,472	\$	3,884	\$	22,356
Net book value, December 31, 2021	\$	14,283	\$	18,223	\$	32,506

**8. Right-of-use asset and lease liability**

On June 21, 2021, the Company 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 commitment. The lease liability was 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 and the Company will record a related interest expense from the commencement date to the earlier of the end of the lease term on an effective interest rate method.

<b>Right-of-use asset</b>		
Balance, January 1, 2021 and January 1, 2020	\$	-
Additions		51,353
Amortization		(6,041)
Balance, December 31, 2021	\$	45,312
<b>Lease liability</b>		
Balance, January 1, 2021 and January 1, 2020	\$	-
Additions		51,353
Interest expense		3,223
Lease payment		(6,777)
		47,799
Less: Current portion		13,977
Balance, December 31, 2021	\$	33,822

**9. Research and Development**

During the year ended December 31, 2021, the Company's project related the UNCONTAINED product (Note 5) commenced with the internal development of a prototype composed of both intangible software as well as a customized shipping container with hardware fixtures. Research and development costs of \$1,609,400 (December 31, 2020 - \$Nil) were expensed as incurred.

		Container and Hardware		Software and Design Labor		IP - Patents, Trademarks		Total
Expenditure	\$	521,952	\$	1,082,562	\$	4,886	\$	1,609,400

**10. Related Party Transactions**

During the year ended December 31, 2021, and 2020, the Company entered into the following transactions with related parties:

	December 31, 2021		December 31, 2020	
Management fees paid to parent company	\$	-	\$	54,000
Consulting fees paid to Chief Marketing and Design Officers	\$	99,000	\$	55,026
Consulting fees paid to CEO in capital stock and performance based warrants	\$	164,668	\$	-
Consulting fees paid to company controlled by CEO & director	\$	74,025	\$	-
Consulting fees paid to director	\$	18,588	\$	-
Consulting fees paid to company controlled by CFO	\$	85,283	\$	26,306
Consulting bonus warrants issued to related party	\$	93,520	\$	-
Share based compensation to related parties	\$	420,532	\$	-

**Related Party Balances**

At December 31, 2021, the Company has \$41,533 (December 31, 2020 - \$1,626) due to related parties included in accrued liabilities and \$17,272 (December 31, 2020 - \$Nil) due from related parties included in other receivables. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

**Related Party Receivables**

	December 31, 2021		December 31, 2020	
Due from GameOn Entertainment Inc.	\$	-	\$	542,383
	\$	-	\$	542,383

The related party balances are unsecured, due on demand, and non-interest bearing. At December 31, 2021, in a series of transactions between the Company's parent company and GameOn Entertainment Inc. where it was agreed that selected intercompany balances would be settled with no consideration exchanged. The Company forgave the entire balance owing from GameOn Entertainment Inc. with the amount recorded as a distribution of capital in Contributed Surplus.

## 10. Related Party Transactions (continued)

### Related Party Loans

	December 31, 2021		December 31, 2020	
Due to Victory Square (Parent Company)	\$	1,119,109	\$	99,529
	\$	1,119,109	\$	99,529

Loans from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

## 11. Loan Payable

On December 17, 2021, the Company 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 (Note 13) 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 the Company's assets and property. The Company paid costs including a finder's fee of \$150,000 and \$16,000 in legal costs. The Company also issued 966,332 finder warrants at an exercise price of \$0.52 for a period of 4 years. The finder's fee, legal costs and fair value of the finder warrants of \$238,216 (Note 13) was allocated to the issuance cost which were included in the carrying value of the loan payable.

The fair value of the debt component of the Loan Payable was determined at inception using the Company'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.

Interest expense and the amortization of debt costs are being recognized over the loan period, with a total of \$54,332 of interest being recognized during year ended December 31, 2021 (December 31, 2020 - \$Nil), resulting in a carrying value of \$2,560,172 at December 31, 2021 (December 31, 2020 - \$Nil).

## 12. CEBA

The Canadian Emergency Business Account (CEBA) loan originally launched on April 9, 2020, 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. The loan was recognized at fair value using the Company's incremental borrowing rate of 20%. The difference between this discounted value of \$19,749 and the proceeds received of \$40,000 was recognized as a gain on CEBA loans of \$20,251.

On December 4, 2020, the CEBA program was expanded and the Company received an additional \$20,000 in funds on December 31, 2020. This amount was discounted to a present value of \$11,193 and an additional \$8,807 gain was recognized.

For the year ended December 31, 2021, the Company recognized accretion on the CEBA loan of \$7,061 (December 31, 2020 - \$2,725) for an ending balance of \$40,727 (December 31, 2020 - \$33,667) and \$Nil gain on CEBA loan (December 31, 2020 - \$29,058).

### 13. Share Capital

#### **Authorized Share Capital**

Unlimited common shares without par value.

#### **Issued Share Capital**

At December 31, 2021, there were 76,050,803 common shares outstanding (December 31, 2020 – 63,308,820).

#### *Shares issued during the year ended December 31, 2021*

On April 1, 2021, the Company issued 4,691,180 common shares to settle the remaining balance in the deposit on shares liability for a value of \$1,172,796. The shares were issued at a price of \$0.25 per share to two parties.

On August 12, 2021, 6,750,803 subscription receipts previously issued for proceeds of \$2,362,781 were automatically converted into 6,750,803 common shares and 3,393,217 warrants with fair value of \$675,080. Share issuance costs of \$180,488, including the fair value of \$27,409 on 143,898 broker warrants related to these subscription receipt amounts.

On September 8, 2021, 600,000 common shares were issued to the CEO of the Company 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.

#### *Shares Issued during the year ended December 31, 2020*

During the year ended December 31, 2020, the Company split its common shares on the basis of 240,000 new shares for every 1 old share. Prior to the split, the Company had 100 common shares issued and outstanding. On April 1, 2021, the Company split the common shares on the basis of 2.6378675 new shares for one old share resulting in 63,308,820 common shares outstanding. All share references included in these financial statements to the number of shares and weighted average number of common shares and earnings or loss per share have been adjusted for the split, including all such numbers presented for the prior year.

No options were issued during in the year ended December 31, 2020 and accordingly there was no share-based payments incurred.

#### **Reserve**

##### *Contributed surplus*

The contributed surplus reserve records items recognized as share-based payments expense.

##### *Warrants*

The warrant reserve records the fair value of warrants issued as part of financing transactions and for services.

#### **Warrants**

On August 11, 2021, in connection with the Going Public Transaction and per the terms of the CEO Employment Agreement, the CEO of the Company was granted 600,000 Performance Warrants, with each such Performance Warrant exercisable to acquire one Common Share of the Company at \$0.25 per share for 5 years. The warrants

**13. Share Capital (Continued)**

vest on the basis of 150,000 per \$500,000 in incremental gross revenue earned following the date of grant. The grant date fair value was \$139,580 of which \$14,668 has vested and was recognized during the year ended December 31, 2021 as share-based compensation.

On August 12, 2021, 6,750,803 subscription receipts were automatically converted into 6,750,803 common shares and 3,393,217 warrants which are exercisable at \$0.52 for 2 years. On this date, 1,600,000 additional bonus warrants which are exercisable at \$0.25 for 2 years and 143,898 broker warrants which are exercisable at \$0.52 for 2 years were issued. The grant date fair value of the bonus warrants was \$332,517.

On closing of the loan payable transaction (Note 11), 2,000,000 lender warrants were issued at an exercise price of \$0.52 for 4 years. The amount allocated to reserves equalled the residual balance of \$89,944 after deducting the fair value of the loan from the proceeds (Note 11). As part of the financing transaction, 966,332 Finder warrants were issued at an exercise price of \$0.52 for a period of 4 years. The number and exercise price of the Finder warrants was calculated based on the financing raised and volatility of the Company's shares. The fair value of the Finder warrants was deducted from the liability with interest expense and loan costs being accreted throughout the loan period.

The following weighted average assumptions were used in calculating the fair value of broker warrants and consultant warrants granted during the year 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

The warrants outstanding as at December 31, 2021 are as follows:

<b>Warrant</b>	<b>Exercise Price</b>	<b>Number of Shares Issuable upon Exercise</b>	<b>Expiry Date</b>
Broker Warrants	\$0.52	143,898	August 12, 2023
Consultant Warrants	\$0.25	1,600,000	August 11, 2023
Performance Warrants	\$0.25	600,000	August 11, 2026
Subscription Receipts	\$0.52	3,393,217	August 12, 2023
Lender Warrants	\$0.52	2,000,000	December 17, 2025
Finder Warrants	\$0.52	966,332	December 17, 2025
	\$0.45	8,703,447	

There were no warrants outstanding as of December 31, 2020.

Warrant continuity for the year was as follows:

	<b>Consultant Warrants</b>	<b>Performance Warrants</b>	<b>Broker Warrants</b>	<b>Subscription Receipts Warrants</b>	<b>Lender Warrants</b>	<b>Finder Warrants</b>	<b>Total</b>
Balance, December 31, 2020 and January 1, 2020	-	-	-	-	-	-	-
Granted	1,600,000	600,000	143,898	3,393,217	2,000,000	966,332	8,703,447
Balance, December 31, 2021	1,600,000	600,000	143,898	3,393,217	2,000,000	966,332	8,703,447

**13. Share Capital (Continued)****Stock Options**

On May 1, 2021, the Company granted 4,300,000 stock options to employees, consultants, and directors exercisable at \$0.25 and expiring on May 1, 2026. The grant date fair value was \$1,009,758.

On August 12, 2021, the Company granted 3,100,000 stock options to employees and consultants exercisable at \$0.25 and expiring on August 12, 2026. The grant date fair value was \$721,779.

These stock options vest according to specific terms on each employee, consultant, or director's stock option agreements.

As of December 31, 2021, a total of 1,526,587 stock options have vested (December 31, 2020 – Nil). Total share-based compensation recorded for the year ended December 31, 2021, in relation to the vested stock options was \$739,854 (December 31, 2020 - \$Nil).

The following weighted average assumptions were used in calculating the fair value of stock options granted during the year 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

The options outstanding at December 31, 2021 are as follows:

Exercise Price	Number of Shares Issuable	Exercisable	Expiry Date
\$0.25	4,300,000	1,066,560	May 1, 2026
\$0.25	3,100,000	516,667	August 12, 2026
\$0.25	7,400,000	1,583,227	

There were no stock options outstanding as of December 31, 2020.

The total share-based compensation for the year ended December 31, 2021, was as follows:

	December 31, 2021	December 31, 2020
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>	<b>\$ -</b>

Stock options continuity for the year was as follows:

	Number of options
Balance, December 31, 2020 and January 1, 2020	-
Granted	7,400,000
Balance, December 31, 2021	7,400,000

**14. Income Taxes**

The following tables reconciles the expected income tax recovery at the Canadian statutory income tax rates to the amounts recognized in the statements of loss and comprehensive loss for the years ended December 31, 2021, and 2020.

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Income (loss) before income tax	\$ (4,345,470)	\$ 80,793
Tax rate	27%	27%
Expected income tax (recovery) expense	(1,173,277)	21,814
Increase (decrease) in income tax recovery resulting from:		
Non-deductible items and other	(166,382)	(30,590)
Change in deferred tax asset not recognized	1,339,659	8,776
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Non-capital losses	\$ 1,484,538	\$ 175,030
Other	70,179	40,028
	1,554,717	215,058
Deferred tax asset not recognized	(1,554,717)	(215,058)
<b>Deferred tax asset (liability)</b>	<b>\$ -</b>	<b>\$ -</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:

<b>Year of expiry</b>	<b>Total</b>
2037	\$ 32,450
2038	\$ -
2039	\$ 580,490
2040	\$ 35,318
2041	\$ 4,850,031
<b>Total</b>	<b>\$ 5,498,289</b>

## 15. 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 a bank account in Canada. 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 other receivables and amounts due from related parties. During the year ended December 31, 2021, the Company wrote off receivables in the amount of \$17,696 (December 31, 2020 - \$Nil) that it believed were uncollectible. Based on the evaluation of remaining receivables at December 31, 2021, the Company believes that its receivables are collectable.

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 loans from its parent company. 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.

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 is not exposed to significant foreign exchange risk.

e) Fair value

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.

Financial instruments that are measured at fair value using inputs which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:



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

### **e) Fair value (Continue)**

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).

Cash is measured using Level 1 inputs. Investments are carried at fair value are measured using level 3 inputs.

The Company's financial instruments consist of cash and cash equivalent, other receivables, government subsidy receivable, government sales tax receivable, trade payables, loan payable, lease liability, CEBA loan, and related party balances. The carrying value of financial instruments approximates the fair value at December 31, 2021 and December 31, 2020.

## **16. Capital Management**

The Company manages its cash as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its technology and products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to 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 year. 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.

## **17. Subsequent Events**

On January 4, 2022, the Company signed a share purchase agreement to acquire all of the shares of Synthesis VR Inc., a leading 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 the Company with an aggregate value of \$4,300,000 at a deemed price per share equal to the market price of the Company's shares minus permitted discounts per policies of the CSE with a minimum price per share of \$0.35, which 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, the Company may issue additional shares with an aggregate value of up to \$5,000,000 upon the achievement of certain mutually agreed upon performance milestones. In connection with the transaction, the Company also agreed to pay an aggregate of \$288,000 in finder's fees payable by the issuance of 2,057,142 common shares at a deemed price per share of \$0.14. The transaction was completed on February 22, 2022.