


# ARHT MEDIA INC.

# ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED JANUARY 31, 2015

# NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

You are invited to our 2015 annual and special meeting of shareholders

**When:** Tuesday, August 4, 2015 at 10 a.m. (Toronto time)

**Where:** 65 Queen Street West, Suite 815, Toronto, Ontario M5H 2M5

The purpose of the Meeting is as follows:

1. ***Financial Statements.*** Receive and consider the audited financial statements as at and for the fiscal year ended January 31, 2015, together with the report of the auditors thereon;

2. ***Elect Directors.*** Consider and elect the directors for the ensuing year;

3. ***Auditor Appointment.*** It is proposed that McGovern, Hurley, Cunningham, LLP be appointed as auditor of the Corporation;

4. ***Stock Option Plan.*** It is proposed that shareholders re-approve the rolling stock option plan;

5. ***Other Business.*** Consider other business as may properly come before the Meeting or any postponement(s) or adjournment(s) thereof.

This notice is accompanied by a form of proxy, a management information circular (the "Circular"), and the audited consolidated financial statements of the Corporation as at and for the fiscal year ended January 31, 2015 and related management's discussion and analysis of financial condition.

You may vote your shares by proxy if you are unable to attend the meeting. Please review the enclosed Circular and date, sign and return the enclosed form of proxy to the Corporation's transfer agent by Thursday, July 30, 2015.

The directors of the Corporation have fixed the close of business on June 24, 2015 as the record date, being the date for the determination of the registered holders entitled to notice and to vote at the Meeting and any adjournments(s) thereof.

DATED at Toronto, Ontario as of the 24th day of June, 2015

BY ORDER OF THE BOARD OF DIRECTORS

(Signed) *"Paul Duffy"*

President and Chief Executive Officer

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# ARHT MEDIA INC.

## 2015 MANAGEMENT INFORMATION CIRCULAR

## ABOUT THE SHAREHOLDER MEETING

### Solicitation of Proxies

You have received this management information circular (the "Circular") because you owned common shares of ARHT Media Inc. ("ARHT" or the "Corporation") as of June 24, 2015. You are therefore entitled to vote at the 2015 annual and special meeting of shareholders (the "Meeting") to be held on August 4, 2015, and any postponement(s) or adjournment(s) thereof.

The board of directors of the Corporation has set the record date for the Meeting at June 24, 2015 (the "Record Date").

Management is soliciting your proxy for the Meeting. The Board has fixed 10:00am (Toronto time) on July 30, 2015, or 48 hours (excluding Saturdays, Sundays or holidays) before any adjournment(s) of the Meeting, as the time by which proxies to be acted upon at the Meeting shall be deposited with the Corporation's transfer agent.

These materials are being sent to both registered and non-registered owners of the securities. The Corporation or its agent has obtained information regarding non-registered owners in accordance with the applicable securities regulatory requirements from the intermediary holding on your behalf. By choosing to send these materials to you directly, the Corporation (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

The Corporation shall make a list of all persons who are registered Shareholders on the Record Date and the number of Common Shares registered in the name of each person on that date. Each Shareholder is entitled to one vote on each matter to be acted on at the Meeting for each Common Share registered in his name as it appears on the list.

Unless otherwise stated, the information contained in this Circular is as of the Record Date. All dollar amount references in this Circular, unless otherwise indicated, are expressed in Canadian dollars. United States dollars are referred to as "United States dollars" or "US$".

### Voting

*Appointment and Revocation of Proxies*

The persons named in the enclosed form of proxy are officers and/or directors of the Corporation. **You may appoint some other person or entity to represent you at the Meeting** by inserting such person's name in the blank space provided in that form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the office of the transfer agent of the Corporation indicated on the enclosed envelope not later than the times set out above.

In addition to revocation in any other manner permitted by law, a Shareholder may revoke a proxy given pursuant to this solicitation by depositing an instrument in writing (including another proxy bearing a later date) executed by the Shareholder or by an attorney authorized in writing at 65 Queen Street West, Suite 800, Toronto, Ontario M5H 2M5 at any time up to and including the last business day preceding the day of the Meeting.

***Voting of Proxies***

*Registered Shareholders*

You can vote in person or vote by proxy. Voting by proxy is the easiest way to vote because you can appoint anyone to be your proxyholder to attend the meeting and vote your shares according to your instructions. This person does not need to be a shareholder. The executive officers named in the proxy can act as your proxyholder and vote your shares according to your instructions.

If you appoint the ARHT proxyholders and do not indicate your voting instructions, they will vote your shares:

- for the nominated directors
- for the appointment of the auditors
- for the approval of the stock option plan

If you want to appoint someone else as your proxyholder print that person's name in the blank space provided in the proxy form (or complete another proxy form) and send the form to the Corporation's transfer agent. Make sure this person is aware that you appointed them as your proxyholder and that they must attend the meeting to vote on your behalf and according to your instructions. If you do not indicate your voting instructions, your proxyholder can vote as he or she sees fit.

At the time of printing this circular, management is not aware of any amendments, variations or other matters to come before the meeting. If other matters are properly brought before the meeting, your proxyholder can vote as he or she sees fit.

The transfer agent must receive the completed proxy form by 10:00am (Toronto time) on July 30, 2015, or 48 hours (excluding Saturdays, Sundays or holidays) before any adjournment(s) of the Meeting.

*Non-Registered Shareholders*

Non-Registered Shareholders are those holders who beneficially own common shares registered in the name of an intermediary with whom the Non-Registered Holder deals in respect of the Common Shares, such as, banks, trust companies, securities dealers (all, an "Intermediary") or in the name of a clearing agency such as CDS&Co). Securities laws require the Corporation to send the meeting materials to the Intermediaries and clearing agencies so they can distribute them to our non-registered shareholders. These materials include the notice of the meeting, the Circular, a proxy or voting instruction form, a consent form to receive supplemental mailings, a copy of the Corporation's 2015 annual report if the Non-Registered Shareholder requested a copy and documents by electronic delivery.

Intermediaries and clearing agencies must forward the meeting materials to Non-Registered Shareholders unless the shareholder has waived the right to receive them. If you're a Non-Registered Shareholder and have not waived the right to receive the materials, your package includes either a voting instruction form (not signed by your intermediary), or a proxy form (signed by your intermediary).

Either form instructs your intermediary (the registered shareholder) to vote your shares according to your instructions. Be sure to send back your completed form as soon as possible to ensure your intermediary carries out your voting instructions.

***Voting Securities and Principal Holders***

The authorized capital of the Corporation consists of an unlimited number of Common Shares. As of the Record Date, the Corporation had 66,405,464 Common Shares issued and outstanding.

To the knowledge of the directors and officers of the Corporation, as at the Record Date, no person beneficially owns, directly or indirectly, or exercises control or direction over securities carrying more than 10% of the voting rights attached to the Common Shares, other than Rene Bharti who holds 11,526,000 Common Shares.

## BUSINESS OF THE MEETING

Other than in respect of the election of directors and approval of the Stock Option Plan, no informed person (as such term is defined under applicable securities laws) of the Corporation or Nominee (and each of their associates or affiliates) has had any direct or indirect material interest in any transaction involving the Corporation since February 1, 2014 or in any proposed transaction which has materially affected or would materially affect the Corporation or its subsidiaries other than as disclosed herein.

**Financial Statements**

The financial statements for the financial year ended January 31, 2015, together with the auditor's report thereon, will be presented to Shareholders for review at the Meeting and were mailed to Shareholders with the Notice of Meeting and this Circular. No vote by the Shareholders is required with respect to this matter.

**Appointment of Auditors**

Unless authority to do so is withheld, the persons named in the accompanying proxy intend to vote for the appointment of McGovern, Hurley, Cunningham, LLP, Chartered Accountants, as auditors of the Corporation until the close of the next annual meeting of shareholders of the Corporation and to authorize the directors to fix their remuneration. Deloitte & Touche, LLP was appointed as the Corporation's external auditors on April 13, 2006. McGovern, Hurley, Cunningham, LLP, Chartered Accountants, were appointed as the auditors of the Corporation for the financial year ended January 31, 2015.

The following table sets out the audit and audit-related fees billed by the Corporation's auditors for the years ended January 31, 2014 and 2015.

| Year | Audit Fees | Audit Related Fees | Tax Fees | All Other Fees |
|---|---|---|---|---|
| 2014 | 35,700 | NIL | 4,500 | NIL |
| 2015 | 35,700 | 31,000 | 7,500 | 36,180 |

For additional information about the Corporation's auditors and the Audit Committee, please refer to the section "Committees of the Board – Audit Committee".

**Approval of Stock Option Plan**

The Corporation's Stock Option Plan is designed to advance the interests of the Corporation by encouraging employees, officers and consultants to have equity participation in the Corporation through the acquisition of Common Shares. Accordingly, the Corporation has adopted a stock option plan (the "Plan"). The Plan was approved by the shareholders of the Corporation at its last annual meeting. A copy of the Stock Option Plan is attached at schedule "A' hereto. The following is a summary of the terms of the proposed Plan, which is qualified in its entirety by the provisions of the Plan.

The Corporation's current stock option plan (the "Stock Option Plan") is a "rolling" stock option plan under TSX Venture Exchange – Corporate Finance Manual – *Policy 4.4 – Incentive Stock Options* (the "Exchange Policy") as under the Stock Option Plan the Corporation is authorized to grant stock options of up to 10% of its issued and outstanding Common Shares at the time of the stock option grant, from time to time, with no vesting provisions. As of the Record Date there is an aggregate of 49,050 stock options outstanding under the Corporation's existing stock option plan, which represents approximately 0.3% of the outstanding common shares of the Corporation.

The terms and conditions of each option granted under the Plan will be determined by the Board. Options will be priced in the context of the market and in compliance with applicable securities laws and Exchange guidelines. Consequently, the exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant. Vesting terms will be determined at the discretion of the Board. The Board shall also determine the term of stock options granted under the Plan, provided that no stock option shall be outstanding for a period greater than five years.

The Plan provides for amendment procedures that specify the kind of amendments to the Plan that will require shareholder approval. The Board believes that except for certain material changes to the Plan it is important that the Board has the flexibility to make changes to the Plan without shareholder approval. Such amendments could include making appropriate adjustments to outstanding options in the event of certain corporate transactions, the addition of provisions requiring forfeiture of options in certain circumstances, specifying practices with respect to applicable tax withholdings and changes to enhance clarity or correct ambiguous provisions.

The Plan does not provide for the transformation of stock options granted under the Plan into stock appreciation right involving the issuance of securities from the treasury of the Corporation.

Directors, officers, employees and certain consultants shall be eligible to receive stock options under the Plan. Upon the termination of an optionholder's engagement with the Corporation, the cancellation or early vesting of any stock option shall be in the discretion of the Board. In general, the Corporation expects that stock options will be cancelled 90 days following an optionholder's termination from the Corporation. Stock options granted under the Plan shall not be assignable.

The Corporation will not provide financial assistance to any optionholder to facilitate the exercise of options under the Plan.

The Corporation is required to obtain the approval of its Shareholders to any stock option plan that is a "rolling" plan yearly at the Corporation's annual meeting of Shareholders. Accordingly, at the Meeting, Shareholders will be asked to approve the following ordinary resolution approving the Plan:

"BE IT RESOLVED THAT:

1. the current Stock Option Plan of ARHT Media Inc. (the "Corporation"), as described in the management information circular of the Corporation dated June 24, 2015 is hereby approved; and

2. any director or officer of the Corporation is hereby authorized to execute (whether under the corporate seal of the Corporation or otherwise) and deliver all such documents and to do all such other acts and things as such director or officer may determine to be necessary or advisable to give effect to the true intent of these resolutions."

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOUR OF THE APPROVAL OF THE STOCK OPTION PLAN.**

**PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR THE APPROVAL OF THE STOCK OPTION PLAN UNLESS A SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT THE COMMON SHARES ARE TO BE VOTED AGAINST SUCH ORDINARY RESOLUTION.**

**Election of Directors**

The Corporation has nominated three persons (the "**Nominees**") for election as directors of the Corporation, who will hold office until the next annual meeting of the Corporation or until his or her successor is elected or appointed. At the Meeting, Shareholders will be asked to elect these Nominees as directors of the Corporation. **The persons in the enclosed form of proxy intend to vote for the election of the Nominees. Management does not contemplate that any of the Nominees will be unable to serve as a director.**

As the Corporation has adopted a Majority Voting Policy, the process for voting for election of each director will be by individual voting and not by slate. The Shareholders can vote for or withhold from voting on the election of each director on an individual basis. See "Corporate Governance Practices" for more information on our Majority Voting Policy.

*Director Profiles*

Each of the three nominated directors is profiled below, including his or her background and experience, committee memberships, share ownership and other public company directorships. None of the director nominees were elected as directors by the Shareholders at the last annual meeting.

PAUL DUFFY, PRESIDENT AND CEO
AGE: 49 DIRECTOR SINCE 2014
ONTARIO, CANADA

Over a 25 year career, Mr. Paul Duffy has been an investor, operator and advisor with a track record of starting, expanding, diversifying and selling global technology companies. Mr. Duffy is the creator of the Digital Human Experience in online, mobile and holographic communications. In 1992 Mr. Duffy co-founded Corporate Communications Interactive (CCI) in Toronto, Canada. Over a 17 year history Mr. Duffy grew CCI to one of the largest online learning and communication companies in North America. With offices in Toronto, Tampa and Kansas City, CCI pioneered and sold several technology "firsts" in digital media to many of the world's largest organizations, as well as numerous mid-size corporations, governments, and not-for-profits organizations. CCI created and marketed the eSchool Essentials™ suite of desktop training products, successfully selling 1 MM+ licenses worldwide through global distribution and corporate resellers. Mr. Duffy is a past member of the Board of Governors for the Michener Institute for Applied Health Sciences. Mr. Duffy holds a Bachelor of Science, Applied Computer Science from Ryerson University. He resides in Toronto, Canada.

**Shareholdings:** Nil
**Other Public Company Boards:** None

RENE BHARTI, EXECUTIVE CHAIRMAN
AGE: 41 DIRECTOR SINCE 2014
ONTARIO, CANADA

Over a 20 year career, Mr. Rene Bharti has held several key roles in both public and private companies, including those in the resource, technology and entertainment industry. Most recently, Mr. Rene Bharti co-founded Delebrity Inc., with legendary singer Paul Anka to bring the creation of digital celebrities and the world's best holograms to the live stage. Mr. Rene Bharti holds a B.Comm (Honours) from Queen's University, and divides his time between Toronto and Los Angeles.

**Shareholdings:** 11,526,000
**Other Public Company Boards:** Alder Resources Ltd.

STAN BHARTI
AGE: 61 DIRECTOR SINCE 2014
ONTARIO, CANADA

Mr. Stan Bharti has over 25 years of experience in operations, public markets and finance. Over the last ten years Mr. Bharti has been involved in acquiring, restructuring and financing resource companies. He is a Professional Mining Engineer and holds a Masters Degree in Engineering from Moscow, Russia and University of London, England. From 2002 to April 2006, Mr. Bharti was a director and past president of Desert Sun Mining Corp. (which was acquired by Yamana Gold Inc. in 2006). In addition, Mr. Bharti is a director of several public and private companies.

**Shareholdings:** 6,550,017
**Other Public Company Boards:** Aberdeen International Inc.
Belo Sun Mining Corp.
Sulliden Capital Mining Inc.
Stetson Oil & Gas Ltd.

BEN MULRONEY
AGE: 39 DIRECTOR SINCE 2015
ONTARIO, CANADA

Ben Mulroney is most recognized for his role as the host of the entertainment news program, *etalk*, covering news and major events in industry including the Oscars and the Golden Globes. Over his 13 years in television and radio, he has been on shows from *the chatroom*, to *Canadian Idol* and the *etalk20*. Over the years he has interviewed some of the biggest stars of film, fashion, music and television from around the world. Beyond his regular shows, Ben has worked for *Good Morning America*, guest hosted *Live! With Kelly* and was a member of the broadcast team from the 2010 Winter Olympic Games in Vancouver. He is currently producing a number of personal projects and works closely with children's charitable organizations.

**Shareholdings:** Nil
**Other Public Company Boards:** Nil

MICKEY SEGAL
AGE: 58 DIRECTOR SINCE 2014
CALIFORNIA, USA

Mickey Segal, CPA, is the Managing Partner of Nigro Karlin Segal Feldstein & Bolno, LLC. Mr. Segal graduated cum laude in accounting from California State Polytechnic University at Pomona. In 1997, he was inducted into their Accounting Hall of Fame and he received the Distinguished Alumni Award from the University's business school. He is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Mr. Segal has served eleven years on the Arcadia City Council and served as Mayor three times. Mr. Segal also chaired the City of Arcadia's Financial Advisory Committee. Mr. Segal has received numerous awards including the "Spirit of Philanthropy Award" from the Association of Fundraising Professionals. He has also received the "Philanthropic Distinction Award" from the American Cancer Society.

**Shareholdings:** Nil
**Other Public Company Boards:** Nil

JEFF CRAIB
AGE: 49 DIRECTOR SINCE 2014
ONTARIO, CANADA

Twenty-five year music industry veteran Mr. Jeff Craib has a career that spans hundreds of artists, thousands of shows and international recognition and respect from his peers. As President of The Feldman Agency, Mr. Craib works as an agent to numerous artists. Mr. Craib's vast industry knowledge, passion for artist development, keen eye for marketing and touring expertise gives him the advantage and ability to plan and execute any type of live event for any type of audience. What makes Mr. Craib's roster of artists strong is its diversity. Mr. Craib's dexterity for developing bands and artists of all genres and configurations has played a key role in shaping the sound of popular music for over 25 years. Mr. Craib continues to oversee the careers of such legendary talents as The Tragically Hip, Nelly Furtado, Hedley and Paul Anka. Mr. Craib currently sits on the CARAS/MECC Board of Directors and resides in Toronto.

**Shareholdings:** Nil
**Other Public Company Boards:** Nil

*Other Information about the Director Nominees*

No proposed director, officer or Promoter of the Corporation or shareholder anticipated to hold a sufficient number of securities of the Resulting Issuer to affect materially the control of the Corporation is or has, within the past 10 years, been a director, officer or Promoter of any Person or issuer that, while such Person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied that Person or issuer access to any exemptions under applicable securities legislation for a period

of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that Person other than:

Mr. Stan Bharti was a director of Kansai Mining Corporation ("**Kansai**"), a company listed on the TSX Venture Exchange. On January 29, 2008, a cease trade order was issued against Kansai and each of the directors and officers, as a result of Kansai failing to file comparative financial statements for the year ended September 30, 2007 and management's discussion and analysis for the period ended September 30, 2007. On March 5, 2008, the cease trade order was revoked.

Mr. Stan Bharti was an officer and director of Stetson Oil & Gas Ltd. which on May 7, 2008 became subject to a cease trade order for failing to file its financial statements. On May 30, 2008, the cease trade order was revoked.

No director or executive officer of the Corporation is or has been, within the ten years before the date of this Circular, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director or executive officer has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

No proposed director has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a proposed director.

Other than as set forth above, no other director or executive officer of the Corporation is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including the Corporation) that, (i) was subject to an order that was issued while the director was acting in the capacity as director, chief executive officer or chief financial officer; or was subject to an order that was issued after the director ceased to be a director, chief executive officer or chief financial officer, and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

## CORPORATE GOVERNANCE

The Corporation and the Board recognize the importance of corporate governance in effectively managing the company, protecting employees and shareholders, and enhancing shareholder value.

The Board fulfills its mandate directly and through its committees at regularly scheduled meetings or as required. The directors are kept informed regarding the Corporation's operations at regular meetings and through reports and discussions with management on matters within their particular areas of expertise. Frequency of meetings may be increased and the nature of the agenda items may be changed depending upon the state of the Corporation's affairs and in light of opportunities or risks that the Corporation faces.

The Corporation believes that its corporate governance practices are in compliance with applicable Canadian requirements. The Corporation is committed to monitoring governance developments to ensure its practices remain current and appropriate.

**Ethical Business Conduct**

The Board is apprised of the activities of the Corporation and ensures that it conducts such activities in an ethical manner. The Board encourages and promotes an overall culture of ethical business conduct by

promoting compliance with applicable laws, rules and regulations; providing guidance to consultants, officers and directors to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary actions for violations of ethical business conduct.

***Code of Conduct***

The Board has adopted a Code of Business Conduct and Ethics (the "**Code**") for its directors, officers and employees. Any non-compliance with the Code is to be reported to the CEO. In addition, the Board conducts regular audits to test compliance with the Code.

The Board takes steps to ensure that directors, officers and employees exercise independent judgment in considering transactions and agreements in respect of which a director, officer or employee of the Corporation has a material interest, which include ensuring that directors, officers and employees are thoroughly familiar with the Code and, in particular, the rules concerning reporting conflicts of interest and obtaining direction from the Corporation's Directors and the Chairman and CEO regarding any potential conflicts of interest.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations in all jurisdictions in which the Corporation conducts business; providing guidance to directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

A copy of the Code and other corporate governance policies may be found under the profile of the Corporation on SEDAR at www.sedar.com or upon request to the Corporation by contacting the Corporate Secretary of the Corporation by email at nsaid@forbesmanhattan.com or by telephone at (416) 309-2963.

## ABOUT THE BOARD

**Independence of the Board**

The Board is currently comprised of six members; three members of whom the Board has determined are independent.

| Director | Independent | Not Independent | Reason for Non-Independence |
|---|---|---|---|
| Rene Bharti | | √ | Executive Chairman of the Corporation |
| Paul Duffy | | √ | President and CEO of the Corporation |
| Stan Bharti | | √ | Former Executive of the Corporation |
| Mickey Segal | √ | | |
| Jeff Craib | √ | | |
| Ben Mulroney | √ | | |

To facilitate the functioning of the Board independently of management, the following structures and processes are in place:

- a majority of the directors are not management of the Corporation and are independent of management;
- members of management, including without limitation, the President and CEO of the Corporation, are not present for the discussion and determination of certain matters at meetings of the Board unless required;
- a majority of the members of the Audit Committee of the Board are comprised solely of independent directors;
- under the by-laws of the Corporation, any two directors may call a meeting of the Board;
- in addition to the standing committees of the Board, independent committees will be appointed from time to time, when appropriate; and
- the Board policy is to hold in-camera meetings with the independent directors at the end of each Board or committee of the Board meeting to the extent required.

**The Board Mandate**

The Board does not have a written mandate. The duties and responsibilities of the Board are to supervise the management of the business and affairs of the Corporation, and to act with a view towards the best interests of the Corporation. In discharging its mandate, the Board is responsible for the oversight and review of:

- the strategic planning process of the Corporation;
- identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training and monitoring senior management;
- a communications policy for the Corporation to facilitate communications with investors and other interested parties; and
- the integrity of the Corporation's internal control and management information systems.

The Board discharges its responsibilities directly and through its committee, currently consisting of the Audit Committee.

**Meetings of Independent Directors**

The independent directors comprise the committees of the Board and hold in camera sessions without management at the Audit Committee meetings to review the business operations, corporate governance, compensation, and financial results of the Corporation.

**Nomination of Directors**

Generally, the independent directors are responsible for identifying and recruiting new candidates for nomination to the Board, and reviewing the qualifications of new candidates proposed by other members of the Board. The process by which the Board anticipates that it will identify new candidates is through recommendations of the independent directors whose responsibility it is to develop, and periodically update and recommend to the Board for approval, a long-term plan for Board composition.

**Board Assessments**

The Board and its individual directors are assessed on an informal basis continually as to their effectiveness and contribution. Each member of the Board is encouraged to engage in discussions amongst the members of the Board as to evaluation of the effectiveness of the Board as a whole and of each individual director. All directors are free to make suggestions for improvement of the practice of the Board at any time and are encouraged to do so.

**Orientation and Continuing Education**

The Board will be responsible for ensuring that new directors are provided with an orientation and education program, which will include information about the duties and obligations of directors, the business and operations of the Corporation, documents from recent Board meetings, and opportunities for meetings and discussion with senior management and other directors. Directors are expected to attend all meetings of the Board and are also expected to prepare thoroughly in advance of each meeting in order to actively participate in the deliberations and decisions.

The Board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. The Board notes that it has benefited from the experience and knowledge of individual members of the Board in respect of the evolving governance regime and principles. The Board ensures that all directors are apprised of changes in the Corporation's operations and business.

## COMMITTEES OF THE BOARD

### Audit Committee

The purposes of the Audit Committee are to assist the Board's oversight of: the integrity of the Corporation's financial statements; the Corporation's compliance with legal and regulatory requirements; the qualifications and independence of the Corporation's independent auditors; and the performance of the independent auditors and the Corporation's internal audit function.

The Corporation's Audit Committee is comprised of three directors: Mickey Segal (Chair), Rene Bharti and Ben Mulroney. Each member of the Audit Committee is financially literate and Mssrs. Segal and Mulroney are independent, as required by applicable securities laws. Please refer to "Director Profiles", commencing on page 5, for the relevant education and experience of each of the members of the Audit Committee. A copy of the Audit Committee charter is set out in Schedule "B".

#### *External Auditor*

The Audit Committee pre-approves all non-audit services to be provided to the Corporation or its subsidiary entities by the issuer's external auditors.

Please see page 3 for the fees paid to external auditors in 2015 and 2014.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The objective of the Corporation's compensation strategy is to ensure that compensation for its Named Executive Officers (as defined herein) is sufficiently attractive to recruit, retain and motivate high performing individuals to assist the Corporation in achieving its goals.

The Board is responsible for approving the compensation of the directors and Named Executive Officers. Compensation for the Named Executive Officers is composed primarily of three components: base fees, performance bonuses and stock based compensation. The independent directors recommend to the Board the base salary, performance bonus and stock options to be granted to the Named Executive Officers. The Corporation does not engage in benchmarking practices. Compensation of NEOs is determined primarily via information discussions of the Board based on their personal experience.

#### *Approach*

While the Corporation does not have a formal compensation policy, the general objectives of the Corporation's executive compensation are to:

- attract, retain and motivate executives critical to the success of the Corporation;
- link the interests of management with those of the Shareholders; and
- provide rewards, through discretionary bonuses, for outstanding corporate and individual performance.

The following principles guide the Corporation's overall compensation philosophy:

- compensation is determined on an individual basis by the need to attract and retain talented, entrepreneurial, high-achievers;
- an appropriate portion of total compensation is variable and linked to achievements, both individual and corporate; and
- all compensation and compensation objectives shall be fully and plainly disclosed.

The Board is responsible for ensuring the application of the compensation policy is appropriately aligned to support its stated objectives and encourage the appropriate management behaviours, while avoiding excessive risk-taking by executive officers. The Board believes that the compensation paid to each NEO during the last financial year was commensurate with each NEO's position, experience and performance.

***Risks Associated with Compensation***

In light of the Corporation's size and the balance between long-term objectives and short-term financial goals with respect to the Corporation's executive compensation program, the Board does not deem it necessary to consider at this time the implications of the risks associated with its compensation policies and practices.

***Financial Instruments***

The Corporation does not currently have a policy that restricts directors or NEOs from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds that are designed to hedge or offset a decrease in market value of equity. However, to the knowledge of the Corporation as of the date of hereof, no director or NEO of the Corporation has participated in the purchase of such financial instruments.

***Components of Compensation***

*Base Fees*

Base Fees form an essential component of the Corporation's compensation strategy as they are key to the Corporation remaining competitive, are fixed and therefore not subject to uncertainty, and can be used as the base to determine other elements of compensation and benefits. In determining the base fees of executive officers, the Board considers the following:

- the recommendations of the President and Chief Executive Officer of the Corporation (other than with respect to the compensation of the President and Chief Executive Officer);
- the particular responsibilities related to the position;
- the experience, expertise and level of the executive officer;
- the executive officer's length of service to the Corporation; and
- the executive officer's overall performance based on informal feedback.

The emphasis placed on any of these factors is at the discretion of the Board and may vary among the executive officers. In respect of the base fees paid to the President and Chief Executive Officer, the Board also broadly considered the performance of the President and Chief Executive Officer against the Corporation's performance in the previous year.

*Bonus Payments*

The purpose of the Corporation's bonus program is to provide the NEOs with the opportunity to receive a cash incentive that is broadly related to the progress of the Corporation and individual performance. While the Corporation does not utilize a set of formal objective measures to determine discretionary bonuses entitlements but rather determines bonus payments to NEOs in a discretionary manner on a case by case basis, the independent directors, in making its recommendation to the Board in respect of bonus awards, considered the achievement of certain corporate and technical milestones, including the increase of the Corporation's global mineral resource estimate. In addition, no specific weights are assigned to any criteria individually, rather, the performance of the Corporation is broadly considered as a whole when determining the level of bonuses (if any) to be paid. The Corporation does not focus on any particular performance metric.

*Long-term Incentives and Options*

The Board believes that granting stock options to officers, directors, consultants and employees encourages retention and more closely aligns the interests of such key personnel with the interests of shareholders while at the same time not drawing on the limited cash resources of the Corporation.

ARHT does not utilize a set of formal objective measures to determine long-term incentive entitlements, rather, long-term incentive grants, such as stock options, to NEOs are determined in a discretionary manner on a case by case basis, but having consideration to the number of options previously granted. There are no other specific quantitative or qualitative measures associated with option grants and no specific weights are assigned to any criteria individually, rather, the performance of the Corporation is

broadly considered as a whole when determining the stock based compensation (if any) to be granted and the Corporation does not focus on any particular performance metric.

The Corporation has adopted a stock option plan (the "**Stock Option Plan**"). The Stock Option Plan was approved by the shareholders of the Corporation at its last annual meeting in 2014. The following is a summary of the terms of the Stock Option Plan, which is qualified in its entirety by the provisions of the Stock Option Plan.

- The number of options that may be granted may not exceed 10% of the number of issued and outstanding Common Shares at the time of the stock option grant, from time to time.
- Options are non-assignable and may be granted to employees, officers, directors and certain consultants of the Corporation and designated affiliates.
- Upon the termination of an optionholder's engagement with the Corporation, the cancellation or early vesting of any stock option shall be in the discretion of the Board. In general, the Corporation expects that stock options will be cancelled 90 days following an optionholder's termination from the Corporation.
- The Board determines the terms and conditions of each option granted under the Stock Option Plan, including vesting terms, provided that no stock option shall be outstanding for a period greater than five years.
- Options are priced in the context of the market and in compliance with applicable securities laws and TSX Venture Exchange guidelines, thus not lower than the trading price of the underlying Common Shares at the time of grant.
- Amendments to the Stock Option Plan require shareholder approval, except for appropriate adjustments to outstanding options in the event of certain corporate transactions, the addition of provisions requiring forfeiture of options in certain circumstances, specifying practices with respect to applicable tax withholdings and changes to enhance clarity or correct ambiguous provisions.
- The Corporation will not provide financial assistance to any optionholder to facilitate the exercise of options under the Stock Option Plan.

At the Meeting, shareholders of the Corporation will be able to consider, and if thought advisable, pass an ordinary resolution approving this Stock Option Plan as set out on Schedule "A". See "Business of the Meeting - Approval of Stock Option Plan".

The table below sets out the outstanding options under the Stock Option Plan, being the Corporation's only compensation plan under which Common Shares are authorized for issuance, as of June 24, 2015.

| | **Number of securities to be issued upon exercise of outstanding options, warrants and rights** | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available under equity compensation plans (excluding securities reflected in column (a))** |
|---|---|---|---|
| **Plan Category** | **(a)** | **(b)** | **(c)** |
| Equity compensation plans approved by security holders | 5,960,000 | $0.19 | 107,346 |
| Equity compensation plans not approved by security holders | NIL | NIL | NIL |
| **TOTAL** | **5,960,000** | **NIL** | **107,346** |

The number of options currently outstanding represents approximately 9.8% of the outstanding Common Shares.

***Chief Executive Officer Compensation***

The independent directors:

- will periodically review the CEO's compensation and recommend any changes to the Board for approval;
- will review corporate goals and objectives relevant to the compensation of the CEO and recommend them to the Board for approval; and

- will review, and if appropriate recommends to the Board for approval, any agreements between the Corporation and the CEO, including protections in the event of a change of control or other special circumstances, as appropriate.

The components of the CEO's compensation are the same as those that apply to the other executive officers of the Corporation, namely base salary, bonus and long-term incentives in the form of stock options.

***Other Compensation Matters***

*Indebtedness of Directors and Officers*

As at the date of this Circular, and during the financial year ended January 31, 2015, no director or executive officer of the Corporation or Nominee (as defined herein) (and each of their associates and/or affiliates) was indebted, including under any securities purchase or other program, to (i) the Corporation or its subsidiaries, or (ii) any other entity which is, or was at any time during the financial year ended January 31, 2015, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or its subsidiaries.

*Directors' and Officers' Insurance and Indemnification*

The Corporation maintains insurance for the benefit of its directors and officers against liability in their respective capacities as directors and officers. The Corporation has purchased in respect of directors and officers an aggregate of $5,000,000 in coverage. The approximate amount of premiums paid by the Corporation during the financial year ended January 31, 2015 in respect of such insurance was $13,000.

## 2015 Executive Compensation

### *Summary Compensation Table*

The following table summarizes the compensation paid during the three financial years ended January 31, 2015, 2014 and 2013 in respect of the individuals who were carrying out the role of the CEO, the Chief Financial Officer of the Corporation ("**CFO**") and each of the three most highly compensated executive officers other than the CEO and CFO at the end of the most recently completed financial year whose total compensation was individually more than $150,000 for that financial year (the "**Named Executive Officers**" or "**NEOs**").

| Name and principal position | Year Ended | Salary ($)[1] | Share based awards ($) | Option based awards ($)[2] | Non-equity incentive plan compensation ($) | | All other compensation ($)[4] | Total compensation ($) |
|---|---|---|---|---|---|---|---|---|
| | | | | | Annual incentive plans[3] | Long-term incentive plans | | |
| Ahmed Said Former President & Chief Executive Officer[5][8] | 2015 | 25,000 | NIL | NIL | NIL | N/A | NIL | 25,000 |
| | 2014 | 150,000 | NIL | NIL | NIL | N/A | 950,000 | 1,100,000 |
| | 2013 | 150,000 | NIL | NIL | NIL | N/A | NIL | 150,000 |
| Paul Duffy President & Chief Executive Officer[8] | 2015 | 242,494 | NIL | 245,133 | NIL | NIL | 7,494 | 487,628 |
| | 2014 | NIL | NIL | NIL | NIL | N/A | N/A | NIL |
| | 2013 | 20,100 | NIL | 76,500 | NIL | N/A | N/A | 96,600 |
| Rene Bharti Chairman[7] | 2015 | 155,000 | NIL | NIL | NIL | N/A | N/A | 155,000 |
| | 2014 | NIL | NIL | NIL | NIL | N/A | N/A | NIL |
| | 2013 | NIL | NIL | NIL | NIL | N/A | N/A | NIL |
| Paul Bozoki, Chief Financial Officer[6] | 2015 | 66,750 | NIL | 28,625 | NIL | N/A | 25,250 | 120,625 |
| | 2014 | 47,000 | NIL | NIL | NIL | N/A | 27,500 | 74,500 |
| | 2013 | NIL | NIL | NIL | NIL | N/A | N/A | NIL |
| Stan Bharti, Former Executive Chairman[9] | 2015 | NIL | NIL | NIL | NIL | N/A | N/A | NIL |
| | 2014 | 275,000 | NIL | NIL | NIL | NIL | 2,000,000 | 2,275,000 |
| | 2013 | 300,000 | NIL | NIL | NIL | N/A | N/A | 300,000 |

Notes:

(1) Compensation has been paid as consulting fees under the independent contractor agreement with the Named Executive Officer as described under the heading "Executive Compensation – Termination of Employment, Change in Responsibilities and Employment Contracts" of this Circular.

(2) The value ascribed to option grants represents non-cash consideration and has been estimated using the Black-Scholes valuation model as at the date of grant under the following weighted average assumptions: expected dividend yield 0% expected volatility – 119% to 127%; risk-free interest rate – 1.60%; expected life – 5 years.

(3) Compensation paid in the form of discretionary based bonuses.

(4) Other benefits did not exceed the lesser of $50,000 and 10% of the total annual compensation for the Named Executive Officer.

(5) Mr. Ahmed Said resigned as President and CEO on August 15, 2011 and was replaced by Sig Slotboom. Mr. Ahmed Said was re-appointed as President and Chief Executive Officer of Vast Exploration Inc. on December 3, 2012 following the resignation of Mr. Sig Slotboom.

(6) Mr. Paul Bozoki was appointed as Chief Financial Officer on June 2, 2013 to replace Mr. Sam Yik.

(7) Mr. Rene Bharti was appointed as Executive Chairman on October 15, 2014.

(8) Mr. Ahmed Said resigned as President and Chief Executive Officer of Vast Exploration Inc. on October 15, 2014 and was replaced by Mr. Paul Duffy.

(9) Mr. Stan Bharti resigned as Executive Chairman effective August 4, 2011 and resigned as a member of the board on September 11, 2012. Mr. Bharti continued as a consultant of the company through Forbes & Manhattan, Inc. which consulting agreement was terminated on December 31, 2013. Mr. Bharti was appointed to the board of directors of on October 15, 2014.

### *Incentive Plan Awards*

The following table provides information regarding the incentive plan awards for each Named Executive Officer outstanding as of the Record Date.

| | Option Based Awards | | | | Share Based Awards | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Number of securities underlying unexercised options (#)** | **Option exercise price ($)** | **Option expiration date** | **Value of unexercised in-the-money options ($)[1]** | **Number of shares or units of shares that have not vested (#)** | **Market or payout value of share awards that have not vested ($)** | **Market or payout value of vested share-based awards not paid out or distributed ($)** |
| Paul Duffy<br>President and Chief Executive Officer | 1,000,000<br>2,000,000 | $0.25<br>$0.10 | October 15, 2019<br>November 4, 2018 | $170,000<br>$640,000 | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |
| Paul Bozoki<br>Chief Financial Officer | 125,000 | $0.25 | October 15, 2019 | $21,250 | Nil | Nil | Nil |
| Stan Bharti<br>Director | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Rene Bharti<br>Executive Chairman | 750,000 | $0.10 | December 13, 2017 | $240,000 | Nil | Nil | Nil |

Notes:
(1) Based on the closing market price of $0.42 of the Common Shares on January 30, 2015 and subtracting the exercise price of the options.
(2) These options have not been, and may never be, exercised and actual gains, if any, on exercise will depend on the value of the Common Shares on the date of exercise.

### Value on Pay-Out or Vesting of Incentive Plan Awards

None of the Named Executive Officers exercised any options during the year ending January 31, 2015.

### *Termination of Employment, Change in Responsibilities, and Employment Contracts*

The following describes the respective consulting agreements entered into by the Corporation.

| **Name** | **Notice Period** | **Monthly Fees** | **Severance on Termination** | **Severance on Change of Control** |
|---|---|---|---|---|
| Paul Duffy,<br>President and CEO | 30 days | $25,000 | Six months' fees | 36 months' fees |
| Rene Bharti,<br>Executive Chairman | 30 days | $20,000 | Six months' fees | 36 months' fees |
| Paul Bozoki,<br>CFO | 30 days | $4,000 | Six months' fees | 36 months' fees |
| Neil Said,<br>Corporate Secretary | 30 days | $3,500 | Six months' fees | 36 months' fees |

*Summary of Termination Payments*

The estimated incremental payments, payables and benefits that might be paid to the officers pursuant to the above noted agreements in the event of termination without cause or after a Change in Control (assuming such termination or Change in Control is effective as of January 31, 2015) are detailed below.

| Named Executive Officer | Termination not for Cause ($) | Termination on a Change of Control ($) |
|---|---|---|
| **Paul Bozoki** | | |
| Salary and Quantified Benefits | 24,000 | 144,000 |
| Bonus | - | - |
| Total | 24,000 | 144,000 |
| **Rene Bharti** | | |
| Salary and Quantified Benefits | 120000 | 720,000 |
| Bonus | - | - |
| Total | 120,000 | 720,000 |
| **Paul Duffy** | | |
| Salary and Quantified Benefits | 150,000 | 900,000 |
| Bonus | - | 40,000 |
| Total | 150,000 | 940,000 |
| **Neil Said** | | |
| Salary and Quantified Benefits | 21,000 | 126,000 |
| Bonus | - | - |
| Total | 21,000 | 126,000 |
| **TOTAL** | **315,000** | **$1,930,000** |

## DIRECTOR COMPENSATION

Compensation of directors for the financial year ended January 31, 2015 was determined on a case-by-case basis with reference to the role that each director provided to the Corporation. The following information details compensation paid in the recently completed financial year.

Directors are entitled to participate in the Stock Option Plan, which is designed to give each option holder an interest in preserving and maximizing shareholder value in the longer term. The amount of options and shares to be granted is based on the relative contribution and involvement of the individual in question as well as taking into consideration previous option and share grants.

Executive officers who also act as directors of the Corporation do not receive any additional compensation for services rendered in their capacity as directors.

During the financial year ended January 31, 2015, directors were granted the fees, options and bonuses in their capacity as directors of the Corporation as set out in the table below, other than Mr. Said whose compensation was included under Executive Compensation in the Summary Compensation Table for NEOs.

**Director Summary Compensation Table**

The following table provides information regarding the compensation each director received for the period ending January 31, 2015, other than Mr. Paul Duffy, Mr. Rene Bharti and Mr. Stan Bharti, whose compensation was included above.

| Name | Fees earned ($) | Share awards ($) | Option awards ($) | Non-equity incentive plan compensation ($) | All other compensation ($)[(1)] | Total ($) |
|---|---|---|---|---|---|---|
| Ben Mulroney | NIL | NIL | NIL | NIL | NIL | NIL |
| Jeffrey Craib | NIL | NIL | NIL | NIL | NIL | NIL |
| Mickey Segal | NIL | NIL | NIL | NIL | NIL | NIL |
| **TOTALS** | NIL | NIL | NIL | NIL | NIL | NIL |

Notes:
(1) All other benefits did not exceed the lesser of $50,000 and 10% of the total annual compensation for each director.

### Incentive Plan Awards

None of the directors held had any incentive plan awards outstanding as of January 31, 2015, other than Mr. Paul Duffy and Mr. Rene Bharti, whose compensation was included above.

### Value on Pay-Out or Vesting of Incentive Plan Awards

None of the Directors exercised any options during the year ending January 31, 2015.

## ADDITIONAL INFORMATION AND CONTACT INFORMATION

### Additional Information

Additional information relating to the Corporation may be found under the profile of the Corporation on SEDAR at www.sedar.com. Additional financial information is provided in the Corporation's audited financial statements and related management's discussion and analysis for the financial year ended January 31, 2015, which can be found under the profile of the Corporation on SEDAR. Shareholders may also request these documents from the Corporate Secretary of the Corporation by email at nsaid@forbesmanhattan.com or by telephone at (416) 309-2963.

### Board of Directors Approval

The contents of this Circular and the sending thereof to the Shareholders of the Corporation have been approved by the Board.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) *"Paul Duffy"*

President and CEO

Toronto, Ontario
June 24, 2015

**SCHEDULE "A"**

**ARHT MEDIA INC.**
(the "Company")

**ROLLING STOCK OPTION PLAN**

## 1. STATEMENT OF PURPOSE

1.1 **Principal Purposes** – The principal purposes of the Plan are to provide the Company with the advantages of the incentive inherent in share ownership on the part of employees, officers, directors and consultants responsible for the continued success of the Company; to create in such individuals a proprietary interest in, and a greater concern for, the welfare and success of the Company; to encourage such individuals to remain with the Company; and to attract new employees, officers, directors and consultants to the Company.

1.2 **Benefit to Shareholders** – The Plan is expected to benefit shareholders by enabling the Company to attract and retain skilled and motivated personnel by offering such personnel an opportunity to share in any increase in value of the Shares resulting from their efforts.

## 2. INTERPRETATION

2.1 **Defined Terms** – For the purposes of this Plan, the following terms shall have the following meanings:

(a) "**Act**" means the *Securities Act* (Ontario), as amended from time to time;

(b) "**Associate**" shall have the meaning ascribed to such term in the Act;

(c) "**Board**" means the Board of Directors of the Company;

(d) "**Change in Control**" means:

(i) a takeover bid (as defined in the Act), which is successful in acquiring Shares,

(ii) the change of control of the Board resulting from the election by the members of the Company of less than a majority of the persons nominated for election by management of the Company,

(iii) the sale of all or substantially all the assets of the Company,

(iv) the sale, exchange or other disposition of a majority of the outstanding Shares in a single transaction or series of related transactions,

(v) the dissolution of the Company's business or the liquidation of its assets,

(vi) a merger, amalgamation or arrangement of the Company in a transaction or series of transactions in which the Company's shareholders receive less than 51% of the outstanding shares of the new or continuing corporation, or

(vii) the acquisition, directly or indirectly, through one transaction or a series of transactions, by any Person, of an aggregate of more than 50% of the outstanding Shares;

(e) "**Committee**" means a committee of the Board appointed in accordance with this Plan, or if no such committee is appointed, the Board itself;

(f) "**Company**" means ARHT Media Inc. a company incorporated under the laws of the Province of Ontario;

(g) "**Consultant**" means an individual, other than an Employee, senior officer or director of the Company or a Subsidiary Company, or a Consultant Company, who;

(i) provides ongoing consulting, technical, management or other services to the Company or a Subsidiary Company, other than services provided in relation to a distribution of the Company's securities,

(ii) provides the services under a written contract between the Company or a Subsidiary Company and the individual or Consultant Company,

(iii) in the reasonable opinion of the Company spends or will spend a significant amount of time and attention on the affairs and business of the Company or a Subsidiary Company, and

(iv) has a relationship with the Company or a Subsidiary Company that enables the individual or Consultant Company to be knowledgeable about the business and affairs of the Company;

(h) "**Consultant Company**" means, for an individual Consultant, a company of which the individual is an employee or shareholder, or a partnership of which the individual is an employee or partner;

(i) "**Date of Grant**" means the date specified in the Option Agreement as the date on which the Option is effectively granted;

(j) "**Disability**" means any disability with respect to an Optionee which the Board, in its sole and unfettered discretion, considers likely to prevent permanently the Optionee from:

(i) being employed or engaged by the Company, a Subsidiary Company or another employer, in a position the same as or similar to that in which he was last employed or engaged by the Company or a Subsidiary Company; or

(ii) acting as a director or officer of the Company or a Subsidiary Company;

(k) "**Disinterested Shareholder Approval**" means an ordinary resolution approved by a majority of the votes cast by members of the Company at a shareholders' meeting, excluding votes attaching to Shares beneficially owned by Insiders to whom Options may be granted and Associates of those persons;

(l) "**Effective Date**" means the effective date of this Plan, which is the later of the day of its approval by the shareholders of the Company and the day of its acceptance for filing by the Exchange if such acceptance for filing is required under the rules or policies of the Exchange;

(m) "**Eligible Person**" means:

(i) an Employee, senior officer or director of the Company or any Subsidiary Company,

(ii) a Consultant,

(iii) an individual providing Investor Relations Activities for the Company;

(iv) a company, all of the voting securities of which are beneficially owned by one or more of the persons referred to in (i), (ii) or (iii) above

(n) "**Employee**" means:

(i) an individual who is considered an employee under the *Income Tax Act* (Canada) (i.e. for whom income tax, employment insurance and CPP deductions must be made at source),

(ii) an individual who works full-time for the Company or a Subsidiary Company providing services normally provided by an employee and who is subject to the same control and direction by the Company or a Subsidiary Company over the details and methods of work as an employee of the Company or a Subsidiary Company, but for whom income tax deductions are not made at source,

(iii) an individual who works for the Company or a Subsidiary Company, on a continuing and regular basis for a minimum amount of time per week, providing services normally provided by an employee and who is subject to the same control and direction by the Company or a Subsidiary Company over the details and methods of work as an employee of the Company or a Subsidiary Company, but for whom income tax deductions are not made at source;

(o) "**Exchange**" means the stock exchange or over the counter market on which the Shares are listed;

(p) "**Exchange Act**" means the United States *Securities Exchange Act* of 1934, as amended;

(q) "**Fair Market Value**" means, where the Shares are listed for trading on an Exchange, the last closing price of the Shares before the Date of Grant on the Exchange which is the principal trading market for the Shares, as may be determined for such purpose by the Committee, provided that, so long as the Shares are listed only on the TSXVE, the "Fair Market Value" shall not be lower than the last closing price of the Shares before the Date of Grant less the maximum discount permitted under the policies of the TSXVE;

(r) "**Guardian**" means the guardian, if any, appointed for an Optionee;

(s) "**Insider**" shall have the meaning ascribed to such term in the Act;

(t) "**Investor Relations Activities**" means any activities or oral or written communications, by or on behalf of the Company or a shareholder of the Company that promote or reasonably could be expected to promote the purchase or sale of securities of the Company, but does not include:

(i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Company

(A) to promote the sale of products or services of the Company, or

(B) to raise public awareness of the Company,

that cannot reasonably be considered to promote the purchase or sale of securities of the Company,

(ii) activities or communications necessary to comply with the requirements of

(A) applicable securities laws,

(B) the rules and policies of the TSXVE, if the Shares are listed only on the TSXVE, or the by-laws, rules or other regulatory instruments of any other self-regulatory body or exchange having jurisdiction over the Company,

(iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if

(A) the communication is only through the newspaper, magazine or publication and

(B) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer, or

(iv) activities or communications that may be otherwise specified by the TSXVE, if the Shares are listed only on the TSXVE;

(u) "**Option**" means an option to purchase unissued Shares granted pursuant to the terms of this Plan;

(v) "**Option Agreement**" means a written agreement between the Company and an Optionee specifying the terms of the Option being granted to the Optionee under the Plan;

(w) "**Option Price**" means the exercise price per Share specified in an Option Agreement, adjusted from time to time in accordance with the provisions of Sections 6.3 and 10;

(x) "**Optionee**" means an Eligible Person to whom an Option has been granted;

(y) "**Person**" means a natural person, company, government or political subdivision or agency of a government; and where two or more Persons act as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of securities of an issuer, such syndicate or group shall be deemed to be a Person;

(z) "**Plan**" means this Stock Option Plan of the Company;

(aa) "**Qualified Successor**" means a person who is entitled to ownership of an Option upon the death of an Optionee, pursuant to a will or the applicable laws of descent and distribution upon death;

(bb) "**Shares**" means the common shares in the capital of the Company as constituted on the Date of Grant, adjusted from time to time in accordance with the provisions of Section 10;

(cc) "**Subsidiary Company**" shall mean a company which is a subsidiary of the Company;

(dd) "**Term**" means the period of time during which an Option may be exercised; and

(ee) "**TSXVE**" means the TSX Venture Exchange.

## 3. ADMINISTRATION

3.1 **Board or Committee** – The Plan shall be administered by the Board or by a Committee appointed in accordance with Section 3.2.

3.2 **Appointment of Committee** – The Board may at any time appoint a Committee, consisting of not less than three of its members, to administer the Plan on behalf of the Board in accordance with such terms and conditions as the Board may prescribe, consistent with this Plan. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and appoint new members in their place, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan. In the absence of the appointment of a Committee by the Board, the Board shall administer the Plan.

3.3 **Quorum and Voting** – A majority of the members of the Committee shall constitute a quorum, and, subject to the limitations in this Section 3, all actions of the Committee shall require the affirmative vote of members who constitute a majority of such quorum. No member of the Committee who is a director to whom an Option may be granted may participate in the decision to grant such Option (but any

such member may be counted in determining the existence of a quorum at any meeting of the Committee in which action is to be taken with respect to the granting of an Option to him).

3.4 **Powers of Board and Committee** – The Board shall from time to time authorize and approve the grant by the Company of Options under this Plan, and any Committee appointed under Section 3.2 shall have the authority to review the following matters in relation to the Plan and to make recommendations thereon to the Board;

(a) administration of the Plan in accordance with its terms,

(b) determination of all questions arising in connection with the administration, interpretation and application of the Plan, including all questions relating to the value of the Shares,

(c) correction of any defect, supply of any information or reconciliation of any inconsistency in the Plan in such manner and to such extent as shall be deemed necessary or advisable to carry out the purposes of the Plan,

(d) prescription, amendment and rescission of the rules and regulations relating to the administration of the Plan;

(e) determination of the duration and purpose of leaves of absence from employment which may be granted to Optionees without constituting a termination of employment for purposes of the Plan,

(f) with respect to the granting of Options:

(i) determination of the employees, officers, directors or consultants to whom Options will be granted, based on the eligibility criteria set out in this Plan,

(ii) determination of the terms and provisions of the Option Agreement which shall be entered into with each Optionee (which need not be identical with the terms of any other Option Agreement) and which shall not be inconsistent with the terms of this Plan,

(iii) amendment of the terms and provisions of an Option Agreement, provided the Board obtains:

(A) the consent of the Optionee, and

(B) if required, the approval of any stock exchange on which the Shares are listed,

(iv) determination of when Options will be granted,

(v) determination of the number of Shares subject to each Option,

(vi) determination of the vesting schedule, if any, for the exercise of each Option, and

(g) other determinations necessary or advisable for administration of the Plan.

3.5 **Obtain Approvals** – The Board will seek to obtain any regulatory, Exchange or shareholder approvals which may be required pursuant to applicable securities laws or Exchange rules.

3.6 **Administration by Committee** – The Committee shall have all powers necessary or appropriate to accomplish its duties under this Plan. In addition, the Committee's administration of the Plan shall in all respects be consistent with the Exchange policies and rules.

## 4. ELIGIBILITY

4.1 **Eligibility for Options** – Options may be granted to any Eligible Person.

4.2 **Insider Eligibility for Options** – Notwithstanding Section 4.1, if the Shares are listed only on the TSXVE, grants of Options to Insiders shall be subject to the policies of the TSXVE.

4.3 **No Violation of Securities Laws** – No Option shall be granted to any Optionee unless the Committee has determined that the grant of such Option and the exercise thereof by the Optionee will not violate the securities law of the jurisdiction in which the Optionee resides.

## 5. SHARES SUBJECT TO THE PLAN

5.1 **Number of Shares** – The maximum number of Shares issuable from time to time under the Plan is that number of Shares as is equal to 10% of the number of issued Shares at the Date of Grant of an Option. The maximum number of Shares issuable under the Plan shall be adjusted, where necessary, to take account of the events referred to in Section 10.

5.2 **Expiry of Option** – If an Option expires or terminates for any reason without having been exercised in full, the unpurchased Shares subject thereto shall again be available for the purposes of the Plan.

5.3 **Reservation of Shares** – The Company will at all times reserve for issuance and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

## 6. OPTION TERMS

6.1 **Option Agreement** – Each Option granted to an Optionee shall be confirmed by the execution and delivery of an Option Agreement and the Board shall specify the following terms in each such Option Agreement:

(a) the number of Shares subject to option pursuant to such Option, subject to the following limitations if the Shares are listed only on the TSXVE:

(i) the number of Shares reserved for issuance pursuant to Options to any one Optionee shall not exceed 5% of the issued Shares in any 12-month period (unless the Company is designated as a "Tier 1" listed company by the TSXVE and has obtained Disinterested Shareholder Approval to exceed this number),

(ii) the number of Shares reserved for issuance pursuant to Options to any one Consultant shall not exceed 2% of the issued Shares in any 12-month period, and

(iii) the aggregate number of Shares reserved for issuance pursuant to Options to Employees and those individuals conducting Investor Relations Activities shall not exceed 2% of the issued Shares in any 12-month period;

(b) the Date of Grant;

(c) the Term, provided that, if the Shares are listed only on the TSXVE, the length of the Term shall in no event be greater than five years following the Date of Grant, except, if the Company is designated as "Tier 1" listed company by the TSXVE, then the Term shall be no greater than ten years following the Date of Grant, for all Optionees;

(d) the Option Price, provided that the Option Price shall not be less than the Fair Market Value of the Shares on the Date of Grant;

(e) subject to Section 6.2 below, any vesting schedule upon which the exercise of an Option is contingent;

(f) if the Optionee is an Employee, Consultant or an individual providing Investor Relations Activities for the Company, a representation by the Company and the Optionee that the Optionee is a bona fide Employee, Consultant or an individual providing Investor

Relations Activities for the Company, as the case may be, of the Company or a Subsidiary Company; and

(g) such other terms and conditions as the Board deems advisable and are consistent with the purposes of this Plan.

6.2 **Vesting Schedule** – The Board, as applicable, shall have complete discretion to set the terms of any vesting schedule of each Option granted, including, without limitation, discretion to:

(a) permit partial vesting in stated percentage amounts based on the Term of such Option; and

(b) permit full vesting after a stated period of time has passed from the Date of Grant.

6.3 **Amendments to Options** – Amendments to the terms of previously granted Options are subject to regulatory approval, if required. If required by the Exchange, Disinterested Shareholder Approval shall be required for any reduction in the Option Price of a previously granted Option if the Optionee is an Insider of the Company at the time of the proposed reduction in the Option Price.

6.4 **Uniformity** – Except as expressly provided herein, nothing contained in this Plan shall require that the terms and conditions of Options granted under the Plan be uniform.

## 7. EXERCISE OF OPTION

7.1 **Method of Exercise** – Subject to any limitations or conditions imposed upon an Optionee pursuant to the Option Agreement or Section 6 hereof, an Optionee may exercise an Option by giving written notice thereof, specifying the number of Shares in respect of which the Option is exercised, to the Company at its principal place of business at any time after the Date of Grant until 4:00 p.m. (Toronto time) on the last day of the Term, such notice to be accompanied by full payment of the aggregate Option Price to the extent the Option is so exercised. Such payment shall be in lawful money (Canadian funds) by cash, cheque, bank draft or wire transfer. Payment by cheque made payable to the Company in the amount of the aggregate Option Price shall constitute payment of such Option Price unless the cheque is not honoured upon presentation, in which case the Option shall not have been validly exercised.

7.2 **Issuance of Certificates** – Not later than the third business day after exercise of an Option in accordance with Section 7.1, the Company shall issue and deliver to the Optionee a certificate or certificates evidencing the Shares with respect to which the Option has been exercised. Until the issuance of such certificate or certificates, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to such Shares, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the certificate is issued, except as provided by Section 10 hereof.

7.3 **Compliance with U.S. Securities Laws** – As a condition to the exercise of an Option, the Board may require the Optionee to represent and warrant in writing at the time of such exercise that the Shares are being purchased only for investment and without any then-present intention to sell or distribute such Shares. At the option of the Board, a stop-transfer order against such Shares may be placed on the stock books and records of the Company and a legend, indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such Shares in order to assure an exemption from registration. The Board may also require such other documentation as may from time to time be necessary to comply with United States' federal and state securities laws. The Company has no obligation to undertake registration of Options or the Shares issuable upon the exercise of the Options.

7.4 **Withholding Taxes Etc.**: For certainty and notwithstanding any other provision of the Plan, the Corporation or any Designated Affiliate may take such steps as it considers necessary or appropriate for the deduction or withholding of any taxes or other amounts which the Corporation or any Designated Affiliate is required by any law or regulation of any governmental authority whatsoever to deduct or withhold in connection with any Common Share issued pursuant to the Plan, including, without limiting the generality of the foregoing, (a) withholding of all or any portion of any amount otherwise owing to a

Participant; (b) the suspension of the issue of Common Shares to be issued under the Plan, until such time as the Participant has paid to the Corporation or any Designated Affiliate an amount equal to any amount which the Corporation or Designated Affiliate is required to deduct or withhold by law with respect to such taxes or other amounts; and/or (c) withholding and causing to be sold, by it as a trustee on behalf of a Participant, such number of Common Shares as it determines to be necessary to satisfy the withholding obligation. By participating in the Plan, the Participant consents to such sale and grants to the Corporation or any Designated Affiliate, as applicable, an irrevocable power of attorney to effect the sale of such Common Shares on behalf of the Participant and to remit the appropriate amount to the applicable governmental authorities. Neither the Corporation nor any applicable Designated Affiliate shall be required to obtain any particular price for the Common Shares.

## 8. TRANSFERABILITY OF OPTIONS

8.1 **Non-Transferable/Legending** – Except as permitted by applicable securities laws and the policies of the Exchange, and as provided otherwise in this Section 8, Options are non-assignable and non-transferable. If the Shares are listed only on the TSXVE, then, in addition to any resale restrictions under applicable securities laws, if the Company is, at the Date of Grant of an Option, designated as a "Tier 2" listed company by the TSXVE or, if the Company is not so designated but the Option Price is based on a discount from the last closing price of the Shares on the TSXVE, the Option Agreement and the certificates representing the Shares issued on the exercise of such Option shall bear the TSXVE legend with a four-month hold period commencing on the Date of Grant.

8.2 **Death of Optionee** – Subject to Section 8.3, if the employment of an Optionee as an Employee of, or the services of a Consultant providing services to, the Company or any Subsidiary Company, or the employment of an Optionee as an individual providing Investor Relations Activities, or the position of the Optionee as a director or senior officer of the Company or any Subsidiary Company, terminates as a result of such Optionee's death, any Options held by such Optionee shall pass to the Qualified Successor of the Optionee and shall be exercisable by such Qualified Successor until the earlier of a period of not more than one year following the date of such death and the expiry of the Term of the Option.

8.3 **Disability of Optionee** – If the employment of an Optionee as an Employee of, or the services of a Consultant providing services to, the Company or any Subsidiary Company, or the employment of an Optionee as an individual providing Investor Relations Activities for the Company, or the position of the Optionee as a director or senior officer of the Company or any Subsidiary Company, is terminated by reason of such Optionee's Disability, any Options held by such Optionee that could have been exercised immediately prior to such termination of employment or service shall be exercisable by such Optionee, or by his Guardian, for a period of not more than one year following the date of such following the termination of employment or service of such Optionee. If such Optionee dies within that period of not more than one year, any Option held by such Optionee that could have been exercised immediately prior to his or her death shall pass to the Qualified Successor of such Optionee, and shall be exercisable by the Qualified Successor until the earlier of a period of not more than one year following the death of such Optionee and the expiry of the Term of the Option.

8.4 **Vesting** – Options held by a Qualified Successor or exercisable by a Guardian shall, during the period prior to their termination, continue to vest in accordance with any vesting schedule to which such Options are subject.

8.5 **Deemed Non-Interruption of Employment** – Employment shall be deemed to continue intact during any military or sick leave or other bona fide leave of absence if the period of such leave does not exceed 90 days or, if longer, for so long as the Optionee's right to reemployment with the Company or any Subsidiary Company is guaranteed either by statute or by contract. If the period of such leave exceeds 90 days and the Optionee's reemployment is not so guaranteed, then the Optionee's employment shall be deemed to have terminated on the ninety-first day of such leave.

## 9. TERMINATION OF OPTIONS

9.1 **Termination of Options** – To the extent not earlier exercised or terminated in accordance with Section 8, an Option shall terminate at the earliest of the following dates:

(a) the termination date specified for such Option in the Option Agreement;

(b) where the Optionee's position as an Employee, a Consultant, a director or a senior officer of the Company or any Subsidiary Company, or an individual providing Investor Relations Activities for the Company, is terminated for cause, the date of such termination for cause;

(c) where the Optionee's position as an Employee, a Consultant, a director or a senior officer of the Company or any Subsidiary Company or an individual providing Investor Relations Activities for the Company terminates for a reason other than the Optionee's Disability or death or for cause, not more than 90 days after such date of termination or, if the Shares are listed only on the TSXVE and if the Company is designated as a "Tier 2" listed company by the TSXVE, then in the case of a person employed to provide Investor Relations Activities, not more than 30 days after such person ceases to be employed to provide Investor Relations Activities; PROVIDED that if an Optionee's position changes from one of the said categories to another category, such change shall not constitute termination or cessation for the purpose of this Subsection 9.1(c); and

(d) the date of any sale, transfer, assignment or hypothecation, or any attempted sale, transfer, assignment or hypothecation, of such Option in violation of Section 8.1.

9.2 **Lapsed Options** – If Options are surrendered, terminate or expire without being exercised in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options. If an Option has been surrendered in connection with the regranting of a new Option to the same Optionee on different terms than the original Option granted to such Optionee, then, if required, the new Option is subject to approval of the Exchange.

9.3 **Exclusion From Severance Allowance, Retirement Allowance or Termination Settlement** – If the Optionee retires, resigns or is terminated from employment or engagement with the Company or any Subsidiary Company, the loss or limitation, if any, pursuant to the Option Agreement with respect to the right to purchase Option Shares which were not vested at that time or which, if vested, were cancelled, shall not give rise to any right to damages and shall not be included in the calculation of nor form any part of any severance allowance, retiring allowance or termination settlement of any kind whatsoever in respect of such Optionee.

## 10. ADJUSTMENTS TO OPTIONS

10.1 **Alteration in Capital Structure** – If there is any change in the Shares through or by means of a declaration of stock dividends of the Shares or consolidations, subdivisions or reclassifications of the Shares, or otherwise, the number of Shares available under the Plan, the Shares subject to any Option and the Option Price therefor shall be adjusted proportionately by the Board and, if required, approved by the Exchange, and such adjustment shall be effective and binding for all purposes of the Plan.

10.2 **Effect of Amalgamation, Merger or Arrangement** – If the Company amalgamates, merges or enters into a plan of arrangement with or into another corporation, any Shares receivable on the exercise of an Option shall be converted into the securities, property or cash which the Optionee would have received upon such amalgamation, merger or arrangement if the Optionee had exercised the Option immediately prior to the record date applicable to such amalgamation, merger or arrangement, and the exercise price shall be adjusted proportionately by the Board and such adjustment shall be binding for all purposes of the Plan.

10.3 **Acceleration on Change in Control** – Upon a Change in Control, all Options shall become immediately exercisable, notwithstanding any contingent vesting provisions to which such Options may have otherwise been subject.

10.4 **Acceleration of Date of Exercise** – Subject to the approval of the Exchange, if required, the Board shall have the right to accelerate the date of vesting of any portion of any Option which remains unvested.

10.5 **Determinations to be Binding** – If any questions arise at any time with respect to the Option Price or exercise price or number of Option Shares or other property deliverable upon exercise of an

Option following an event referred to in this Section 10, such questions shall be conclusively determined by the Board, whose decisions shall be final and binding.

10.6 **Effect of a Take-Over** – If a *bona fide* offer (the "Offer") for Shares is made to an Optionee or to shareholders generally or to a class of shareholders which includes the Optionee, which Offer constitutes a take-over bid within the meaning of the Act, the Company shall, immediately upon receipt of notice of the Offer, notify each Optionee of full particulars of the Offer, whereupon any Option held by an Optionee may be exercised in whole or in part, notwithstanding any contingent vesting provisions to which such Options may have otherwise been subject, by the Optionee so as to permit the Optionee to tender the Shares received upon such exercise (the "Optioned Shares") to the Offer. If:

(a) the Offer is not completed within the time specified therein; or

(b) all of the Optioned Shares tendered by the Optionee pursuant to the Offer are not taken up and paid for by the offeror pursuant thereto;

the Optioned Shares or, in the case of clause (b) above, the Optioned Shares that are not taken up and paid for, may be returned by the Optionee to the Company and reinstated as authorized but unissued Shares and with respect to such returned Optioned Shares, the Option shall be reinstated as if it had not been exercised. If any Optioned Shares are returned to the Company under this Section, the Company shall refund to the Optionee any Option Price paid for such Optioned Shares.

## 11. APPROVAL, TERMINATION AND AMENDMENT OF PLAN

11.1 **Shareholder Approval** – This Plan, if the Shares are listed only on the TSXVE, is subject to Disinterested Shareholder Approval on a yearly basis at the Company's next ensuing annual general meeting.

11.2 **Power of Board to Terminate or Amend Plan** – Subject to the approval of the Exchange, if required, the Board may terminate, suspend or discontinue the Plan at any time or amend or revise the terms of the Plan; provided, however, that, except as provided in Section 10, the Board may not do any of the following without obtaining, within 12 months either before or after the Board's adoption of a resolution authorizing such action, approval by the Company's shareholders at a meeting duly held in accordance with the applicable corporate laws:

(a) increase the maximum number of Shares which may be issued under the Plan;

(b) materially modify the requirements as to eligibility for participation in the Plan; or

(c) materially increase the benefits accruing to participants under the Plan;

however, the Board may amend the terms of the Plan to comply with the requirements of any applicable regulatory authority, or as a result of changes in the policies of the Exchange relating to director, officer and employee stock options, without obtaining the approval of the Company's shareholders.

11.3 **No Grant During Suspension of Plan** – No Option may be granted during any suspension, or after termination, of the Plan. Amendment, suspension or termination of the Plan shall not, without the consent of the Optionee, alter or impair any rights or obligations under any Option previously granted.

## 12. CONDITIONS PRECEDENT TO ISSUANCE OF SHARES

12.1 **Compliance with Laws** – Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, any applicable United States' state securities laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations thereunder and the requirements of any Exchange or automated interdealer quotation system of a registered national securities association upon which such Shares may then be listed or quoted, and such issuance shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such Shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary

for the lawful issuance and sale of any Shares under this Plan, or the unavailability of an exemption from registration for the issuance and sale of any Shares under this Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such Shares other than with respect to a refund of any Option Price paid.

## 13. USE OF PROCEEDS

13.1 **Use of Proceeds** – Proceeds from the sale of Shares pursuant to the Options granted and exercised under the Plan shall constitute general funds of the Company and shall be used for general corporate purposes, or as the Board otherwise determines.

## 14. NOTICES

14.1 **Notices** – All notices, requests, demands and other communications required or permitted to be given under this Plan and the Options granted under this Plan shall be in writing and shall be either delivered personally to the party to whom notice is to be given, in which case notice shall be deemed to have been duly given on the date of such personal delivery; telecopied, in which case notice shall be deemed to have been duly given on the date the telecopy is sent; or mailed to the party to whom notice is to be given, by first class mail, registered or certified, return receipt requested, postage prepaid, and addressed to the party at his or its most recent known address, in which case such notice shall be deemed to have been duly given on the tenth postal delivery day following the date of such mailing.

## 15. MISCELLANEOUS PROVISIONS

15.1 **No Obligations to Exercise** – Optionees shall be under no obligation to exercise Options granted under this Plan.

15.2 **No Obligation to Retain Optionee** – Nothing contained in this Plan shall obligate the Company or any Subsidiary Company to retain an Optionee as an employee, officer, director or consultant for any period, nor shall this Plan interfere in any way with the right of the Company or any Subsidiary Company to reduce such Optionee's compensation.

15.3 **Binding Agreement** – The provisions of this Plan and of each Option Agreement with an Optionee shall be binding upon such Optionee and the Qualified Successor or Guardian of such Optionee.

15.4 **Use of Terms** – Where the context so requires, references herein to the singular shall include the plural, and vice versa, and references to a particular gender shall include either or both genders.

15.5 **Headings** – The headings used in this Plan are for convenience of reference only and shall not in any way affect or be used in interpreting any of the provisions of this Plan.

15.6 **No Representation or Warranty** – The Company makes no representation or warranty as to the future value of any Shares issued in accordance with the provisions of this Plan.

15.7 **Income Taxes** – As a condition of and prior to participation in the Plan any Optionee shall on request authorize the Company in writing to withhold from any remuneration otherwise payable to such Optionee any amounts required by any taxing authority to be withheld for taxes of any kind as a consequence of such Optionee's participation in the Plan.

15.8 **Compliance with Applicable Law** – If any provision of the Plan or any Option Agreement contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange or over the counter market having authority over the Company or the Plan, then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

15.9 **Conflict** – In the event of any conflict between the provisions of this Plan and an Option Agreement, the provisions of this Plan shall govern.

15.10 **Governing Law** – This Plan and each Option Agreement issued pursuant to this Plan shall be governed by the laws of the Province of Ontario.

15.11 **Time of Essence** – Time is of the essence of this Plan and of each Option Agreement. No extension of time will be deemed to be, or to operate as, a waiver of the essentiality of time.

15.12 **Entire Agreement** – This Plan and the Option Agreement sets out the entire agreement between the Company and the Optionees relative to the subject matter hereof and supersedes all prior agreements, undertakings and understandings, whether oral or written.

## 16. EFFECTIVE DATE OF PLAN

16.1 **Effective Date of Plan** – This Plan shall be effective on the later of the day of its approval by the shareholders of the Company given by way of ordinary resolution and the day of its acceptance for filing by the Exchange.

**SCHEDULE "B"**

**Audit Committee Charter**
(Implemented pursuant to National Instrument 52-110)

This Charter has been adopted by the Board in order to comply with the Instrument and to more properly define the role of the Committee in the oversight of the financial reporting process of the Corporation. Nothing in this Charter is intended to restrict the ability of the Board or Committee to alter or vary procedures in order to comply more fully with the Instrument, as amended from time to time.

**PART 1**

**Purpose:** The purpose of the Committee is to:

a) significantly improve the quality of the Corporation's financial reporting;
b) assist the Board to properly and fully discharge its responsibilities;
c) provide an avenue of enhanced communication between the Board and external auditors;
d) enhance the external auditor's independence;
e) increase the credibility and objectivity of financial reports; and
f) strengthen the role of the outside members of the Board by facilitating in depth discussions between Members, management and external auditors.

**1.1 Definitions**

"accounting principles" has the meaning ascribed to it in National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*;

"Affiliate" means a company that is a subsidiary of another company or companies that are controlled by the same entity;

"audit services" means the professional services rendered by the Corporation's external auditor for the audit and review of the Corporation's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements;

"Board" means the board of directors of the Corporation;

"Charter" means this audit committee charter;

"Corporation" means ARHT Media Inc.;

"Committee" means the committee established by and among certain members of the Board for the purpose of overseeing the accounting and financial reporting processes of the Corporation and audits of the financial statements of the Corporation;

"Control Person" means any person that holds or is one of a combination of persons that holds a sufficient number of any of the securities of the Corporation so as to affect materially the control of the Corporation, or that holds more than 20% of the outstanding voting shares of the Corporation, except where there is evidence showing that the holder of those securities does not materially affect control of the Corporation;

"executive officer" means an individual who is:

a) the chair of the Corporation;
b) the vice-chair of the Corporation;
c) the President of the Corporation;
d) the vice-president in charge of a principal business unit, division or function including sales, finance or production;
e) an officer of the Corporation or any of its subsidiary entities who performs a policy-making function in respect of the Corporation; or
f) any other individual who performs a policy-making function in respect of the Corporation;

"financially literate" has the meaning set forth in Section 1.3;

“immediate family member” means a person’s spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of either the person or the person’s immediate family member) who shares the individual's home;

“independent” has the meaning set forth in Section 1.2;

“Instrument” means National Instrument 52-110;

“MD&A” has the meaning ascribed to it in the National Instrument;

“Member” means a member of the Committee;

“National Instrument 51-102” means National Instrument 51-102 *Continuous Disclosure Obligations*;

“non-audit services” means services other than audit services;

**1.2 Meaning of Independence**

1. A Member is independent if the Member has no direct or indirect material relationship with the Corporation.

2. For the purposes of subsection 1, a material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a Member's independent judgement.

3. Despite subsection 2 and without limitation, the following individuals are considered to have a material relationship with the Corporation:
   a) a Control Person of the Corporation;
   b) an Affiliate of the Corporation; and
   c) an employee of the Corporation.

**1.3 Meaning of Financial Literacy --** For the purposes of this Charter, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

**PART 2**

**2.1 Audit Committee –** The Board has hereby established the Committee for, among other purposes, compliance with the Instrument.

**2.2 Relationship with External Auditors –** The Corporation will henceforth require its external auditor to report directly to the Committee and the Members shall ensure that such is the case.

**2.3 Committee Responsibilities**

1. The Committee shall be responsible for making the following recommendations to the Board:
   a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and
   b) the compensation of the external auditor.

2. The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

This responsibility shall include:

   a) reviewing the audit plan with management and the external auditor;

b) reviewing with management and the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting;
c) questioning management and the external auditor regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
d) reviewing any problems experienced by the external auditor in performing the audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
e) reviewing audited annual financial statements, in conjunction with the report of the external auditor, and obtaining an explanation from management of all significant variances between comparative reporting periods;
f) reviewing the post-audit or management letter, containing the recommendations of the external auditor, and management's response and subsequent follow up to any identified weakness;
g) reviewing interim unaudited financial statements before release to the public;
h) reviewing all public disclosure documents containing audited or unaudited financial information before release, including any prospectus, the annual report, the annual information form and management's discussion and analysis;
i) reviewing any evaluation of internal controls by the external auditor, together with management's response;
j) reviewing the terms of reference of the internal auditor, if any;
k) reviewing the reports issued by the internal auditor, if any, and management's response and subsequent follow up to any identified weaknesses; and
l) reviewing the appointments of the Chief Financial Officer and any key financial executives involved in the financial reporting process, as applicable.

3. The Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the issuer's external auditor.

4. The Committee shall review the Corporation's financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.

5. The Committee shall ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and shall periodically assess the adequacy of those procedures.

6. When there is to be a change of auditor, the Committee shall review all issues related to the change, including the information to be included in the notice of change of auditor called for under National Policy 31, and the planned steps for an orderly transition.

7. The Committee shall review all reportable events, including disagreements, unresolved issues and consultations, as defined in the National Instrument, on a routine basis, whether or not there is to be a change of auditor.

8. The Committee shall, as applicable, establish procedures for:
a) the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

9. As applicable, the Committee shall establish, periodically review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer, as applicable.

10. The responsibilities outlined in this Charter are not intended to be exhaustive. Members should consider any additional areas which may require oversight when discharging their responsibilities.

**2.4 De Minimis Non-Audit Services –** The Committee shall satisfy the pre-approval requirement in subsection 2.3(3) if:

a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the issuer and its subsidiary entities to the issuer's external auditor during the fiscal year in which the services are provided;
b) the Corporation or the relevant subsidiary of the Corporation, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
c) the services are promptly brought to the attention of the Committee and approved by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Committee, prior to the completion of the audit.

**2.5 Delegation of Pre-Approval Function**

1. The Committee may delegate to one or more independent Members the authority to pre-approve non-audit services in satisfaction of the requirement in subsection 2.3(3).

2. The pre-approval of non-audit services by any Member to whom authority has been delegated pursuant to subsection 1 must be presented to the Committee at its first scheduled meeting following such pre-approval.

**PART 3**

**3.1 Composition**

1. The Committee shall be composed of a minimum of three Members.
2. Every Member shall be a director of the issuer.
3. The majority of Members shall be independent.
4. Every audit committee member shall be financially literate.

**PART 4**

**4.1 Authority –** Until the replacement of this Charter, the Committee shall have the authority to:

a) engage independent counsel and other advisors as it determines necessary to carry out its duties,
b) set and pay the compensation for any advisors employed by the Committee,
c) communicate directly with the internal and external auditors; and
d) recommend the amendment or approval of audited and interim financial statements to the Board.

**PART 5**

**5.1 Disclosure in Information Circular --** If management of the Corporation solicits proxies from the security holders of the Corporation for the purpose of electing directors to the Board, the Corporation shall include in its management information circular the disclosure required by Form 52-110F2 (*Disclosure by Venture Issuers)*.

**PART 6**

**6.1 Meetings**

1. Meetings of the Committee shall be scheduled to take place at regular intervals and, in any event, not less frequently than quarterly.
2. Opportunities shall be afforded periodically to the external auditor, the internal auditor, if any, and to members of senior management to meet separately with the Members.
3. Minutes shall be kept of all meetings of the Committee.

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# ARHT MEDIA INC.
## (formerly Vast Exploration Inc.)

### CONSOLIDATED FINANCIAL STATEMENTS

**for the periods ended**

**January 31, 2015 and December 31, 2013**

**(Expressed in Canadian dollars)**

# ARHT MEDIA INC.
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**INDEX** **PAGE**


| | |
|---|---|
| Consolidated Statements of Financial Position | 1 |
| Consolidated Statements of Operations and Comprehensive Loss | 2 |
| Consolidated Statements of Changes in Shareholders' Equity (Deficiency) | 3 |
| Consolidated Statements of Cash Flows | 4 |
| Notes to the Consolidated Financial Statements | 5 – 22 |

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ARHT Media Inc.

We have audited the accompanying consolidated financial statements of ARHT Media Inc. and its subsidiary, which comprise the consolidated statements of financial position as at January 31, 2015 and December 31, 2013, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ARHT Media Inc. and its subsidiary as at January 31, 2015 and December 31, 2013, and their financial performance and cash flows for the thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the period ended January 31, 2015 and a working capital deficiency as at January 31, 2015. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
May 26, 2015

# ARHT MEDIA INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
As at

| | Note | January 31, 2015 | December 31, 2013 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **CURRENT** | | | |
| Cash and cash equivalents | | 114,365 | 38,846 |
| Receivables | | 105,304 | 32,545 |
| Deposit | | 15,896 | - |
| Prepaid expenses | | 59,870 | - |
| **Total current assets** | | 295,435 | 71,391 |
| **NON-CURRENT** | | | |
| Promissory note receivable | 6 | 1 | - |
| Equipment | 7 | 111,923 | - |
| **TOTAL ASSETS** | | 407,359 | 71,391 |
| **LIABILITIES** | | | |
| **CURRENT** | | | |
| Accounts payable and accrued liabilities | 12 | 519,328 | 470,968 |
| Shareholder loans payable | 8 | - | 1,087,600 |
| **TOTAL LIABIILITIES** | | 519,328 | 1,558,568 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | |
| **SHARE CAPITAL** | 9 | 8,705,860 | 900,100 |
| **OPTIONS** | 10 | 886,723 | 239,250 |
| **WARRANTS** | 10 | 35,712 | - |
| **DEFICIT** | | (9,740,264) | (2,626,527) |
| **TOTAL SHAREHOLDERS' DEFICIENCY** | | (111,969) | (1,487,177) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | 407,359 | 71,391 |

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 13)
Subsequent events (Note 17)

APPROVED ON BEHALF OF THE DIRECTORS:

*"Rene Bharti"* *"Paul Duffy"*

# ARHT MEDIA INC.

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

| | Note | For the 13 months ended January 31, 2015 $ | For the 12 months ended December 31, 2013 $ |
|---|---|---|---|
| Revenue | | 7,500 | - |
| Expenses: | | | |
| Consulting and management fees | 12 | 829,840 | 26,872 |
| Research expenditures | | 746,347 | 35,347 |
| Professional fees | | 255,418 | 16,200 |
| Travel | | 157,137 | 9,619 |
| Share-based compensation | 10, 12 | 647,473 | 169,500 |
| Office, rent and supplies | | 245,102 | 2,834 |
| Shareholder, communications and filing fees | | 138,989 | - |
| Selling and marketing | | 135,817 | - |
| Amortization | | 30,384 | - |
| Event cost (recovery) | | (62,222) | - |
| Finance costs | 8 | - | 100,000 |
| Transaction costs | 11 | 3,996,952 | - |
| Total expenses: | | (7,121,237) | (360,372) |
| Total net loss and comprehensive loss | | (7,113,737) | (360,372) |
| Net loss per share - basic and diluted | 9 ( c ) | (0.16) | (0.02) |
| Weighted average number of common shares outstanding - basic and diluted | 9 ( c ) | 43,960,102 | 23,573,630 |

# ARHT MEDIA INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian dollars)

| | Note | Number of Shares | Share Capital | Share-based payments | | Deficit | Total Shareholders' Equity (Deficiency) |
|---|---|---|---|---|---|---|---|
| | | | | Options | Warrants | | |
| | | # | $ | $ | $ | $ | $ |
| **Balance, December 31, 2013** | | 23,750,000 | 900,100 | 239,250 | - | (2,626,527) | (1,487,177) |
| Shareholder loan conversion | 8 | 8,125,000 | 650,000 | - | - | - | 650,000 |
| Share-based compensation | 10 | - | - | 647,473 | - | - | 647,473 |
| Private placement | | 12,318,755 | 3,079,689 | - | - | - | 3,079,689 |
| Share issuance cost | | - | (86,000) | - | - | - | (86,000) |
| Finder's warrants issued | 10 | - | (53,280) | - | 53,280 | - | - |
| Warrant valuation on shares issuance | 10 | - | 17,568 | - | (17,568) | - | - |
| Finder's warrants exercised | | 122,000 | 30,500 | - | - | - | 30,500 |
| Vast shares outstanding at acquisition | 9 (b), 11 | 16,669,209 | 4,167,283 | - | - | - | 4,167,283 |
| Net (loss) for the period | | - | - | - | - | (7,113,737) | (7,113,737) |
| **Balance, January 31, 2015** | | 60,984,964 | 8,705,860 | 886,723 | 35,712 | (9,740,264) | (111,969) |
| **Balance, December 31, 2012** | | 21,875,000 | 750,100 | 209,250 | - | (2,405,655) | (1,446,305) |
| Shares issued for cash | 9 (b) | 625,000 | 50,000 | - | - | - | 50,000 |
| Shares issued for services | 9 (b) | 1,250,000 | 100,000 | - | - | - | 100,000 |
| Share-based compensation | | - | - | 169,500 | - | - | 169,500 |
| Expiry of stock options | 10 | - | - | (139,500) | - | 139,500 | - |
| Net (loss) for the year | | - | - | - | - | (360,372) | (360,372) |
| **Balance, December 31, 2013** | | 23,750,000 | 900,100 | 239,250 | - | (2,626,527) | (1,487,177) |

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

# ARHT MEDIA INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

| | Note | For the 13 months ended January 31, 2015 | For the 12 months ended December 31, 2013 |
|---|---|---|---|
| | | $ | $ |
| Cash (used) in operating activities | | | |
| Net (loss) for the period | | (7,113,737) | (360,372) |
| Items not involving cash: | | | |
| Share-based compensation | 10 | 647,473 | 169,500 |
| Shares issued as consideration for loan facilities | 8 (b) | - | 100,000 |
| Transaction costs | 11 | 3,996,952 | - |
| Amortization | 7 | 30,384 | - |
| Cash (used in) operating activities before change in working capital items | | (2,438,928) | (90,872) |
| Net change in working capital items | | 306,034 | (14,211) |
| Net cash (used in) operating activities | | (2,132,894) | (105,083) |
| Cash provided by financing activities | | | |
| Proceeds from shareholder loan advances | 8 | 100,000 | 87,600 |
| Private placement | 9 (b) (i) and (iv) | 2,650,600 | 50,000 |
| Share issuance cost | 9 (b)(iv) | (86,000) | - |
| Shareholder loan repayment | 8 (c) and 8 (d) | (537,600) | - |
| Share issued for debt | | 650,000 | - |
| Shareholder loan repayment | | (650,000) | - |
| Finder's warrants exercised | | 30,500 | - |
| Cash received from Vast acquisition | 11 | 193,220 | - |
| Net cash provided by financing activities | | 2,350,720 | 137,600 |
| Cash (used in) investing activities | | | |
| Purchase of equipment | 7 | (142,307) | - |
| Net cash (used in) investing activities | | (142,307) | - |
| Change in cash | | 75,519 | 32,517 |
| Cash and cash equivalents, beginning of period | | 38,846 | 6,329 |
| Cash and cash equivalents, end of period | | 114,365 | 38,846 |
| Cash and cash equivalents is comprised of: | | | |
| Cash | | 94,365 | 38,846 |
| Cashable GIC | | 20,000 | - |
| | | 114,365 | 38,846 |
| Supplemental Information | | | |
| Shareholder loans settlement | 9 (b) | 650,000 | - |
| Finders' warrants issued for services | 10 | 53,280 | - |
| Common shares issued to settle accounts payable | 9 (b) | 429,089 | - |

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

## 1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN

ARHT Media Inc. (formerly Vast Exploration Inc., the "Company" or "ARHT") is a publicly traded company with the registered office located at Suite 805, 65 Queen Street West, Toronto, Ontario, M5H 2M5. The Company is traded on the TSX Venture Exchange (the "Exchange") under the symbol "ART". The Company creates lifelike digital representations for the purposes of proximity marketing through a variety of potential revenue streams across multiple media channels and distribution platforms.

The Company effected the closing of the reverse-takeover transaction (the "RTO") pursuant to an amalgamation agreement (the "Amalgamation Agreement") among the Company, its wholly-owned subsidiary and Delebrity Inc. ("Delebrity"), pursuant to which the Company acquired all of the issued and outstanding common shares of Delebrity by way of amalgamation between its wholly-owned subsidiary and Delebrity and following which the amalgamated company became a wholly-owned subsidiary of the Company. Under the terms of the Amalgamation Agreement, all of the outstanding Delebrity common shares were exchanged for common shares of the Company on a one for one basis, such that former shareholders of Delebrity continued as shareholders of the Company. As a result, 44,193,755 common shares were issued by the Company to former Delebrity shareholders, on a non-diluted basis. Included in the 44,193,755 common shares issued to security holders of Delebrity were 12,318,755 common shares issued in connection with a non-brokered private placement completed by Delebrity on April 25, 2014 (see Note 9(b)(iv)). As a result, former Delebrity shareholders held a controlling interest in the resulting issuer and the transaction constituted a reverse acquisition with Delebrity being the accounting acquirer (see Note 11). The comparative figures presented in these consolidated financial statements are those of Delebrity. Subsequent to the RTO, Delebrity changed its fiscal year-end from December 31 to January 31.

On October 15, 2014, the Company completed its RTO with Delebrity and obtained final acceptance of the Exchange for the listing of its common shares. ARHT's common shares began trading on the Exchange on October 17, 2014 at market open under the ticker symbol "ART" as a Tier 2 Technology Issuer

### Going concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. To date, the Company has not generated significant revenues and is dependent on the raising of sufficient capital to realize its assets and discharge its obligations. While the Company has been successful in obtaining financing in the past, there is no guarantee that it will continue to do so in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These conditions include the fact that the Company has incurred operating losses since inception, has no source of operating cash flow, and that there can be no assurances that sufficient funding will be available to cover general and administrative expenses necessary for the maintenance of a public company. The Company's status as a going concern is contingent upon raising the necessary funds via private placement or debt financing. Continued support of shareholders and the ability to raise funds through the issuance of equity or debt will be required. Realization values may be substantially different from carrying values as shown in these financial statements. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments may be material.

At January 31, 2015, the Company had cash and cash equivalents of $114,365 (December 31, 2013 - $38,846) and a working capital deficiency of $223,893 (December 31, 2013 – deficiency of $1,487,177). During the thirteen month period ended January 31, 2015, the Company incurred a net loss of $7,113,737 (twelve month period December 31, 2013 - $360,372), used cash in operations totaling $2,132,894 (twelve month period ended December 31, 2013 – $105,083), generated cash from financing activities of $2,350,720 (twelve month period ended December 31, 2013 - $137,600) and used cash in investing activities of $142,307 (twelve month period ended December 31, 2013 - $nil).

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## 1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN (CONTINUED)

The consolidated financial statements of the Company for the thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013 were approved and authorized for issue by the Board of Directors on May 26, 2015.

The financial statements have been prepared on a historical cost basis except for those financial instruments carried at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

## 2. BASIS OF PREPARATION

**Statement of compliance**

These consolidated financial statements of the Company were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies were consistently applied to all the periods presented unless otherwise noted below.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiary ARHT Media (USA) Inc., a company incorporated in the State of California.

*Subsidiaries*
Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

## 3. SIGNIFICANT ACCOUNTING POLICIES

*Foreign currency translation*
The presentation currency of the Company is the Canadian dollar. The functional currency of the Company and its subsidiary is the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("Foreign Currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in Foreign Currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in Foreign Currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of loss within "office, rent and supplies". All other foreign exchange gains and losses are also presented in the consolidated statement of operations within "office, rent and supplies".

*Income tax*
Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. As at January 31, 2015, the Company had not incurred any current taxes payable (December 31, 2013 - $nil).

Deferred tax is recognized, using the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating losses or tax credits. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Tax credits for research and development are applied against research and development costs during the year in which the costs are incurred, provided that the Company is reasonably certain that the credits will be received. These tax credits must be examined and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash on hand and current balances with banks and similar institutions and guaranteed investment certificates with a maturity date of less than 90 days. Cash equivalents are readily convertible into known amounts of cash and have insignificant risk of changes in value.

*Share capital*
Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded in accordance with the Company's share-based compensation policy.

*Loss per share*
The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

*Research and development*
Research and development costs are expensed as they are incurred. However, development costs are recognized as intangible assets when they meet the following criteria: a) the feasibility of the product has been demonstrated, b) management intends to produce the product and has the capacity to bring it to market or use it, c) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, d) a defined market for the product exists, e) the Company has the resources to complete the project and f) the development costs can be evaluated reliably.

*Financial instruments*
The classification of financial instruments depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition. The classification and measurement of the Company's financial instruments are disclosed in Note 14 to these consolidated financial statements.

*Financial assets*
Financial assets are accounted for on the settlement date. The Company classifies its financial assets into one of the following categories and the accounting policy for each category is as follows:

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fair value through profit or loss*
This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are initially and subsequently recorded at fair value with changes in fair value recognized in profit or loss for the period. Cash equivalents are classified as fair value through profit or loss.

*Loans and receivables*
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value and subsequently recorded on an amortized cost basis using the effective interest method, less any impairment losses. Loans and receivables are included in current assets, except for items with maturities greater than 12 months after the end of the reporting period. Cash and receivables are classified as loans and receivables.

*Held to maturity investments*
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recorded at fair value and subsequently measured at amortized cost basis using the effective interest method, less any impairment losses. These assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

*Available-for-sale*
Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are initially recorded at a fair value and subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses which are recorded in profit or loss for the period.

*Financial liabilities*
The Company classifies its financial liabilities into one of two categories and the accounting policy for each category is as follows:

*Fair value through profit or loss*
This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are initially recorded at fair value with subsequent changes in fair value recognized in profit or loss.

*Other financial liabilities*
This category comprises shareholder loans payable and accounts payable and accrued liabilities, all of which are recognized at amortized cost using the effective interest method.

*Impairment*
At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of held-to-maturity financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

*Fair value hierarchy*
Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:
Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 Inputs that are not based on observable market data.
The Company's cash equivalents are classified as Level 1 of the fair value hierarchy.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Revenue recognition*
The Company recognizes revenue when there is evidence a sales arrangement exists, the sales price is fixed and determinable, collectability is reasonably assured and title has passed. Revenue from fixed-price service contracts and subscriptions are recognized over the life of a contract on a straight–line basis. Revenue billed in advance of its recognition is reflected as deferred revenue. Revenue and income from custom service contracts are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs.

*Share-based payments and warrants*
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

On exercise, the value originally recorded in reserves is recorded to share capital with proceeds received. For those options and warrants that expire after vesting, the recorded value is transferred from reserves to deficit.

## 4. NEW ACCOUNTING POLICIES AND PRONOUNCEMENTS

**New accounting policies**

During the thirteen month period ended January 31, 2015, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements to existing standards. These included IAS 32, IAS 36, and IAS 39. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

During the thirteen month period ended January 31, 2015, the Company acquired computer hardware, software and video projectors and screens and accordingly, implemented a new accounting policy for equipment.

Equipment is recorded at cost less accumulated amortization. The Company reviews the recoverability of assets annually or more frequently, if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of a group of assets to future undiscounted cash flows expected to be generated by that group of assets. When an asset is considered not to be recoverable, the impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount.

Equipment is recorded at cost and is being amortized over its estimated useful life on a straight line basis as follows:

| | |
|---|---|
| Computer hardware | - 3 years |
| Computer software | - 1 year |
| Video projectors and screens | - 1 to 2 years |

## 4. NEW ACCOUNTING POLICIES AND PRONOUNCEMENTS (CONTINUED)

**Recent accounting pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after February 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - Revenue From Contracts With Customers ("IFRS 15") proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

IAS 38 - Intangible Assets ("IAS 38") and IAS 16 – Property, Plant and Equipment ("IAS 16"), were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

## 5. CRITICAL JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

## 5. CRITICAL JUDGMENTS AND ESTIMATION UNCERTAINTIES (CONTINUED)

- Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Research and development expenditures

Management monitors the progress of internal research and development. Significant judgement is required in distinguishing the research phase from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred.

- Income taxes and tax credits receivable

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes and research and development tax credits receivable includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. No amount has been accrued for tax credits for the fiscal period ended January 31, 2015, as this is the first claim being filed by the Company.

- Contingencies

Refer to Note 13.

## 6. PROMISSORY NOTE RECEIVABLE

| | **January 31, 2015** | December 31, 2013 |
|---|---|---|
| Promissory note receivable | **$ 307,897** | $ - |
| Allowance for doubtful accounts | **(307,896)** | - |
| Balance | **$ 1** | $ - |

On June 28, 2013, Vast sold its interest in Calver Resources Inc. and Calver Resources USA Inc., two non-core subsidiaries, to a non-related entity and received in consideration $2 cash and a promissory note for $325,000 payable over three years. The promissory note bears interest at 3% accruing annually and payable at maturity. The promissory note has been measured at amortized cost using the effective interest rate method. A discount rate of 10% per annum was applied, resulting in a fair value of $307,897. A provision has been recorded against this promissory note such that it is carried at a nominal $1 at January 31, 2015 given management's assessment that the likelihood of the promissory note being recovered is low.

## 7. EQUIPMENT

| | Computer hardware | Computer software | Video projectors and screens | Total |
|---|---|---|---|---|
| Cost as at December 31, 2012 and 2013 | $ - | $ - | $ - | $ - |
| Additions | 18,317 | 6,594 | 117,396 | 142,306 |
| Cost as at January 31, 2015 | $ 18,317 | $ 6,594 | $ 117,396 | $ 142,306 |
| Accumulated amortization as at December 31, 2012 and 2013 | $ - | $ - | $ - | $ - |
| Change for the period | (2,563) | (4,396) | (23,425) | (30,384) |
| Accumulated amortization as at January 31, 2015 | (2,563) | (4,396) | (23,425) | (30,384) |
| Net book value as at December 31, 2012 and 2013 | $ - | $ - | $ - | $ - |
| **Net book value as at January 31, 2015** | **$ 15,754** | **$ 2,198** | **$ 93,971** | **$ 111,922** |

## 8. SHAREHOLDER LOANS PAYABLE

| | | Amount |
|---|---|---|
| Balance, December 31, 2012 | (a) | $ 1,000,000 |
| Convertible loan from shareholder | (a) | 12,600 |
| Convertible loan from corporate shareholder | (b) | 75,000 |
| Balance, December 31, 2013 | | 1,087,600 |
| Settlement of shareholder loans | (c) | (650,000) |
| Loan from corporate shareholder | (d) | 100,000 |
| Repayment of loan from corporate shareholder | (d) | (100,000) |
| Repayment of shareholder loans | (c) | (437,600) |
| Loan from shareholder | (e) | 150,000 |
| Repayment of loan from shareholder | (e) | (150,000) |
| **Balance, January 31, 2015** | | $ **-** |

The Company has entered into the following loan arrangements:

a) A shareholder, who is also a director and former officer of the Company, provided convertible loans aggregating $1,012,600 as at December 31, 2013 which bear interest at a rate of 20% per annum and are unsecured with no fixed terms of repayment. Total interest accrued and payable as at January 31, 2015 was $nil (December 31, 2013 - $nil). These loans have a conversion feature that provides the lender with the option to convert the amount of the loan, and any accrued but unpaid interest, into common shares of the Company at a conversion rate of $0.10 per common share. Also, as additional compensation for the provision of loans in the aggregate amount of $1,000,000, the Company issued 1,000,000 common shares to the lender during the year ended December 31, 2012.

**8. SHAREHOLDER LOANS PAYABLE (CONTINUED)**

b) A corporate shareholder, of which a director and former officer is a shareholder, provided convertible loans aggregating $75,000 as at December 31, 2013 which bear interest at a rate of 20% per annum and are unsecured, with no fixed terms of repayment. Total interest accrued and payable as January 31, 2015 was $nil (December 31, 2013 - $nil). The convertible loans provide the lender with the option to convert the amount of the loan, and any accrued but unpaid interest, into common shares of the Company at a conversion rate of $0.10 per common share. Also, as additional compensation for the provision of loans in the aggregate amount of $50,000, the Company issued 1,000,000 common shares to the lender during the year ended December 31, 2013.

c) On March 1, 2014, the Company issued 8,125,000 common shares to settle shareholder loans in the amount of $650,000. Subsequently, the lenders of the loan arrangements described above, agreed to waive all past and future interest owing pursuant to the loan agreements and accordingly, no interest expense has been recorded in the financial statements for the periods presented. The remaining balance of the shareholder loans of $437,600 was repaid from proceeds received from the private placement on April 25, 2014.

d) On March 3, 2014, a corporate shareholder provided a loan for $100,000, bearing interest at 3% per annum and maturing on June 4, 2014. The loan was repaid on April 26, 2014 in full.

e) On September 30, 2014, a private third party entity provided the Company with a loan in the amount of $150,000. The loan was unsecured, bearing interest at 5% per annum, and due on October 1, 2015. The loan was repaid on October 17, 2014 in full.

**9. SHARE CAPITAL**

(a) Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares, with no par value.

(b) Common shares issued:

| | Number of Shares | Amount |
|---|---|---|
| | # | $ |
| **Balance, December 31, 2012** | 21,875,000 | 750,100 |
| Shares issued for cash [(i)] | 625,000 | 50,000 |
| Shares issued for services [(ii)] | 1,250,000 | 100,000 |
| **Balance, December 31, 2013** | 23,750,000 | 900,100 |
| Settlement of shareholder loans [(iii)] | 8,125,000 | 650,000 |
| Private placement [(iv)] | 12,318,755 | 3,079,689 |
| Share issuance cost [(iv)] | - | (86,000) |
| Value of finders' warrants [(iv)] | - | (53,280) |
| Shares issued to acquire Vast [(vi)] | 16,669,209 | 4,167,283 |
| Finders' warrants exercised | 122,000 | 30,500 |
| Value of warrants exercised | - | 17,568 |
| **Balance, January 31, 2015** | 60,984,964 | 8,705,860 |

**9. SHARE CAPITAL (CONTINUED)**

(i) On January 11, 2013, the Company issued 625,000 common shares at $0.08 per share for cash proceeds of $50,000.

(ii) On February 15, 2013, the Company issued 1,250,000 common shares to a corporate shareholder of the Company as partial consideration for the loan facility described in Note 8(b). The shares were valued at $0.08 per share based on the price of recent private placement financings.

(iii) On March 1, 2014, the Company issued 8,125,000 common shares to settle shareholder loans described in Note 8 in the amount of $650,000 at a conversion rate of $0.08 per common share.

(iv) On April 25, 2014, in connection with the RTO, see Note 1, the Company completed a private placement for gross proceeds of $3,079,689 by issuing 12,318,755 shares at a price of $0.25 per share. A total of 400,000 shares were subscribed for by the Company's director for total proceeds of $100,000. A total of $86,000 of share issuance cost was paid, consisting of cash commission of $61,000 to finders, and $25,000 of legal fees. In addition, certain finders were issued a total of 370,000 finder's warrants. Each finder's warrant is exercisable until April 25, 2015 and entitles the holder to acquire one common share for cash consideration of $0.25. $537,600 of the proceeds received was used to settle the remaining portion of the shareholder loans payable, and $429,089 of the proceeds was applied to settle accounts payable.

(v) Effective March 2, 2014, the Company split its issued and outstanding common shares on the basis of one and one quarter (1.25) post-split common shares for each one (1) pre-split common share. The share split did not adjust the terms of conversion or exercise of the outstanding convertible debentures which were convertible into 4,376,000 post-split common shares and outstanding stock options exercisable into 3,750,000 post-split common shares. All references to common shares and per share amounts reflected in these financial statements have been adjusted to retrospectively reflect the effect of this share split.

(vi) On October 15, 2014, Vast and Delebrity completed a RTO and obtained final acceptance of the Exchange for the listing of its common shares. As at that date, 16,669,209 common shares were effectively issued to the shareholders of Vast with an estimated fair value of $4,167,283 based on the financing price as completed by Delebrity on April 25, 2014 of $0.25 per common share. See Note 11.

(c) Per Share Amounts

The weighted average number of common shares outstanding during the thirteen month period ended January 31, 2015 was 43,960,102 (twelve month period ended December 31, 2013 – 23,573,630). There was no dilutive effect of the issued and outstanding options, warrants, or conversion feature on the shareholder loans, for the thirteen month period ended January 31, 2015 and for the twelve month period ended December 31, 2013.

## 10. RESERVES

The Company has a share bonus plan for its directors, employees and consultants. The aggregate maximum number of bonus shares available for issuance from treasury under the plan shall not exceed 10% of the issued and outstanding number of shares. The maximum number of bonus shares to be granted to any one participant under the share bonus plan shall be 2% of the issued and outstanding number of shares. The Company did not issue any shares pursuant to this share bonus plan during the thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013.

The Company also has a stock option plan for its directors, officers, consultants and employees. The maximum number of shares issuable from time to time under the stock option plan is that number of shares equal to 10% of the number of issued and outstanding shares at the date of grant of the stock option, with no on individual being granted more than 5% of the issued and outstanding common shares. The term of the stock options shall be no greater than five years following the date of grant if the shares are listed on the Exchange If the Company is designated as a "Tier 1" listed company by the Exchange, then the term shall be no greater than ten years following the date of grant.

STOCK OPTIONS

The Company's outstanding stock options as at and for the thirteen month period ended January 31, 2015 and twelve month period ended December 31, 2013 are as follows:

| | Number of options issued | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2012 | 2,250,000 | 0.10 |
| Granted | 3,000,000 | 0.10 |
| Expired | (1,500,000) | 0.10 |
| Balance as at December 31, 2013 | 3,750,000 | 0.10 |
| Options acquired from Vast (Note 11) | 49,050 | 39.23 |
| Granted | 2,210,000 | 0.28 |
| Balance as at January 31, 2015 | 6,009,050 | 0.59 |

As at January 31, 2015, outstanding options to acquire common shares of the Company were as follows:

| Number outstanding | Number exercisable | | Grant date | Expiry date | Exercise price $ | Grant date fair value vested $ | Expected volatility | Expected life (yrs) | Expected dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|---|---|---|---|
| 45,050 | 45,050 | (i) | April 28, 2010 | April 28, 2015 | 42.00 | - | 100% | 0.85 | 0% | 1.50% |
| 4,000 | 4,000 | (i) | August 4, 2011 | August 4, 2016 | 8.00 | - | 100% | 0.85 | 0% | 1.50% |
| 750,000 | 750,000 | | December 13, 2012 | December 13, 2017 | 0.10 | 69,750 | 160% | 5 | 0% | 1.36% |
| 2,000,000 | 1,333,333 | (ii) | November 4, 2013 | November 4, 2018 | 0.10 | 162,383 | 160% | 5 | 0% | 1.77% |
| 1,000,000 | 1,000,000 | (iii) | December 9, 2013 | December 9, 2018 | 0.10 | 93,000 | 160% | 5 | 0% | 1.81% |
| 1,960,000 | 1,960,000 | (iv) | October 15, 2014 | October 15, 2019 | 0.25 | 448,840 | 154% | 5 | 0% | 1.56% |
| 250,000 | 250,000 | (v) | November 21, 2014 | November 21, 2019 | 0.50 | 112,750 | 146% | 5 | 0% | 1.46% |
| 6,009,050 | 5,342,383 | | | | | $ 886,723 | | | | |

**10. RESERVES (CONTINUED)**

(i) The estimated fair value of the 49,050 Vast options issued pursuant to the RTO transaction described in Note 11, with a weighted average exercise price of $39 was estimated using the Black-Scholes option pricing model with the following assumptions: an underlying share price of $0.25, an expected life of 0.85 years, an expected volatility of 100%, a risk free interest rate of 1.5% and an expected dividend yield of 0%.

(ii) The grant date fair value of the 2,000,000 stock options granted on November 4, 2013, exercisable at $0.10 and expiring on November 4, 2018, was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 160%; risk-free interest rate of 1.77% and an expected life of 5 years.

(iii) The grant date fair value of the 1,000,000 stock options granted on December 9, 2013, exercisable at $0.10 and expiring on December 9, 2018, was estimated using the Black-Scholes option pricing model with the following assumptions: vested immediately, expected dividend yield of 0%; expected volatility of 160%; risk-free interest rate of 1.81% and an expected life of 5 years.

(iv) The grant date fair value of the 1,960,000 stock options granted on October 15, 2014, exercisable at $0.25 and expiring on October 15, 2019, was estimated using the Black-Scholes option pricing model with the following assumptions: vested immediately, expected dividend yield of 0%; expected volatility of 154%; risk-free interest rate of 1.56% and an expected life of 5 years.

(v) The grant date fair value of the 250,000 stock options granted on November 21, 2014, exercisable at $0.50 and expiring on November 21, 2019, was estimated using the Black-Scholes option pricing model with the following assumptions: vested immediately, expected dividend yield of 0%; expected volatility of 146%; risk-free interest rate of 1.46% and an expected life of 5 years.

The Company recorded stock based compensation of $647,473 during the thirteen month period ended January 31, 2015 (twelve month period ended December 31, 2013: $169,500).

As at January 31, 2015, the options outstanding had a weighted average remaining contractual life of 3.62 years (December 31, 2013–4.61 years).

Expected volatility is based on the historical share prices of comparable entities.

WARRANTS

| | Number of warrants issued | Weighted average exercise price $ |
|---|---|---|
| Balance as at December 31, 2012 and 2013 | - | - |
| Finder's warrants issued | 370,000 | 0.25 |
| Exercised | (122,000) | 0.25 |
| Balance as at January 31, 2015 | 248,000 | 0.25 |

## 10. RESERVES (CONTINUED)

On April 25, 2014, 370,000 finders' warrants were issued to certain finders with respect to the private placement described in Note 5(b)(iv). The grant date fair value of the finders' warrants of $53,280 was estimated using the Black-Scholes option pricing model under the following assumptions: estimated volatility – 160% based on comparable entities, risk-free interest rate – 1.06%; estimated life of 1 year, expiring on April 25, 2015, exercise price of $0.25, and expected dividend yield of 0%. As at January 31, 2015, the warrants outstanding had a weighted average remaining contractual life of 0.35 year.

## 11. RTO TRANSACTION

Under the acquisition accounting rules, Delebrity was determined to be the accounting acquirer of Vast. The transaction is assumed to constitute an asset acquisition as Vast did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their estimated fair market values, which are based on management estimates.

| | |
|---|---|
| **Purchase Price Consideration Paid** | |
| Estimated fair value of shares issued (i) | $4,167,283 |
| Estimated fair value of paid Delebrity options (ii) | - |
| | $4,167,283 |
| **Net Assets Acquired** | |
| Cash | $193,220 |
| Accounts receivable | 15,642 |
| Prepaid expenses | 10,530 |
| Promissory note receivable (Note 6) | 1 |
| Accounts payable and accruals | (49,062) |
| | 170,331 |
| Excess of purchase price over fair value of assets acquired (expensed) | 3,996,952 |
| | $4,167,283 |

## 11. RTO TRANSACTION (CONTINUED)

(i) The estimated fair value of the shares issued was based on the recent financing price as completed by Delebrity prior to the acquisition at $0.25 per common share. See Note 9 (b) (vi).

(ii) The fair value of the 49,050 options issued with a weighted average exercise price of $39 was estimated based on an underlying share price of $0.25, an expected life of 0.85 years, an expected volatility of 100%, a risk free interest rate of 1.5% and an expected dividend yield of 0%.

## 12. RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and also comprise the directors of the Company.

The remuneration of key management personnel during the thirteen months ended January 31, 2015 and twelve months ended December 31, 2013 were as follows:

| | For the 13 months ended January 31, 2015 | For the 12 months ended December 31, 2013 |
|---|---|---|
| Short-term benefits (i) | $ 602,889 | $ 20,100 |
| Share-based payments | 314,883 | 76,500 |
| Total compensation | $ 917,772 | $ 96,600 |

(i) During the thirteen months ended January 31, 2015, Change Path Consulting, a corporation controlled by an officer of the Company, charged consulting fees of $235,000 (twelve months ended December 31, 2013 - $20,100) and Soumi Holdings Inc., a corporation controlled by the Chairman of the Company, charged consulting fees of $155,000 (twelve months ended December 31, 2013 - $Nil).

The following balances were outstanding at the end of the reporting period:

| | Amounts owed to related parties | |
|---|---|---|
| | As at January 31, 2015 | As at December 31, 2013 |
| Change Path Consulting | $ 5,650 | $ - |
| Soumi Holdings Inc. | 5,650 | - |

See also Notes 8, 9, 13 and 17.

## 13. COMMITMENTS AND CONTINGENCIES

**Management Contracts**
The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to approximately $1,530,000 due within one year. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contract approximate $290,000 due within one year.

**Office Lease**
In November 2011, the Company renewed the lease agreement for its office premises extending the lease until January 31, 2017. The annual estimated rent and operating costs for the office premise is approximately $300,000. Effective November 15, 2013, the Company subleased its Calgary office space to a third party on the same terms and conditions as its original lease with the landlord. In the event the subtenant does not meet its commitments, the landlord would pursue the Company for the office lease costs until lease expiry.

**Colombia**
In May 2011, Vast signed a Hydrocarbon Exploration and Production Contract ("E&P Contract") with the Agencia Nacional de Hydrocarburos of Colombia ("ANH") for the oil and gas block Putumayo-03 (the "Putumayo Block"). The Putumayo Block in the Putumayo Basin was successfully secured by Vast during a bid round held on June 22, 2010, in Cartagena, Colombia (the "Bid"). On June 21, 2011, Vast entered into a letter of intent and participation agreement with a private Ontario company ("Ontario Co.") pursuant to which Ontario Co. agreed to acquire a 90% private interest in the Putumayo Block in consideration for paying to Vast a fee of US$50,000, agreeing to reimburse Vast for all expenses of the Bid and to allow Vast to retain a 10% carried interest during the first exploration phase (the "Carried Interest"). Subsequent to the Bid, Ontario Co. was acquired by Sagres Energy Inc. ("Sagres").

The Putumayo Block carries an additional royalty of 7% payable to the Government of Colombia in addition to the basic royalty scheme established under Colombia law, being 8% for up to 5,000 bopd of production and increasing to 25% for a 600,000 bopd field. All other terms of the contract are standard to the model E&P Contract.

The transaction was considered a Non-Arm's Length Transaction for the purposes of the Exchange as Vast and Ontario Co. had common directors and officers at the time the terms of the letter of intent were negotiated.

The E&P Contract requires of a minimum expenditure of USD $12.9 million over a 36 month period and according to the terms of the E&P Contract, Vast was required to issue an additional letter of credit in favor of the ANH for approximately USD $4.0 million ("Additional Guarantee") and incur approximately USD $0.2 million for exploration fees. Vast is aware that Sagres did not meet its work commitments and that all of Sagres' directors and officers resigned on September 11, 2013. On October 3, 2013, Vast terminated its participation agreement with Sagres, and as a result, obtained a 100% interest in the Putumayo Block. Vast remains the contractual party to the E&P Contract and has the obligation to the ANH for all work commitments under the E&P Contract terms (approximately USD $12.9 million).

Vast signed a relinquishment agreement with the ANH to relinquish its interest in the Putumayo Block back to the ANH in exchange for the ANH agreeing to waive all work commitment obligations of Vast related to the E&P Contract. The relinquishment agreement was subject to Vast and the ANH signing a final liquidation agreement and Vast also provided the ANH with certain standard indemnities. As a result, Vast has not recorded any provision for this obligation or indemnity at January 31. 2015.

During January 2014, the ANH drew down USD $100,000 of the USD $110,000 fixed deposit securing the standby letter of credit.

**Scientific Research & Experimental Development ("SR&ED") Tax Credits**
The Company entered into an agreement with a consultant to assist with a SR&ED tax credit claim for the December 31, 2013, October 15, 2014 and January 31, 2015 tax periods. The Company has retained the consultant on a contingency fee basis. The fees payable to the consultant will be deducted from any SR&ED refunds received. Fees are earned only upon acceptance of the claim by the Canada Revenue Agency.

## 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

*Fair Values of Financial Instruments*
The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below:

*Credit Risk*
Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of counterparty on its obligation to the Company. Cash and cash equivalents are held with a reputable Canadian financial institution, from which management believes the risk of loss is remote. HST receivable is due from the Federal Government of Canada. Management believes the credit risk concentration with respect to its financial instruments is minimal.

*Interest Rate Risk*
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The loans payable bore interest at a fixed rate, thus the cash flows are not subject to interest rate risk. The Company does not hedge its exposure to interest rate risk as it is minimal and does not believe there would be any material movements for the thirteen month period ended January 31, 2015 and for the twelve month period ended December 31, 2013 as a result of changes in interest rates.

*Liquidity Risk*
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Given that the Company does not have internally generated cash in flows, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely basis. The Company manages this financial risk by ensuring that funds are available to meet financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operational growth. Refer to Note 1 for details regarding the going concern assumption.

## 15. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of growth to maximize the return to its shareholders. The capital structure of the Company consists of cash and cash equivalents and shareholders' equity.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, changes in economic conditions and the risk characteristics of underlying assets. There were no changes in the Company's approach to capital management during the thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the Exchange which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of January 31, 2015, the Company is not compliant with Policy 2.5. The impact of this violation is not known and is ultimately dependent on the Exchange.

## 16. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2013 - 15.5%) were as follows:

| | January 31, 2015 $ | December 31, 2013 $ |
|---|---|---|
| (Loss) before income taxes | (7,113,737) | (360,372) |
| Expected income tax recovery based on statutory rate | (1,645,000) | (55,900) |
| Adjustment to expected income tax benefit: | | |
| Stock-based compensation | 114,000 | 26,300 |
| Deferred tax assets acquired on acquisition | (8,778,000) | - |
| Non-deductible items | 1,064,000 | 300 |
| Other | (13,000) | - |
| Change in tax rates | (453,000) | - |
| Benefit of tax losses not recognized * | 9,711,000 | 29,300 |
| Income tax provision (recovery) | - | - |

b) Temporary differences

| | January 31, 2015 $ | December 31, 2013 $ |
|---|---|---|
| Non-capital loss carry-forwards | 32,266,000 | 2,229,600 |
| Share issue costs | 89,000 | - |
| Mineral property costs | 5,540,000 | - |
| Other temporary differences | 140,000 | 149,400 |
| | 38,035,000 | 2,379,000 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

**16. INCOME TAXES (CONTINUED)**

As at January 31, 2015, the Company had approximately $32,266,000 (2013 - $2,229,600) of non-capital losses in Canada. Included in this balance are non-capital losses of approximately $27,658,000 incurred by Vast prior to the RTO described in Note 11, which will not be available to offset taxable income in future periods. However, if it is determined that these pre-acquisition tax losses were incurred in carrying on a business that is the same or similar to that carried on by the Company subsequent to the RTO, the losses may be offset against future income derived from the same or similar business. The non capital losses expire as follows:

| | |
|---|---|
| 2026 | 439,000 |
| 2027 | 932,000 |
| 2028 | 2,558,000 |
| 2029 | 4,100,000 |
| 2030 | 3,598,000 |
| 2031 | 3,444,000 |
| 2032 | 4,830,000 |
| 2033 | 2,283,000 |
| 2034 | 9,286,000 |
| 2035 | 796,000 |
| | 32,266,000 |

**17. SUBSEQUENT EVENTS**

On March 6, 2015, the Company announced the closing of its non-brokered private placement financing by issuing 5,172,500 units at a price of $0.40 per unit, for total gross proceeds of $2,069,000 (the “Offering”).

Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one additional share at an exercise price of $0.60 per share for a period of two years from the date of closing of the Offering. If at any time after four months and one day from the closing date the common shares of ARHT trade at $0.75 per common share or higher (on a volume weighted adjusted basis) for a period of 20 consecutive days, the Company will have the right to accelerate the expiry date of the warrants to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. Directors of the Company subscribed for 875,000 units of this private placement.

The proceeds from the Offering are expected to be used for general working capital purposes and to help finance potential acquisitions.

Subsequent to January 31, 2015, 248,000 finder’s warrants were exercised for cash proceeds of $62,000.

On April 28, 2015, 45,050 options expired unexercised.

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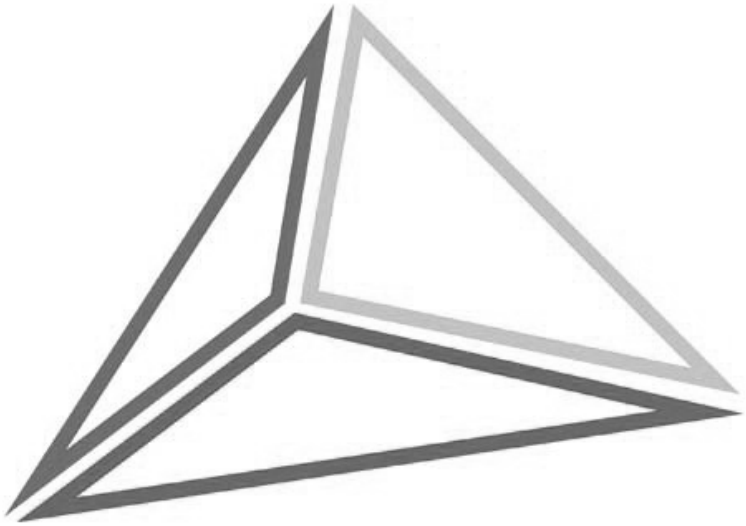


ARHT MEDIA

# Management's Discussion & Analysis

## for the periods ended

## January 31, 2015 and December 31, 2013

## (Expressed in Canadian dollars)

**Date: May 26, 2015**

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of ARHT Media Inc. ("we", "our", "us", "ARHT Media", or the "Company") for the thirteen month period ended January 31, 2015 and twelve month period ended December 31, 2013, and should be read in conjunction with the consolidated financial statements and related notes for the thirteen month period ended January 31, 2015 and twelve month period ended December 31, 2013. Readers should also refer to the filing statement dated September 30, 2014 for additional information. The consolidated financial statements and related notes of ARHT Media have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information, including our press releases, have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online under our profile at www.sedar.com.

The Audit Committee of the Company has reviewed this MD&A and the consolidated financial statements for the thirteen month period ended January 31, 2015, and the Board of Directors approved these documents prior to their release.

## CAUTIONARY STATEMENTS

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, including, but not limited to, the following:

- The Company's strategies and objectives
- General business and economic conditions
- Changes in technology
- The emergence of additional competitors in the industry
- Financial stability of the Company's customers
- Ability for the Company to keep key employees and customers
- The Company's ability to generate positive cash flow
- The Company's ability to manage growth with respect to a new business opportunity

Readers are cautioned that the preceding lists of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by these forward looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements. The forward-looking statements contained in this document are made as of the date hereof.

## Overview

ARHT Media Inc. was co-founded by Rene Bharti (Chairman), and legendary entertainer Paul Anka in 2012, with the goal of creating the world's leading edge digital humans, (known as HumaGrams™) for the purpose of monetizing them across a variety of platforms. The company's unique and patent-pending ARHT™ (Augmented Reality Holographic Technology) engine, allows its HumaGrams™ to interact and conduct real-time e-commerce with consumers, and provide invaluable analytics back towards retailers. ARHT has offices in Toronto, Canada, and Hollywood, California.

ARHT Media trades under the symbol "ART" on the Toronto Venture Stock Exchange as a Tier2 Technology Issuer.

ARHT Media Inc. was formerly known as Vast Exploration Inc. ("Vast"). The Company changed its name after completion of a reverse-takeover transaction on October 15, 2014 whereby Vast acquired all the issued and outstanding shares of a private company named Delebrity Inc. ("Delebrity"). Please refer to the Amended Filing Statement dated September 30, 2014 filed on www.sedar.com for more details on the reverse-takeover transaction.

The Company has one subsidiary – ARHT Media (USA) Inc., a California corporation.

## Highlights

- On October 3, 2014, the Company announced that it filed an amended filing statement prepared in accordance with the TSX Venture Exchange in connection with the Company's previously announced proposed acquisition of all the issued and outstanding shares of Delebrity Inc. The amended filing statement was filed in relation to a filing statement dated September 4, 2014 to include updated financial statements as well as certain other changes.
- On October 15, 2014, the Company announced that it completed its reverse-takeover transaction (the "RTO") with Delebrity Inc. and obtained final acceptance of the TSX Venture Exchange for the listing of its common shares. The Company is a Tier2 technology issuer.
- On October 21, 2014, the Company announced the commencement of trading on the TSX Venture exchange under the symbol "ART"
- Between November 6, 2014 and December 15, 2014, the Company announced the appointment of Paul Anka, Larry King, Jason Bateman, Richard "Skip" Bronson, Michael Buble, Carlos Slim and Irving Azoff to its Board of Advisors
- On December 10, 2014, the Company announced that it began trading on the OTCQB Marketplace
- On January 26, 2015, the Company announced that it won the inaugural "Wildeboer Dellelce Award for the Best in Show" at the Cantec 2015 Investment Conference on January 15, 2015.
- On January 29, 2015, the Company announced that it appointed Ben Mulroney, a Canadian broadcaster and television personality to its Board of Directors

## Subsequent Events

- On March 6, 2015, the Company announced the closing of its non-brokered private placement financing by issuing 5,172,500 units at a price of $0.40 per unit (the "Units"), for total gross proceeds of $2,069,000 (the "Offering"). Each Unit is comprised of one common share (a "Share") and one-half of one common share purchase warrant. Each whole warrant (a "Warrant") will entitle the holder thereof to purchase one additional Share (a "Warrant Share") at an exercise price of $0.60 per Warrant Share for a period of two years from the date of closing of the Offering. If at any time after four months and one day from the closing date the common shares of ARHT trade at $0.75 per common share or higher (on a volume weighted adjusted basis) for a period of 20 consecutive days, the Company will have the right to accelerate the expiry date of the

Warrants to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. Directors of the Company subscribed for 875,000 units of this private placement. The proceeds from the Offering are expected to be used for general working capital purposes and to help finance potential acquisitions.

- Subsequent to January 31, 2015, 248,000 finder's warrants exercised for cash proceeds of $62,000.
- On April 28, 2015, 45,050 options expired unexercised.

## Outlook

Technology & Products

- We continued to demonstrate the ARHT Media Platform to several interested parties in Q1, validating the operational readiness of our beta release. Through minor adjustments in Q1, we anticipate Q2 and subsequent quarters to well articulate our technology and products and associated use cases for beta testing.
- The Engineering Team made significant advancements to the ARHT Engine in Q1, resulting in improved interactivity with HumaGrams and advanced data capture. The Engineering team will continue making advancements to the Proximity Marketing Platform throughout Q2 and subsequent quarters, specifically data capture and analytics, audience profiling and programmatic delivery of HumaGram or promotional content.
- The Product and Engineering Teams will continue research and development efforts tied to early market feedback and planned go-to-market efforts.
- The Product Development, Engineering and Experience Design teams continue to gain velocity in the design, build, test and learn cycles we undertake for the advancement of our products and technology.

Revenues, Markets and Distribution

- With our technology and products ready for beta testing, we experienced a significant volume of demonstrations and interest in Q1 within the following markets:
  - Live Events
  - Retail Display
  - Digital Signage
  - Pharmaceutical
  - Education & Training
  - Trade Shows & Conferences
- We entered early-stage partnership discussions in Q1 with several key parties in the markets identified above with the goal of beta testing our technology and products tied to specific yet highly scalable use cases. We anticipate early potential partners will test our technology and products in a few key areas and/or locations and thus the initial revenue commitments will be nominal (sub-$100K).
- For our early test partners, we will derive revenue from licensing the ARHT Media Platform and from Managed Services fees relating to design, content development, installation and support.
- As we look at Q2, we plan on executing several strategic partnerships to bring real-world feedback to the ARHT Media teams. Specifically, to better inform our key markets, use cases, resources roadmap, data strategy and pricing model, all before we exit beta. These efforts may continue into subsequent quarters within fiscal 2015.
- Looking at Q2 and onwards, we anticipate working relationships with strategic partners who will bring global scale to our technology and products, therefore enabling ARHT Media across multiple geographies within primary and exploratory markets.

- We plan on further developing our Hollywood studio and office in Q2 to increase our potential partnership opportunities and to test at scale within the US market.
- We staffed a Market Strategy & Development team in Q1 to drive go-to-market efforts in key markets we will be testing and validating in Q2 and subsequent periods, and to execute continuous development in these markets.
- As we go through Q2 and potentially Q3, we will continue mobilizing our Business Development and Partnership Development efforts to increase our overall direct and indirect engagement opportunities in the key markets we have identified.

## Summarized Financial Results

## Selected Annual Financial Information

| (Expressed in Canadian dollars $) | Thirteen months ended January 31, 2015 $ | Twelve months ended December 31, 2013 $ | Twelve months ended December 31, 2012 $ |
|---|---|---|---|
| Revenue | 7,500 | - | - |
| Cash (used in) operations | (2,132,894) | (105,083) | (1,643,771) |
| Net (loss) | (7,113,737) | (360,372) | (2,405,655) |
| Net (loss) per share - basic and diluted | (0.16) | (0.02) | (0.15) |
| Total Assets | 407,359 | 71,391 | 116,802 |
| Working Capital | (223,893) | (1,487,177) | (1,446,305) |

As Delebrity Inc. (the predecessor corporation of ARHT Media Inc.) was incorporated under the Business Corporations Act (Ontario) on June 20, 2012, no annual information is presented for 2011.

## Summary of Quarterly Results

| (Expressed in Canadian dollars $) | Jan-15 | Oct-14 | Jun-14 | Mar-14 | Dec-13 | Sep-13 | Jun-13 | Mar-13 |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) | (929,673) | (5,411,414) | (685,480) | (87,170) | (191,594) | (40,065) | (8,999) | (119,714) |
| Per share - basic and diluted | (0.02) | (0.12) | (0.02) | (0.00) | (0.01) | (0.00) | (0.00) | (0.01) |

The Company's net loss has steadily increased since June 2013 as it ramped up its product development efforts. The Company expects to start generating revenues which will reduce its net loss in the coming fiscal year. . The Q3 2014 loss of $5.4 million includes $4 million of non-cash transaction costs associated with the Company's reverse take-over transaction.

## Results of Operations

| (Expressed in Canadian dollars) | For the 13 months ended January 31, 2015 $ | For the 12 months ended December 31, 2013 $ |
|---|---|---|
| Revenue | 7,500 | - |
| Expenses | | |
| Consulting and management fees | 829,840 | 26,872 |
| Research expenditures | 746,347 | 35,347 |
| Professional fees | 255,418 | 16,200 |
| Travel | 157,137 | 9,619 |
| Share-based compensation | 647,473 | 169,500 |
| Office, rent and supplies | 245,102 | 2,834 |
| Shareholder, communications and filing fees | 138,989 | - |
| Selling and marketing | 135,817 | - |
| Amortization | 30,384 | - |
| Event cost (recovery) | (62,222) | - |
| Finance costs | - | 100,000 |
| Transaction costs | 3,996,952 | - |
| Total net loss and comprehensive loss | 7,113,737 | 360,372 |

During thirteen month period ended January 31, 2015, total expenses were $7,113,737. Excluding non-cash "reverse-takeover over transaction costs" of $3,996,952, non-cash share based compensation $647,473 and non-cash amortization $30,384, cash expenses for the year were $2,446,428 (twelve month period ended December 31, 2013: $90,872). The Company has two production studios – one in California and one in Toronto. It also maintains an office in Toronto. The costs of the three locations are included in office, rent and supplies of $245,102. Research expenditures of $746,347 includes all research and development of the Company's HumaGram technology.

The increase in total expenses compared to the twelve month period ended December 31, 2013 of 360,372 was primarily due to increased activities relating to development of HumaGram, non-cash transaction cost from the reverse take-over and ramp up efforts to commercialize the product.

## Cash Flows

Cash Flows for the thirteen month period ended January 31, 2015 and twelve month period ended December 31, 2013:

| (Expressed in Canadian dollars $) | For the thirteen months ended January 31, 2015 | For the twelve months ended December 31, 2013 |
|---|---|---|
| Cash (used in) operating activities before change in working capital items | (2,438,928) | (90,872) |
| Net change in working capital items | 306,034 | (14,211) |
| Net cash provided by financing activities | 2,350,720 | 137,600 |
| Net cash (used) in investing activities | (142,307) | - |
| Change in cash | 75,519 | 32,517 |

Cash of $2,438,928 was used in operating activities before change in working capital items during the year ended January 31, 2015 compared to $90,872 used in operating activities during the year ended December 31, 2013 primarily due to increased activities relating to development of HumaGram.

On April 25, 2014, the Company completed a private placement for gross proceeds of $3,079,689 by issuing 12,318,755 shares at a price of $0.25 per share. A total of $86,000 of share issuance cost was paid, consisting of cash commission of $61,000 to finders, and $25,000 of legal fees. $537,600 of the proceeds received was used to settle the remaining portion of the shareholder loans payable, and $429,089 of the proceeds was applied to settle accounts payable.

Cash used of $142,307 for investing activities during the thirteen month period ended January 31, 2015 was for acquisition of equipment used in HumaGram production. No equipment was acquired during the twelve month period ended December 31, 2013.

## Liquidity and Capital Resources

The Company defines capital that it manages as the aggregate of its share capital, being composed of capital stock, warrants, options, deficit and cash. Its objective when managing capital is to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

The Company's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements at any point in time. 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. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

At January 31, 2015, the Company has not yet achieved profitable operations, has a working capital deficiency of $223,893 and accumulated deficit of $9,740,264 since its inception. On March 6, 2015, the Company announced the closing of its non-brokered private placement financing by issuing 5,172,500 units at a price of $0.40 per unit, for total gross proceeds of $2,069,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. The Company will seek additional financing in the near term to have sufficient cash on hand to fund operating expenses and development costs until it becomes operating cash flow positive.

The Company has historically financed its operations and met its capital requirements primarily through debt and the sale of capital stock by way of private placements. There can be no certainty that the Company will be able to obtain future financings from these sources.

The operations of the business, in the long term, are dependent upon the Company's ability to successfully achieve market acceptance of its current suite of products and any new products that may be introduced. Until such time as the Company has sufficient sales revenue from which to internally fund its operating cost requirements, the Company will likely require additional financings. These future financings may be obtained from the sale of assets, additional debt arrangements, or the issuance of additional equity securities. The issuance of additional equity securities by the Company could result in significant dilution in the equity interests of the current stockholders. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms. If the Company is not able to obtain the additional financing on a timely basis, it may be forced to scale down or perhaps even cease the operation of its business.

These factors may raise significant doubt about the Company's ability to continue as a going concern. The Company's condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown on the January 31, 2015 consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

## Risks and Uncertainties

The risks and uncertainties below must be taken into account, as they may affect the Company's ability to achieve our strategic goals. Investors are therefore advised to consider the following items in assessing the Company's future prospects as an investment.

**Future operations**

Presently, the Company's revenues are not sufficient to meet operating and capital expenses and the Company has incurred operating losses since inception, which are likely to continue for the foreseeable future.

Due to the uncertainty of the Company's ability to meet its current operating and capital expenses, in the audit report attached to the consolidated financial statements for the thirteen month period ended January 31, 2015, the Company's independent registered public accounting firm included an emphasis of matter paragraph regarding concerns about material uncertainty that may cast significant doubt our ability to continue as a going concern.

There is substantial doubt about the Company's ability to continue as a going concern as the continuation of the business may be dependent upon obtaining further financing, successful and sufficient market acceptance of current products and any new products that may be introduced, the continuing successful development of product and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by the Company could result in a significant dilution in the equity interests of the current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments.

There are no assurances that the Company will be able to obtain further funds required for continued operations. The

Company is pursuing various financing alternatives to meet its long-term financial requirements. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms. If the Company is not able to obtain the additional financing on a timely basis, it will be forced to scale down or perhaps even cease the operation of its business.

**Competition and technological obsolescence**

The markets for the Company's products and services experience ongoing technological changes and the Company must compete with existing technology and service providers, new companies and advancing technologies. In order to remain fully competitive, the Company must continue to innovate and respond with advanced generations of software, products and services. The inability to react in a timely fashion to technological and competitive changes could have a negative impact on the Company and its ability to attract and retain customers. Moreover, the highly competitive market in which the Company operates could cause the Company to reduce its prices and offer other favorable terms in order to compete successfully with its rivals. These practices could, over time, limit the prices that the Company can charge for its products and services. If the Company was unable to offset such potential price reductions from software sales and related products it could negatively impact the Company's profit margins and operating results.

**Possible dilution to present and prospective shareholders**

Business negotiations related to the Company's search for new business opportunities may result in the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

**Dependence of key personnel**

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

**Lack of trading**

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

**Volatility of share price**

Market prices for company shares listed on the TSX Venture Exchange are often volatile. Factors such as announcements of financial results, and other factors could have a significant effect on the price of the Company's shares.

**Third party credit risk**

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**Regulatory**

Technology operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company's operations may require licenses and permits from various governmental authorities in the countries in which it operates. There can be no assurance that the Company, or its partners, will be able to obtain all necessary licenses and permits that may be required to carry out or continue its operations.

**Conflicts of interest**

Certain of the directors and officers of the Company may serve from time to time as directors, officers, promoters and members of management of other companies involved in technology similar to the Company and therefore it is possible that a conflict may arise between their duties as a director or officers of the Company and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and the directors and officers will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

**Litigation**

All industries, including the technology industry, are subject to legal claims, with and without merit. Legal proceedings may arise from time to time in the course of the Company's business. Such litigation may be brought against the Company or one or more of its subsidiaries in the future from time to time or the Company or one or more of its subsidiaries may be subject to another form of litigation. Defense and settlement costs of legal claims can be substantial, even with respect to lawsuits that have no merit.

**Lack of dividend policy**

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends paid by the Company will remain subject to the discretion of the Company's Board of Directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

## Related Party Transactions

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and also comprise the directors of the Company.

The remuneration of key management personnel during the thirteen month period ended January 31, 2015 and twelve month period ended December 31, 2013 were as follows:

| | For the 13 months ended January 31, 2015 | For the 12 months ended December 31, 2013 |
|---|---|---|
| Short-term benefits (i) | $ 602,889 | $ 20,100 |
| Share-based payments | 314,883 | 76,500 |
| Total compensation | $ 917,772 | $ 96,600 |

(i) During the thirteen months ended January 31, 2015, Change Path Consulting, a corporation controlled by an officer of the Company, charged consulting fees of $235,000 (twelve months ended December 31, 2013 - $20,100) and Soumi Holdings Inc., a corporation controlled by the Chairman of the Company, charged consulting fees of $155,000 (twelve months ended December 31, 2013 - $Nil).

The following balances were outstanding at the end of the reporting period:

| | Amounts owed to related parties | |
|---|---|---|
| | As at January 31, 2015 | As at December 31, 2013 |
| Change Path Consulting | $ 5,650 | $ - |
| Soumi Holdings Inc. | 5,650 | - |

## Financial Instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments, approximates their carrying values due to the short-term nature of these instruments. The Company's financial instruments recorded at fair value consists of cash and cash equivalents, are classified as level 1 within the fair value hierarchy.

The Company is exposed to a variety of financial risks by virtue of its activities including but not limited to the following:

a) *Currency risk* - The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar, namely the U.S. dollar. The Company has determined that there is very limited currency risk at this time as its expenses in U.S. dollars are not significant at this time.

b) *Credit risk* - Credit risk is risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in large Canadian financial institutions. Financial instruments included in accounts receivable consist of sales tax recoverable from the Government of Canada. The Company's financial instruments are not exposed to significant credit risk.

c) *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 exposed to limited interest rate risk as it only holds cash and does not have any interest bearing debt at January 31. 2015.

d) *Liquidity risk* - Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

**Capital management**

The Company defines capital that it manages as the aggregate of its share capital, being composed of capital stock, reserves, deficit and cash. Its objective when managing capital is to ensure that the Company will continue as a going concern, so that is can provide products and services to its customers and returns to its shareholders.

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 and cash equivalents and investments. The Company requires capital to maintain its operating businesses, sustain corporate operations and repay existing obligations. The Company may seek additional financing by means of issuing share capital, the sale of assets or debt financing. There can be no certainty of the Company's ability to raise any additional financing from any of these sources.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. 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 thirteen month period ended January 31, 2015 and the twelve month period ended December 31, 2013.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange ("CSE") which requires adequate working capital of $50,000.

## New Accounting Policies and Pronouncements

**New accounting policies**

During the thirteen month period ended January 31, 2015, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements to existing standards. These included IAS 32, IAS 36, and IAS 39. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

During the thirteen month period ended January 31, 2015, the Company acquired computer hardware, software and video projectors and screens and accordingly, implemented a new accounting policy for equipment.

Equipment is recorded at cost less accumulated amortization. The Company reviews the recoverability of assets annually or more frequently, if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of a group of assets to future undiscounted cash flows expected to be generated by that group of assets. When an asset is considered not to be recoverable, the impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount.

Equipment is recorded at cost and is being amortized over its estimated useful life on a straight line basis as follows:

| | |
|---|---|
| Computer hardware | - 3 years |
| Computer software | - 1 year |
| Video projectors and screens | - 1 to 2 years |

**Recent accounting pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after February 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - Revenue From Contracts With Customers ("IFRS 15") proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

IAS 38 - Intangible Assets ("IAS 38") and IAS 16 – Property, Plant and Equipment ("IAS 16"), were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.The following pronouncements have not yet been adopted and are being evaluated to determine their impact on the Company's financial statements.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after February 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

## Commitments and Contingencies

**Management Contracts**

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to approximately $1,530,000 due within one year. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contract approximate $290,000 due within one year.

**Office Lease**

In November 2011, the Company renewed the lease agreement for its office premises extending the lease until January 31, 2017. The annual estimated rent and operating costs for the office premise is approximately $300,000. Effective November 15, 2013, the Company subleased its Calgary office space to a third party on the same terms and conditions as its original lease with the landlord. In the event the subtenant does not meet its commitments, the landlord would pursue the Company for the office lease costs until lease expiry.

**Colombia**
In May 2011, Vast signed a Hydrocarbon Exploration and Production Contract ("E&P Contract") with the Agencia Nacional de Hydrocarburos of Colombia ("ANH") for the oil and gas block Putumayo-03 (the "Putumayo Block"). The Putumayo Block in the Putumayo Basin was successfully secured by Vast during a bid round held on June 22, 2010, in Cartagena, Colombia (the "Bid"). On June 21, 2011, Vast entered into a letter of intent and participation agreement with a private Ontario company ("Ontario Co.") pursuant to which Ontario Co. agreed to acquire a 90% private interest in the Putumayo Block in consideration for paying to Vast a fee of US$50,000, agreeing to reimburse Vast for all expenses of the Bid and to allow Vast to retain a 10% carried interest during the first exploration phase (the "Carried Interest"). Subsequent to the Bid, Ontario Co. was acquired by Sagres Energy Inc. ("Sagres").

The Putumayo Block carries an additional royalty of 7% payable to the Government of Colombia in addition to the basic royalty scheme established under Colombia law, being 8% for up to 5,000 bopd of production and increasing to 25% for a 600,000 bopd field. All other terms of the contract are standard to the model E&P Contract.

The transaction was considered a Non-Arm's Length Transaction for the purposes of the Exchange as Vast and Ontario Co. had common directors and officers at the time the terms of the letter of intent were negotiated.

The E&P Contract requires of a minimum expenditure of USD $12.9 million over a 36 month period and according to the terms of the E&P Contract, Vast was required to issue an additional letter of credit in favor of the ANH for approximately USD $4.0 million ("Additional Guarantee") and incur approximately USD $0.2 million for exploration fees. Vast is aware that Sagres did not meet its work commitments and that all of Sagres' directors and officers resigned on September 11, 2013. On October 3, 2013, Vast terminated its participation agreement with Sagres, and as a result, obtained a 100% interest in the Putumayo Block. Vast remains the contractual party to the E&P Contract and has the obligation to the ANH for all work commitments under the E&P Contract terms (approximately USD $12.9 million).

Vast signed a relinquishment agreement with the ANH to relinquish its interest in the Putumayo Block back to the ANH in exchange for the ANH agreeing to waive all work commitment obligations of Vast related to the E&P Contract. The relinquishment agreement was subject to Vast and the ANH signing a final liquidation agreement and Vast also provided the ANH with certain standard indemnities. As a result, Vast has not recorded any provision for this obligation or indemnity at January 31. 2015.

During January 2014, the ANH drew down USD $100,000 of the USD $110,000 fixed deposit securing the standby letter of credit.

**Scientific Research & Experimental Development ("SR&ED") Tax Credits**
The Company entered into an agreement with a consultant to assist with a SR&ED tax credit claim for the December 31, 2013, October 15, 2014 and January 31, 2015 tax periods. The Company has retained the consultant on a contingency fee basis. The fees payable to the consultant will be deducted from any SR&ED refunds received. Fees are earned only upon acceptance of the claim by the Canada Revenue Agency.

## Off Balance-Sheet Items

The Company does not have any off-balance sheet items as at January 31, 2015 and December 31, 2013.

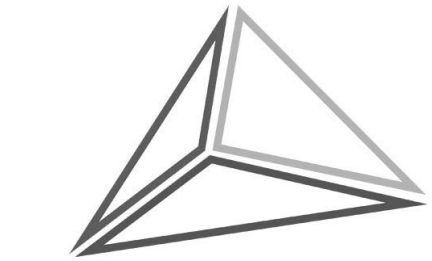
## Management's Responsibility for Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and these Financial Statements together with the other financial information included in these filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in these filings. The Board of Directors approves the Financial Statements and MD&A and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

## Outstanding Share Data

As at the date of this MD&A, the following common shares, common shares purchase options, share purchase warrants and special performance shares were issued and outstanding:

As at the date of this MD&A, there were 66,405,464 common shares outstanding, 5,964,000 stock options outstanding with a weighted average exercise price of $0.27 per share and 2,586,250 warrants outstanding.



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