

URBANIMMERSIVE INC.
Consolidated Financial Statements
Years ended on September 30, 2022 and 2021

URBANIMMERSIVE INC.

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders of
Urbanimmersive Inc.

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Opinion

We have audited the consolidated financial statements of Urbanimmersive Inc. (hereafter "the Company"), which comprise the consolidated statements of financial position as at September 30, 2022 and 2021, and the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 to the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information other than the consolidated financial statements and the auditor's report thereon

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

*Raymond Chabot Grant Thornton LLP*¹

Montréal
January 26, 2023

¹ CPA auditor, public accountancy permit no. A120795

URBANIMMERSIVE INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended September 30, 2022 and 2021

(in Canadian dollars)

	Notes	2022	2021
		\$	\$
Revenues		8,337,172	4,069,008
Cost of goods sold		90,046	788,218
Direct charges	17	4,070,352	651,665
Amortization		1,266,459	729,845
Gross margin		<u>2,910,315</u>	<u>1,899,280</u>
Operating expenses	17	5,066,027	2,622,458
Gain on disposal of property and equipment		(5,117)	-
Operational income (loss)		<u>(2,150,595)</u>	<u>(723,178)</u>
Other expenses (revenues)			
Interest revenues		(495)	(3,297)
Financial expenses	18	285,401	763,306
Write-off of goodwill		224,566	-
Reevaluation of intangible assets		54,079	-
Change in fair value of earn-outs		(998,388)	-
Change in fair value of embedded derivatives		-	2,452,668
Change in fair value of warrants		(42,120)	25,120
		<u>(476,957)</u>	<u>3,237,797</u>
Loss before taxes		(1,673,638)	(3,960,975)
Current income taxes (recovered)	19	(23,976)	1,303
Deferred income taxes	19	(59,509)	(253,543)
Net loss		<u>(1,590,153)</u>	<u>(3,708,735)</u>
Other comprehensive loss (income)			
Items that will be reclassified subsequently in net income			
Foreign currency translation differences		(20,967)	-
Comprehensive income (loss)		<u>(1,611,120)</u>	<u>(3,708,735)</u>
Basic and diluted net loss per common share	16	(0.04)	(0.15)

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

URBANIMMERSIVE INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (in Canadian dollars)

	Notes	September 30, 2022	September 30, 2021
		\$	\$
ASSETS			
Current assets			
Cash		674,984	1,677,917
Trade and other receivables	6	308,643	290,661
Inventories		32,142	118,424
Prepaid expenses		47,250	39,232
Loan to an employee, 1%		-	36,491
		<u>1,063,019</u>	<u>2,162,725</u>
Non-current assets			
Property and equipment	7	1,113,998	1,103,140
Intangible assets	8	8,338,160	5,134,266
Right-of-use assets		150,675	-
Goodwill	9	8,247,679	4,231,914
		<u>17,850,512</u>	<u>10,469,320</u>
Total assets		<u><u>18,913,531</u></u>	<u><u>12,632,045</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	11	905,443	556,633
Deferred revenue		45,685	37,555
Balance of purchase	2	73,903	117,426
Current portion of long-term debt	12	3,611,508	317,670
Current portion of lease liabilities	25	57,982	-
		<u>4,694,521</u>	<u>1,029,284</u>
Non-current liabilities			
Long-term debts	12	70,000	1,537,563
Lease liabilities	25	87,172	-
Earn-outs payable		476,756	-
Warrants	15	-	42,120
Deferred taxes	19	746,791	607,419
		<u>1,380,719</u>	<u>2,187,102</u>
Total liabilities		<u><u>6,075,240</u></u>	<u><u>3,216,386</u></u>
EQUITY			
Share capital	14	27,983,151	23,274,566
Contributed surplus		32,458	32,458
Provision for share options and warrants	15	2,221,969	1,896,803
Cumulative other comprehensive income		44,462	65,429
Own shares held	2	(12,000)	(12,000)
Deficit		(17,431,749)	(15,841,597)
Total equity		<u><u>12,838,291</u></u>	<u><u>9,415,659</u></u>
Total liabilities and equity		<u><u>18,913,531</u></u>	<u><u>12,632,045</u></u>

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

URBANIMMERSIVE INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended September 30, 2022 and 2021

(in Canadian dollars)

	Notes	Share capital		Own shares held	Contributed surplus	Provision for share options and warrants	Cumulative other comprehensive income (loss)	Deficit	Total
		Number	\$	\$	\$	\$	\$	\$	\$
Balance on October 1st, 2020		17,599,785	12,404,472	-	32,458	1,937,497	65,429	(12,132,862)	2,306,994
Issuance of shares upon conversion of convertible debentures	14	7,252,000	6,078,442	-	-	-	-	-	6,078,442
Issuance of shares as part of a private placement	14	2,893,750	2,893,750	-	-	-	-	-	2,893,750
Issuance of shares as part of acquisition of businesses	2	1,320,000	905,000	-	-	-	-	-	905,000
Issuance of shares as part of settlement of liabilities	14	338,474	265,569	-	-	-	-	-	265,569
Issuance of shares upon conversion of warrants	15	527,240	452,813	-	-	(121,413)	-	-	331,400
Issuance of shares upon conversion of stock options	15	162,216	164,365	-	-	(79,077)	-	-	85,288
Share-based payments	15	-	-	-	-	150,721	-	-	150,721
Share payments	15	275,961	214,355	-	-	-	-	-	214,355
Unit payments	15	106,266	106,266	-	-	-	-	-	106,266
Own shares held	2	(15,000)	-	(12,000)	-	-	-	-	(12,000)
Cost related to the issuance of shares	14	-	(210,466)	-	-	9,076	-	-	(201,390)
Net loss		-	-	-	-	-	-	(3,708,735)	(3,708,735)
Balance on September 30, 2021		<u>30,460,692</u>	<u>23,274,566</u>	<u>(12,000)</u>	<u>32,458</u>	<u>1,896,804</u>	<u>65,429</u>	<u>(15,841,597)</u>	<u>9,415,659</u>
Balance on October 1st, 2021		30,460,692	23,274,566	(12,000)	32,458	1,896,804	65,429	(15,841,597)	9,415,659
Issuance of shares as part of a private placement	14	134,894	106,566	-	-	20,234	-	-	126,800
Issuance of shares as part of acquisition of businesses	2	5,365,024	3,808,231	-	-	-	-	-	3,808,231
Issuance of shares as part of acquisition of intangible assets		365,292	312,354	-	-	-	-	-	312,354
Issuance of shares upon conversion of warrants	15	202,560	141,792	-	-	(15,192)	-	-	126,600
Issuance of shares upon conversion of stock options	15	100,000	68,696	-	-	(32,446)	-	-	36,250
Share-based payments	15	-	-	-	-	352,569	-	-	352,569
Share payments	15	690,528	299,225	-	-	-	-	-	299,225
Cost related to the issuance of shares	14	-	(28,278)	-	-	-	-	-	(28,278)
Net loss		-	-	-	-	-	-	(1,590,153)	(1,590,153)
Foreign currency translation differences		-	-	-	-	-	(20,967)	-	(20,967)
Balance on September 30, 2022		<u>37,318,990</u>	<u>27,983,152</u>	<u>(12,000)</u>	<u>32,458</u>	<u>2,221,969</u>	<u>44,462</u>	<u>(17,431,750)</u>	<u>12,838,291</u>

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

URBANIMMERSIVE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2022 and 2021

(in Canadian dollars)

	Notes	2022	2021
		\$	\$
OPERATING ACTIVITIES			
Net loss		(1,590,153)	(3,708,735)
Non-cash profit or loss items			
Amortization - Property and equipment		115,915	80,990
Amortization - Intangible assets		1,112,463	644,742
Amortization - Right-of-use assets		38,081	4,111
Amortization - Cost related to the issuance of long-term	18	6,561	269,259
Write-off of goodwill		224,566	-
Reevaluation of intangible assets		54,079	-
Share-based, share and unit payments		651,794	630,645
Theoretical interest on lease liabilities		7,746	-
Theoretical interest on convertible debentures		-	204,559
Loss on disposal of property and equipment		(5,117)	-
Deferred income taxes		(59,509)	(253,543)
Change in fair value in earn-outs		(998,388)	-
Change in fair value of embedded derivatives		-	2,452,668
Change in fair value of warrants		(42,120)	25,120
		<u>(484,083)</u>	<u>349,815</u>
Change in non-cash working capital items	20	<u>387,716</u>	<u>(375,905)</u>
Net cash related to operating activities		<u>(96,367)</u>	<u>(26,090)</u>
INVESTING ACTIVITIES			
Acquisition of businesses	2	(2,548,600)	(1,770,000)
Acquisition of tangibles assets	7	(231,283)	(360,181)
Disposal of tangibles assets	7	89,475	-
Acquisition of intangibles assets	8	(245,082)	(394,952)
Cash acquired through acquisition of businesses	2	<u>200,719</u>	<u>349,042</u>
Net cash related to investing activities		<u>(2,734,771)</u>	<u>(2,176,091)</u>
FINANCING ACTIVITIES			
Long-term debts	12	2,000,000	230,800
Repayment of long-term debts	12	(169,286)	(446,542)
Repayment of long-term debts	2	(194,732)	-
Repayment of lease liabilities		(51,367)	(4,089)
Issuance of shares	14	289,650	3,310,438
Costs related to the issuance of shares	14	<u>(28,278)</u>	<u>(95,123)</u>
Net cash related to financing activities		<u>1,845,987</u>	<u>2,995,484</u>
Increase (decrease) in cash		(985,150)	793,303
Effect of foreign currency translation differences		(17,783)	-
Cash, beginning of period		<u>1,677,917</u>	<u>884,614</u>
Cash, end of period		<u><u>674,984</u></u>	<u><u>1,677,917</u></u>
Interest received		495	3,297
Interest paid		(201,429)	(80,933)

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

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 1. STATUTES OF INCORPORATION, NATURE OF ACTIVITIES AND GOING CONCERN ASSUMPTION

URBANIMMERSIVE INC., incorporated on April 6, 2011 under the Canada Business Corporations Act, and its subsidiaries (the "Corporation"), develop and commercialize immersive a SaaS platform offering immersive marketing solutions, 3D photographic equipment and photography services addressed to professional photographers. Corporation's common shares are listed on the TSX Venture under the symbol UI and on the OTCQB Venture under the symbol UBMRF. The Corporation's head office is located at 306-3135, Moise-Vincent blvd., St-Hubert, Quebec, Canada.

The annual reporting date of the Corporation is September 30 and these consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS"), have been approved by the Board of Directors on January 26, 2023 in preparation of their filing.

The accompanying consolidated financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As of September 30, 2021, there are significant uncertainties that cast important doubt on the Company's

For the year ended September 30, 2022, the Corporation recorded net loss of \$1,590,153 (\$3,708,735 for the year ended September 30, 2021) and utilized cash flows for its operating activities of \$154,152 (negative cash flows of \$26,090 for the year ended September 30, 2021). As of September 30, 2022, the Corporation's cash amounted to \$674,984 (\$1,677,917 as at September 30, 2021) along with unused lines of credit totaling \$349,000 and a negative working capital of \$3,631,502 (positive working capital of \$1,133,441 as of September 30, 2021).

The Corporation has prepared a budget using assumptions that management considers reasonable. Achieving budgeted results depends mainly on the increase of sales, compliance with the gross operating margin forecast, support of its financial partners, control of general and administrative expenses as well as the economical and financial impact resulting from the Covid-19 sanitary crisis which may cause material changes in assets or liabilities and have a material impact on its future operations. For the fiscal year ended September 30, 2022, the sanitary crisis has significant impact on the Company coming from unusual real estate market conditions including historical low listings and transactions and very quick sales turnover (seller market). The Company has taken and will continue to take proper actions following these events to minimize its impact on its business. However, it is impossible to determine all the financial implications of these events in the future. The sanitary crisis may have an impact on the Company's ability to execute its business plan and raise capital. Based on its recent financial results and current liquidities, Management believes the Company will be able to continue to execute its business plan and commercial strategy.

These consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and classifications to the consolidated statement of financial position that would be necessary were the going concern assumption would not be appropriate. These adjustments could be material.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITIONS OF BUSINESSES

For the Corporation, those acquisitions described below meet its goal to integrate vertically its activities and offers a full set of 3D immersive technological solutions to its professional photographers.

Those transaction meet the definition of a business combination under IFRS 3 Business Combinations and therefore was accounted for using the purchase method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred unless they constitute the costs associated with issuing debt or equity securities.

Goodwill represents the excess of the fair value of the consideration transferred in a business acquisition over the fair values of identifiable net assets acquired and liabilities assumed in such acquisitions. Goodwill is measured at the date that control is obtained. Goodwill mainly represents expected synergies on expenses. Goodwill is not expected to be tax deductible.

Immophoto

On November 24, 2021, the Corporation acquired 100% of the shares of Immophoto Inc. ('Immophoto'), a real estate photography agency, in exchange of the following

- Cash consideration of \$300,000;
- Issuance of 103,093 common shares of the Company at a price of \$0.94 per share and discounted by 11% since the shares cannot be traded for a period of 4 months;
- Contingent payment ('Earn-out') of up to \$100,000, payable in shares on November 23, 2022.

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	300,000
Issuance of common shares (note 10)	86,248
Earn-out payable in shares	29,075
	415,323
	415,323
Consideration receivable (working capital adjustment clause)	(3,305)
Net consideration paid	412,018
Assets acquired	
Cash	39,392
Trade and other receivables	15,888
Property and equipment	1,686
Customer relations	141,000
Goodwill	284,965
	482,931
Liabilities assumed	
Trade and other payables	33,585
Deferred income taxes	37,328
	70,913
Net consideration paid	412,018

The Company incurred acquisition costs totalling \$4,500.

Since the acquisition date, Immophoto generated revenues totaling \$400,632 and a net loss of \$53,299.

Since October 1st, 2021, Immophoto generated revenues totaling \$505,704 and a net loss of \$34,112.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

Virtual Access Tours LP

On December 5, 2021, the Corporation acquired 100% of the LP units of Virtual Access Tours LP ('VAT'), a real estate photography agency, in exchange of the following

- Cash consideration of \$448,600;
- Issuance of 589,829 common shares of the Company at a price of \$0.80 per share and discounted by 11% since the shares cannot be traded for a period of 4 months;
- Contingent payment ('earn-out') for up to \$US 450,000, payable in shares, with \$US 225,000 payable as of December 5, 2022 and \$US 225,000 payable as of December 5,

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	448,600
Issuance of common shares (note 10)	417,111
Earn-out payable in shares	199,258
	1,064,969
	1,064,969
Consideration receivable (working capital adjustment clause)	(9,712)
Net consideration paid	1,055,257
Assets acquired	
Cash	66,620
Trade and other receivables	7,756
Trademarks	69,000
Customer relations	466,000
Goodwill	491,533
	1,100,909
Liabilities assumed	
Trade and other payables	45,652
	45,652
Net consideration paid	1,055,257

The Company incurred acquisition costs totalling \$7,000.

Since the acquisition date, Virtual Access Tours generated revenues totaling \$451,648 and a net loss of \$107 160.

Since October 1st, 2021, Virtual Access Tours generated revenues totaling \$546,969 and a net loss of \$98,364.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

Imoto

On December 10, 2021, the Corporation acquired 100% of the units of Imoto LLC ('Imoto'), a real estate photography agency, in exchange of the following consideration:

- Cash consideration of \$1,800,000;
- 3,157,115 common shares of the Company issued at a price of \$0.81 per share and discounted by 12% since the shares cannot be traded for a period of 4 months and the shares were issued on January 3, 2022;
- Balance of purchase of \$151,209
- Contingent payment ('earn-out') of up to \$2,312,000, payable in shares, with \$770,667 payable per year over a maximum of three years.

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	1,800,000
Issuance of common shares (note 10)	2,250,391
Balance of purchase	151,209
Earn-out payable in shares	982,497
	5,184,097
Assets acquired	
Cash	95,041
Trade and other receivables	5,464
Trademarks	640,000
Customer relations	1,876,000
Goodwill	2,653,499
	5,270,004
Liabilities assumed	
Trade and other payables	85,907
	85,907
Consideration paid	5,184,097

The Company incurred acquisition costs totalling \$47,500.

Since the acquisition date, Imoto generated revenues totaling \$3,326,409 and a net loss of \$69,319.

Since October 1st, 2021, Imoto generated revenues totaling \$3,962,984 and a net loss of \$221,811.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

Agento Marketing

On December 15, 2021, the Corporation acquired 100% of the shares of 10366358 Canada Inc. ('Agento Marketing'), a real estate photography agency, in exchange of the

- Issuance of 1,518,987 common shares of the Company at a price of \$0.78 per share and discounted by 11% since the shares cannot be traded for a period of 4 months;
- Contingent payment ('earn-out') of up to \$600,000, payable in shares on December 15, 2022.

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Issuance of common shares (note 10)	1,054,481
Earn-out payable in shares	264,314
	1,318,795
Consideration receivable (working capital adjustment clause)	(52,021)
Net consideration paid	1,266,774
 Assets acquired	
Cash	(334)
Trade and other receivables	41,387
Prepaid expenses	500
Property and equipment	19,014
Right-of-use assets	19,846
Customer relations	621,000
Goodwill	810,334
	1,511,747
 Liabilities assumed	
Trade and other payables	63,574
Lease liabilities	19,846
Deferred income taxes	161,553
	244,973
Net consideration paid	1,266,774

The Company incurred acquisition costs totalling \$4,500.

Since the acquisition date, Agento Marketing generated revenues totaling \$687,276 and a net loss of \$69,781.

Since October 1st, 2021, Agento Marketing generated revenues totaling \$844,558 and a net loss of \$65,793.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

EGP Technovirtuel Inc. ('EGP')

On June 30, 2021, the Corporation acquired 100% of the shares of EGP Technovirtuel Inc. ('EGP'), a real estate photography agency, in exchange of the following consideration:

- Cash consideration of \$1,700,000;
- Issuance of 1,142,857 common shares of the Company at a price of \$0.875 per common share discounted by 25% because the shares cannot be traded for a period of 18 months.
- Balance of sale of \$117,426 paid on November 8, 2021;

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	1,700,000
Issuance of common shares (note 16)	750,000
Balance of purchase	117,426
	2,567,426
Assets acquired	
Cash	320,528
Trade and other receivables	140,546
Prepaid expenses	4,149
Property and equipment	42,494
Software, websites and technological platforms	482,115
Trademarks	108,875
Customer relations	704,911
Goodwill	1,259,789
	3,063,407
Liabilities assumed	
Bank indebtedness	40,000
Trade and other payables	106,797
Deferred income taxes	349,184
	495,981
Consideration paid	2,567,426

The Company incurred acquisition costs totalling \$63,758.

From July 1, 2021 (acquisition date) to September 30, 2021, EGP generated revenues totaling \$311,192 and a net loss of \$241,979.

From October 1, 2020 to September 30, 2021, EGP generated revenues totaling \$1,688,786 and a net profit of \$117,875.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

Graphique ID Solutions Inc.

On June 30, 2021, the Corporation acquired 100% of the shares of Graphique ID Solutions Inc. ('Graphique ID'), a real estate photography agency, in exchange of the following consideration:

- Cash consideration of \$30,000;
- Issuance of 80,000 common shares of the Corporation at a price of \$0.875 per common share;

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	30,000
Issuance of common shares (note 16)	70,000
	100,000
Consideration receivable (working capital adjustment clause)	(16,801)
Net consideration paid	83,199
Assets acquired	
Cash	28,515
Short-term investment in Urbanimmersive	12,000
Trade and other receivables	1,811
Property and equipment	2,451
Client relations	24,191
Goodwill	79,769
	148,737
Liabilities assumed	
Trade and other payables	59,127
Deferred income taxes	6,411
	65,538
Consideration paid	83,199

From July 1, 2021 (acquisition date) to September 30, 2021, Graphique ID generated revenues totaling \$24,485 and a net loss of \$19,353.

From October 1, 2020 to September 30, 2021, Graphique ID generated revenues totaling \$81,523 (net income not available).

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 2. ACQUISITION OF BUSINESSES (Continued)

La Clique Mobile

On June 30, 2021, the Corporation acquired all of the intangible assets of La Clique Mobile S.E.N.C., a real estate photography agency, in exchange of the following

- Cash consideration of \$40,000;
- Issuance of 97,143 common shares of the Corporation at a price of \$0.875 per common share;

The allocation of the identifiable assets acquired and liabilities assumed on the acquisition are as follows:

	\$
Consideration paid	
Cash	40,000
Issuance of common shares (note 16)	85,000
	<u>125,000</u>
Assets acquired	
Client relations	48,324
Goodwill	89,482
	<u>137,806</u>
Liabilities assumed	
Deferred income taxes	12,806
	<u>12,806</u>
Consideration paid	<u>125,000</u>

From July 1, 2021 (acquisition date) to September 30, 2021, La Clique Mobile generated revenues totaling \$20,219 (net income not available).

From October 1, 2020 to September 30, 2021, La Clique Mobile generated revenues totaling \$115,758 (net income not available).

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and evaluation of interim condensed financial statements

The consolidated financial statements are prepared using the significant accounting policies described in the present note. These methods have been applied consistently to all periods presented in these consolidated financial statements.

These consolidated financial statements have been prepared on a historical cost basis except for the embedded derivatives on convertible debentures and warrants in

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

Basis of consolidation

The consolidated financial statements include those of the parent company and its wholly-owned subsidiaries, Immersion (Canada) starting February 14, 2020, Immersion (Mexico) starting on November 18, 2020, EGP Technovirtuel Inc. and Graphique ID Solutions Inc. starting June 30, 2021, Urbanimmersive USA Corporation since November 5, 2021, Agence Immophoto Inc. since November 24, 2021, Virtual Access Tours LP since December 3, 2021, Imoto LLC since December 10, 2021 and Agento Marketing since December 15, 2021. The parent company controls its subsidiaries if exposed, or has rights to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. The annual reporting date of the subsidiaries is September 30.

All transactions and balances between group companies are eliminated upon consolidation, including unrealized profits and losses on transactions between group companies. The amounts presented in the financial statements of the subsidiary have been adjusted as needed so that they comply with the accounting policies adopted by the Corporation.

Net earnings (loss) and other comprehensive income (loss) of a subsidiary acquired or disposed of during the reporting period are recognized from the effective date of the acquisition, or up to the effective date of disposal, as applicable.

Business combination

The Company applies the purchase method to account for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum, at the acquisition date, of the fair values of the transferred assets, the debts incurred and the equity securities issued by the Company, which include the fair value of all assets or liabilities resulting from any counterparty agreement. Acquisition costs are expensed when incurred. Assets acquired and liabilities assumed are generally measured at their fair value on the date of acquisition.

Foreign entities

In 2022, the Corporation formed a subsidiary in the United States, Urbanimmersive USA Inc., which acquired three US entities: Virtual Access Tours LP and Imoto LLC. The assets and liabilities of a foreign entity whose functional currency is different from that of the Corporation are converted into Canadian dollars at the exchange rate in effect on the closing date. Revenues and expenses are translated into Canadian dollars at the average monthly exchange rate at which the transactions take place. Exchange gains and losses resulting from the conversion of foreign operations are recognized in other comprehensive income and are reclassified to profit or loss on the complete or partial disposal of the investment in the foreign operation.

Transactions in foreign currencies

Transactions in foreign currencies are converted into the functional currency of the Corporation at the exchange rates in effect on the date of the transactions (current rate). Exchange gains and losses resulting from the settlement of these transactions and from the revaluation of monetary items at the exchange rate in effect at the end of the financial year are recognized in profit or loss. Non-monetary items are not reconverted at the end of the financial year and are valued at historical cost (converted at the exchange rate on the date of the transaction), with the exception of non-monetary items measured at fair value, which are converted at the exchange rate in effect on the date on which the fair value was determined.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

The Corporation reports and discloses segment information on the same basis as the information reviewed on a regular basis by the CEO, the CFO and the Board of Directors.

The Corporation operates in three distinct operational segments, Software, Photographic Equipment and Services.

The Software segment offers a SaaS marketing platform to professional photographers and other immersive visual content providers.

The Photographic Equipment segment offers a resale service of 3D photographic equipment.

The Service segment offers real estate photography and floor plans and measurements services.

Each segment is managed independently since each requires different technologies and other resources, as well as separate marketing. All intersegment transactions are carried out at prices reflecting arm's length conditions based on the prices charged to unrelated customers for an identical product or service. For management purposes, the Corporation uses the same valuation methods as those used in its consolidated financial statements.

Revenue recognition

Revenues derived from ongoing activities are measured at the fair value of the consideration received or to be received and are recognized when the amount can be measured reliably and it is probable that future economic benefits will flow to the Corporation, when the transaction amount is determined that collection is reasonably assured and the costs incurred or to be incurred can be measured reliably.

Products that do not meet the recognition criteria or that are paid before the delivery of services are recorded as deferred revenue. They are classified either as current or non-current liabilities depending on the expected period of services to be rendered.

In addition to the general principles outlined above, the Corporation applied the following specific principles:

The Corporation has developed SaaS platforms for professional photographers and other immersive visual content providers, commonly named Urbanimmersive and Tourbuzz.

With regards to the Urbanimmersive SaaS platform, the revenue is recognized when the service is rendered to the photographer.

With regards to the Tourbuzz platform, photographers acquire units that can be used to offer various photographic products to their customers. The invoice is produced at the time of the purchase of the units and payable immediately by credit card. The revenue is recognized when the units are used.

With regards to the resale of 3D photographic equipment, revenues are recognized when invoiced and shipped to customers.

With regards to real estate photography services, revenue is recognized when the service is rendered to the photographer.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized in the statement of financial position when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial assessment of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the corporation does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within operating expenses.

Subsequent measurement of financial assets / Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash, trade and other receivables (except for sales taxes) and loan to an employee fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Corporation first identifying a credit loss event. Instead the Corporation considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Company uses a simplified method to recognize trade and other receivables as well as to record the allowance for credit losses expected for the life. These correspond to the expected shortfalls in contractual cash flows taking into account the potential for default at any time during the life of the financial instrument. The Company uses past experience, external indicators and forward-looking information to calculate expected credit losses using a calculation matrix.

The Company assesses the impairment of trade receivables on a collective basis since they share characteristics relating to credit risk as they have been grouped according to the number of days elapsed since the time they are past due.

Classification and measurement of financial liabilities

The Corporation's financial liabilities include borrowings, trade and other payables, balance of purchase, warrants recorded as liabilities as well as the liability component of the convertible debentures. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Corporation designated a financial liability at fair value through profit or loss. Subsequently, all the financial liabilities, except for derivative instruments, are measured at amortised cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income. The equity component is not remeasured subsequent to initial recognition.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instrument

Derivative financial instruments are recognized at fair value through profit or loss. Changes in fair value are recorded in net profit. Embedded derivatives on convertible debentures and certain warrants are classified in this category.

Changes in the fair value of an instrument recognized in profit or loss are presented in other expenses (revenues).

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes cost of goods purchased less discounts. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the normal course of business, less applicable variable selling expenses.

Property and equipment

Property and equipment are stated at historical cost, less any accumulated amortization and any accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition.

Amortization of property and equipment is calculated, on components that have homogeneous useful lives, using the straight-line method over the following estimated useful lives:

Building	25 years
Office improvements	10 years
Office furniture	5 years
Computer and photographic equipment	3 and 4 years

Useful lives, residual values, amortization rates and amortization methods are reviewed annually. Such a review takes into consideration the nature of the assets, their intended uses and technological changes. Gain or loss on disposal is determined by comparing the proceeds with the carrying amount and is recognized in profit or loss.

Intangible assets

Intangible assets with a finite useful life are stated at historical cost, less any accumulated amortization and any accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition.

Amortization of intangible assets is calculated using the straight-line method over the following estimated useful lives:

Customer relations	10 years
Technological platforms and software	5 and 10 years
Patents and trademarks	10 years
Distribution agreement	10 years

Useful lives, residual values, amortization rates and amortization methods are reviewed annually. Such a review takes into consideration the nature of the assets, their intended uses and technological changes. Gain or loss on disposal represents the difference between the proceeds and the carrying amount and is recognized in profit or loss.

Internally developed software

Expenditure on the research phase of projects to develop new customized software for IT and telecommunication systems is recognized as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet all of the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Corporation intends to and has sufficient resources to complete the project;
- the Corporation has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development expenses that do not meet these capitalization criteria are recognized as expenses as they are incurred.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of the cost of acquiring a business over the net amount of fair value assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually during the fourth quarter or more frequently if events or changes in circumstances indicate that it has been

Government grant

Government grant relating to current expenses is recorded as a reduction of the related expenses. Government grant is recognized during the fiscal year in which the current expenses are incurred, provided the Company is reasonably certain that it will materialize.

Leases

When a contract is entered into, the Corporation assesses whether the contract is or contains a lease, whether it confers the right to control the use of a specified asset for a period of time in exchange for consideration. Leases are recognized in the consolidated statement of financial position by recognizing a right-of-use asset and a lease liability, except for leases with a term of 12 months or less and for leases whose underlying asset is of low value, which are taken to income on a straight-line basis over the term of the lease.

The right-of-use asset is measured at cost, which corresponds to the initial measurement of the lease obligation. Amortization is calculated over the shorter of the lease term and the estimated useful life on a straight-line basis. The lease liability is initially measured at the present value of future lease payments using the rate implicit in the lease, if readily determinable, or the Company's incremental borrowing rate. The rental obligation is then valued at amortized cost using the effective interest rate method.

Impairment of non-current assets

The Corporation assesses at each reporting date whether there is an indication that the carrying value of property and equipment and finite-life intangible assets may not be recoverable.

Non-financial assets that are not amortized (such as goodwill) are subject to an annual impairment test. If any indication exists, or when annual impairment testing is required, the Corporation estimates the asset or asset group's recoverable amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash generating units (CGUs). The recoverable amount is the higher of an asset or CGU's fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or the CGU is considered impaired and is written down to its recoverable amount.

For property and equipment and finite-life intangible assets, the reversal of impairment is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceed the carrying value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior

Impairment losses on goodwill are not reversed.

Research and development credits

Research and development credits are accounted for using the cost reduction method whereby credits are applied against the expense or the asset to which the research and development credits relates. Research and development credits are recognized in the year in which the related expenses are incurred, provided there is reasonable assurance that the amounts will be recovered.

Provisions

Provisions are recognized to cover probable outflows of resources that can be estimated and that result from present obligations resulting from past events. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in contingencies. The provisions are measured based on management's best estimate of outcome on the basis of facts known at the date of approval of the consolidated financial statements.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Corporation accounts for its income taxes using the tax liability method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in profit or loss. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable income for the years in which the assets and liabilities will be recovered. Deferred income tax assets are recognized when it is likely that they will be realized. Deferred tax liabilities are always recognised in full. Deferred tax assets and liabilities are not discounted.

The income tax expense includes current and deferred tax. This expense is recognized in profit or loss, except for income tax related to other comprehensive income and equity, in which case the tax expense is recognized in other comprehensive income and equity respectively.

Current income tax assets or liabilities are obligations or claims for the current or prior periods to be recovered from (or paid to) taxation authorities that are still outstanding at the end of the reporting period. Current tax is computed on the basis of taxable income which differs from net profit. This calculation is made using tax rates and laws enacted at the end of the reporting period.

Equity

Share capital is presented at the value of the securities issued less costs related to the issuance of equity instruments. These costs are deferred until realization of the issuance or are recognized as an expense if the transaction is abandoned. These costs are reported in equity, net of tax, as a reduction of the issuance proceeds. If shares are issued when share options, warrants or conversion option are exercised, the share capital account also comprises the compensation cost previously recognized in provision for share options and warrants.

Unit placements

Proceeds from unit placements are allocated between common shares and warrants using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Other components of equity include the following:

- Contributed surplus includes the equity component of convertible debentures expired.
- Provision for share options and warrants includes charges related to share options and value of warrants. When share options and warrants are exercised, the related charge and value are transferred to share capital.
- Deficit includes all current and prior period retained profits or losses.
- Other comprehensive income (loss) includes all prior period foreign currency translation differences.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

Equity-settled share options granted to directors, officers and employees are measured at the fair value of options granted. This fair value is recognized in profit or loss as share-based payments over the vesting period by directors, officers and employees. The consideration is recognized as an increase of the provision for share options and warrants.

Equity-settled share options granted to non-employees are measured at the fair value of goods or services received. When the fair value of goods or services received cannot be estimated reliably, the Corporation uses the fair value of options granted. This fair value is recognized in profit or loss as share-based payments when the Corporation obtains the goods or as the services are received if they do not qualify for recognition as assets.

The fair value of options is determined using the Black-Scholes valuation model taking into account the features of the plan, market data at the grant date and the Corporation's management assumptions.

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to equity holders of the parent corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting earnings (loss) attributable to equity holders of the parent corporation, and the weighted average number of common shares outstanding, by the effects of all dilutive potential common shares which include options, warrants and the conversion options of the debentures. Dilutive potential common shares are deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares.

NOTE 4. NEW OR REVISED STANDARDS OR INTERPRETATIONS

4.2 Standards, amendments and interpretations that are not yet in effect and have not been early adopted by the Corporation.

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Corporation.

Management anticipates that all of the pronouncements will be adopted in the Corporation accounting policies for the first period beginning after the effective date of each pronouncement. Certain new standards and interpretations have been issued but are not expected to have an impact on the Corporation's consolidated financial statements.

NOTE 5. ESTIMATES, JUDGMENTS AND ASSUMPTIONS

When preparing consolidated financial statements, management undertakes a number of estimates, judgments and assumptions about recognition and measurement of assets, liabilities, income and expenses. These estimates and judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the consolidated financial statements.

Judgments

The following are significant accounting policy judgments, made by management, that had the most significant effect on the consolidated financial statements of the

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Corporation's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. If changes were made to management's assessment regarding the Corporation's ability to use future tax deductions, the Corporation could be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

Going concern

The evaluation of the Corporation's ability to continue as a going concern, to raise additional financing in order to cover its operating expenses and its obligations for the incoming year requires significant judgment based on past experience and other assumptions including the probability that future events are considered reasonable according to the circumstances. Please refer to Note 1 for further information.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 5. ESTIMATES, JUDGMENTS AND ASSUMPTIONS (Continued)

Estimates and assumptions

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may differ materially.

Allowance for doubtful accounts

Management must exercise judgment to estimate the allowance for doubtful accounts. The evaluation of the allowance for doubtful accounts is established taking into account the specific credit risk to its customers, historical trends and economic conditions.

Fair value of share options

Management must exercise judgment to determine the fair value of share options granted, including the choice of a valuation model and estimation of the expected volatility in the price of shares.

Fair value measuring of financial liabilities through profit or loss

Management must exercise judgment to determine the fair value of financial liabilities through profit or loss, including the choice of a valuation model and estimation of the expected volatility in the price of shares.

Impairment of non-financial assets and goodwill

For the purpose of impairment testing of non-financial assets and goodwill, management must use its judgment to identify the amounts used for impairment calculations; this judgment is based on estimates. By their nature, these estimates and assumptions are subject to measurement uncertainty and, consequently, actual results could differ from the estimates used.

Business combination

Management uses valuation techniques when determining the fair value of certain assets and liabilities acquired in connection with a business combination (Note 2).

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 6. TRADE AND OTHER RECEIVABLES

	2022	2021
	\$	\$
Trade receivables	201,577	377,033
Allowance for expected credit losses	(12,404)	(112,290)
	189,173	264,743
Sales taxes	15,891	9,117
Income taxes receivable	21,740	-
Consideration receivable from acquisitions of businesses	81,839	16,801
	308,643	290,661

The following tables show the aging of trade receivables after allowance for expected credit losses:

	Trade receivables	Allowance for expected credit losses	Net value
	\$	\$	\$
Current	106,870	-	106,870
Past due	-	-	
31 to 60 days	33,218	-	33,218
61 to 90 days	18,068	-	18,068
More than 90 days	43,421	(12,404)	31,017
Balance at September 30, 2022	201,577	(12,404)	189,173

	Trade receivables	Allowance for expected credit losses	Net value
	\$	\$	\$
Current	250,161	-	250,161
Past due	-	-	
31 to 60 days	19,881	-	19,881
61 to 90 days	2,581	-	2,581
More than 90 days	121,211	(112,290)	8,921
Balance at September 30, 2021	393,834	(112,290)	281,544

The following table discloses a reconciliation of changes in allowance for expected credit losses :

	2022	2021
	\$	\$
Balance, beginning of year	112,290	103,878
Impairment loss	12,404	8,412
Write-off of accounts	(112,290)	-
Balance, end of year	12,404	112,290

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2022 and 2021

(in Canadian dollars)

NOTE 7. PROPERTY AND EQUIPMENT

	Building	Office improvements and furniture	Computer and photography equipment	Total
	\$	\$	\$	\$
Cost				
Balance as at October 1, 2020	683,488	321,525	420,560	1,425,573
Acquisitions	10,768	27,921	57,242	95,931
Acquisitions of businesses (note 2)	13,891	8,731	22,322	44,944
Balance as at September 30, 2021	708,147	358,177	500,124	1,566,448
Acquisitions	-	5,378	185,052	190,430
Disposals	-	-	(88,645)	(88,645)
Acquisitions of businesses (note 2)	-	-	20,701	20,701
Balance as at September 30, 2022	<u>708,147</u>	<u>363,555</u>	<u>617,232</u>	<u>1,688,934</u>
Accumulated amortization				
Balance as at October 1, 2020	5,168	3,160	373,988	382,316
Amortization	27,669	35,939	17,384	80,992
Balance as at September 30, 2021	32,837	39,099	391,372	463,308
Amortization	28,325	40,207	47,383	115,915
Disposal	-	-	(4,287)	(4,287)
Balance as at September 30, 2022	<u>61,162</u>	<u>79,306</u>	<u>434,468</u>	<u>574,936</u>
Carrying amount				
Balance as at September 30, 2021	<u>675,310</u>	<u>319,078</u>	<u>108,752</u>	<u>1,103,140</u>
Balance as at September 30, 2022	<u>646,985</u>	<u>284,249</u>	<u>182,764</u>	<u>1,113,998</u>

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8. INTANGIBLE ASSETS

	Customer relations	Patents and trademarks	Software, websites and technological platforms	Distribution Agreement	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at October 1, 2020	3,327,895	84,593	2,568,358	66,576	6,047,422
Acquisitions of businesses (note 2)	777,426	108,875	482,115	-	1,368,416
Internally generated	-	35,725	359,229	-	394,954
	<u>-</u>	<u>35,725</u>	<u>359,229</u>	<u>-</u>	<u>394,954</u>
Balance as at September 30, 2021	4,105,321	229,193	3,409,702	66,576	7,810,792
Acquisitions of businesses (note 2)	3,104,000	709,000	-	-	3,813,000
Acquisitions	-	-	338,453	-	338,453
Internally generated	-	-	218,983	-	218,983
	<u>-</u>	<u>-</u>	<u>218,983</u>	<u>-</u>	<u>218,983</u>
Balance as at September 30, 2022	<u>7,209,321</u>	<u>938,193</u>	<u>3,967,138</u>	<u>66,576</u>	<u>12,181,228</u>
Accumulated amortization					
Balance as at October 1, 2020	1,175,237	30,670	821,716	4,161	2,031,784
Amortization	300,887	11,191	326,006	6,658	644,742
	<u>300,887</u>	<u>11,191</u>	<u>326,006</u>	<u>6,658</u>	<u>644,742</u>
Balance as at September 30, 2021	1,476,124	41,861	1,147,722	10,819	2,676,526
Amortization	600,833	80,326	429,626	1,678	1,112,463
Reevaluation (a)	-	-	-	54,079	54,079
	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,079</u>	<u>54,079</u>
Balance as at September 30, 2022	<u>2,076,957</u>	<u>122,187</u>	<u>1,577,348</u>	<u>66,576</u>	<u>3,843,068</u>
Carrying amount					
Balance as at September 30, 2021	<u>2,629,197</u>	<u>187,332</u>	<u>2,261,980</u>	<u>55,757</u>	<u>5,134,266</u>
Balance as at September 30, 2022	<u>5,132,364</u>	<u>816,006</u>	<u>2,389,790</u>	<u>-</u>	<u>8,338,160</u>

(a) Following the termination of the Matterport photography equipment distribution agreement in Canada in January 2022, the value of this distribution agreement has been reduced to nil.

URBANIMMERSIVE INC.

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NOTE 9. GOODWILL

	2022	2021
	\$	\$
Balance, beginning of period	4,231,914	2,802,874
Acquisitions of businesses (a) (note 2)	4,240,331	1,429,040
Impairment (b)	<u>(224,566)</u>	<u>-</u>
	<u>8,247,679</u>	<u>4,231,914</u>

(a) Goodwill was tested for impairment as of September 30, 2022 and 2021 for all cash-generating units ('CGU').

(b) Following the termination of the Matterport photography equipment distribution agreement in Canada in January 2022, Photography Equipment (Immersolution) goodwill has been written off.

	Software		Services		Photography Equipment	
	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$
Goodwill	<u>2,578,308</u>	<u>2,578,308</u>	<u>5,669,371</u>	<u>1,429,040</u>	<u>-</u>	<u>224,566</u>

For the purpose of calculating the recoverable amount, fixed assets, intangible assets, right-of-use assets and goodwill have been included and the recoverable amount is determined by calculating the value-in-use over a period of five years established from the forecast cash flows according to a pre-tax discount rate of 15% per year for all CGUs and a terminal growth rate of 3.0% starting in 2028 for the Software and Services CGUs. The 5-year revenue growth rates used are for the Software CGU of 21.5%, 13%, 8.5%, 6%, and 4.5% and for the Services CGU of 33%, 10%, 7%, 6% and 4.5%. These growth rates were determined based on past experience as well as the expected market growth rate. The Company believes that no reasonably possible change in the key assumptions on which the recoverable amount is based would cause the aggregate carrying amount to be greater than the aggregate recoverable amount.

URBANIMMERSIVE INC.

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NOTE 10. BANK INDEBTEDNESS

The Corporation benefits from a line of credit of a maximum of \$240,000 with a financial institution, bearing interest at the financial institution variable rate plus 1.50% (5.73% as at September 30, 2022 and 3.95% as at September 30, 2021). This credit line is secured by a first mortgage of \$3,000,000 on all present and future movable property.

The Corporation benefits from a line of credit of a maximum of \$75,000 with a financial institution, bearing interest at the financial institution variable rate plus 1.00% (5.70% as at September 30, 2022 and 3.45% as at September 30, 2021). This credit line is secured by a first mortgage of \$86,250 on all present and future movable property.

The Corporation benefits from a line of credit of a maximum of \$US 35,000 with a financial institution and bearing interest at 14.00% and secured by a first mortgage of the same amount on all present and future movable property of Virtual Access Tours LP.

The Corporation benefits from a line of credit of a maximum of \$34,000 with a financial institution and bearing interest at 7.75%.

As of September 30, 2022, none of those lines of credits was used.

NOTE 11. TRADE AND OTHER PAYABLES

	2022	2021
	\$	\$
Trade payables and accrued liabilities	708,519	440,356
Salaries and employee benefits	196,924	116,277
	<u>905,443</u>	<u>556,633</u>

URBANIMMERSIVE INC.

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NOTE 12.	LONG-TERM DEBT	2022	2021
		\$	\$
	Term loan bearing interest at the financial institution variable rate plus 3.00% (7.23% as at September 30, 2022 and 3.93% as at September 30, 2021), maturing in December 2023 and repayable in 11 monthly equal installments of \$32,222, including 2 installments from October to November 2022 and 9 installments from March to November 2023 and the balance at maturity. This loan is secured at 50% by Export Development Canada ("EDC") and by a first mortgage of \$3,000,000 on all present and futur movable property.	812,003	906,233
	Term loan bearing interest at the financial institution variable rate plus 3.00% (7.23% as at September 30, 2022 and 3.93% as at September 30, 2021), maturing in December 2023 and repayable in 11 monthly equal installments of \$3,168 including 2 installments from October to November 2022 and 9 installments from March to November 2023 and the balance at maturity. This loan is secured by a first mortgage of \$1,000,000 on all present and futur movable property. (a)	850,824	879,000
	Term loan bearing interest at the financial institution variable rate plus 4.50% (8.73% as at September 30, 2022), maturing in December 2023 and repayable in 11 monthly equal installments of \$44,444 from October to November 2022 and from March to November 2023 and the balance at maturity. This loan is secured at 50% by Export Development Canada ("EDC") and by a first mortgage of \$4,000,000 on all present and futur movable property. The balance of this term loan is presented net of unamortized issuance costs of \$6,875.	1,948,681	-
	Loans of \$100,000, guaranteed by the Government of Canada, bearing no interest until December 31, 2023 (b).	70,000	70,000
		3,681,508	1,855,233
	Current portion of long-term debt	3,611,508	317,670
		70,000	1,537,563
Capital payments over the next years are the following:			
			\$
	2023		3,618,383
	2024		70,000
			3,688,383

(a) Under its term loans, the Company has not complied throughout the period with all of its restrictive covenants. However, following year-end, the lender agreed to waive defaults in the covenants.

(b) The Corporation was granted a loan of \$100,000 under the Canada Emergency Business Account program. If the Company repays an amount of \$70,000 of the loan by December 31, 2023, no further amount will be repayable. Otherwise, the balance of the loan will bear interest at the rate of 5% and can be either repayable in 36 monthly installments, principal and interest, or repayable at maturity on December 31, 2025. Given that Government assistance of \$30,000 is not repayable if the Company repays the amount of \$70,000 by December 31, 2023, this amount was recognized in income at the time of the grant as government grant.

URBANIMMERSIVE INC.

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NOTE 13. RECONCILIATION OF LIABILITIES RELATED TO FINANCING ACTIVITIES

Changes in the Corporation's liabilities arising from financing activities can be classified as follows:

	Long-term debt	Convertible debentures	Total
	\$	\$	\$
Balance at October 1st, 2020	<u>2,019,083</u>	<u>2,989,649</u>	<u>5,008,732</u>
Cash flows			
Issuance	230,800	-	230,800
Repayment	(446,542)	-	(446,542)
			-
Non-cash			
Theoretical interest on convertible debentures	-	204,559	204,559
Acquired through business acquisition	40,000	-	40,000
Converted into shares	-	(3,451,774)	(3,451,774)
Amortization of issuance costs	<u>11,693</u>	<u>257,566</u>	<u>269,259</u>
Balance at October 1st, 2021	<u>1,855,034</u>	<u>-</u>	<u>1,855,034</u>
Cash flows			
Issuance	2,000,000	-	2,000,000
Repayment	(169,286)	-	(169,286)
Non-cash			
Costs related to the issuance of long-term debts	(10,801)	-	(10,801)
Amortization of issuance costs	<u>6,561</u>	<u>-</u>	<u>6,561</u>
Balance at September 30, 2022	<u>3,681,508</u>	<u>-</u>	<u>3,681,508</u>

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14. SHARE CAPITAL

Authorized

Unlimited number of shares, without par value

Transactions on share capital

2020-2021

In November 2020, the Corporation issued 2,340,000 common shares for a total of \$1,180,790 upon the conversion of convertible debentures. As part of this issuance, the Corporation incurred fees totaling \$22,822.

In March 2021, the Corporation issued 4,912,000 common shares for a total of \$4,897,652 upon the conversion of convertible debentures. As part of this issuance, the Corporation incurred fees totaling \$8,717.

On April 5, 2021, the Company closed a non-brokered private placement of 2,893,750 units at a price of \$1.00 per unit for net proceeds of \$2,893,750. Each unit consists of one common share of the Corporation and one warrant entitling the holder to purchase one additional common share of the Company at a price of \$1.20 per share until April 6, 2023. As part of this issuance, the Corporation incurred fees totaling \$171,895, including \$16,688 paid by the issuance of 17,600 warrants.

On June 30 2021, the Corporation issued 1,320,000 common shares for a total of \$905,000 as consideration paid for the acquisitions of EGP, Graphic ID and La Clique Mobile. As part of this issuance, the Corporation paid an amount of \$5,000 in regulatory fees.

On September 28, 2021, the Corporation completed a share rollback with a ratio of 5 pre-consolidated shares for 1 post-consolidated shares.

Throughout the year, the Corporation issued 338,474 common shares at a price of \$0.78 per share (\$265,569) in settlement of interests payable to convertible debenture holders. As part of this issuance, the Corporation paid an amount of \$2,032 in regulatory fees.

Throughout the year, the Corporation issued 377,168 common shares at a price of \$0.629 per share (\$231,995) upon conversion of warrants.

Throughout the year, the Corporation issued 162,215 common shares at an average price of \$0.525 per share (\$85,288) upon conversion of stock options.

Throughout the year, the Corporation issued 275,961 common shares at an average price of \$0.78 per share (\$214,355) as compensation paid in shares to Management and employees.

Throughout the year, the Corporation issued 106,266 units at an average price of \$1.00 per unit (\$106,266) as compensation paid to Management and employees. Each unit consists of one common share of the Corporation and one warrant entitling the holder to purchase one additional common share of the Company at a price of \$1.20 per share until April 6, 2023.

Throughout the year, the Corporation issued 150,072 common shares at an average price of \$0.629 per share (\$99,405) and 65,689 warrants following the exercise of warrants convertible into units.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14. SHARE CAPITAL (continued)

2021-2022

On October 7, 2021, the Company closed a non-brokered private placement of 134,894 units at a price of \$0.94 per unit (\$126,800) with \$106,556 which was allocated to share capital and the residual value of \$20,234 was allocated to the provision for share options and warrants. Each unit consists of one common share of the Corporation and one warrant entitling the holder to purchase one additional common share of the Company at a price of \$1.13 per share until September 29, 2023.

On November 24, 2021, the Corporation issued 103,093 common shares at a fair value of \$0.8366 per share for a total of \$86,248 as consideration paid for the acquisition of Immophoto Inc. As part of this issuance, the Corporation incurred fees totaling \$1,750.

On November 24, 2021, the Corporation issued 15,464 common shares at a price of \$0.97 per share (\$15,000) as consideration paid for the acquisition of the technological platform of Tours Virtuales.

On December 3rd, 2021, the Corporation issued 585,829 common shares at a fair value of \$0.712 per share for a total of \$417,111 as consideration paid for the acquisition of Virtual Access Tours LP. As part of this issuance, the Corporation incurred fees totaling \$3,063.

On December 10, 2021, the Corporation issued 349,828 common shares at a price of \$0.85 per share (\$297,354) as consideration paid for the acquisition of the technological platform of Stilio.

On December 15, 2021, the Corporation issued 1,518,987 common shares at a fair value of \$0.6942 per share for a total of \$1,054,481 as consideration paid for the acquisition of Agento Marketing. As part of this issuance, the Corporation incurred fees totaling \$6,500.

On January 3, 2022, the Corporation issued 3,157,115 common shares at a fair value of \$0.7128 per share for a total of \$2,250,391 as consideration paid for the acquisition of Imoto LLC. As part of this issuance, the Corporation incurred fees totaling \$16,965.

For the year, the Corporation issued 202,560 common shares at a price of \$0.625 per share for a total of \$141,792, including \$15,192 coming from the reserve for the share options and warrants) upon conversion of warrants.

For the year, the Corporation issued 100,000 common shares at a price of \$0.362 per share for a total of \$68,696, including \$32,446 coming from the reserve for the share options and warrants, upon conversion of options.

For the year, the Corporation issued 690,528 common shares at a price of \$0.43 per share for a total of \$299,225 as compensation paid in shares to Management.

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NOTE 15. SHARE OPTIONS AND WARRANTS

Share option plan

The Corporation adopted a share option plan (the "option plan") whereby a maximum of 10% of common shares issued and outstanding is reserved for the issuance of non-transferable options to directors, officers, employees and consultants. The option plan provides that the terms and conditions of the options and the exercise price of options will be determined by the directors subject to price restrictions and other requirements imposed by the TSX. The period for exercising the options granted under the option plan cannot exceed a period of 10 years and the exercise price must be fully paid before the issuance of shares. Options may expire before the expiry date in case of death or disability of the holder or in case of termination of employment or mandate of the holder. The options vest 1/3 per year as 12 months following the grant date, unless otherwise decided by the Board of Directors.

The following table shows the changes in share options:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	1,185,669	0.59	1,049,850	0.50
Granted	1,147,500	0.73	485,000	0.79
Expired	(106,000)	1.00	(83,500)	0.81
Exercised (1)	(100,000)	0.36	(162,215)	0.53
Forfeited	(353,169)	0.67	(103,466)	0.55
Outstanding, end of period	<u>1,774,000</u>	<u>0.66</u>	<u>1,185,669</u>	<u>0.59</u>
Exercisable, end of period	<u>532,224</u>	<u>0.53</u>	<u>486,379</u>	<u>0.54</u>

(1) The average stock price when options were exercised in 2022 was \$0.55.

The following table presents the details of share options outstanding:

	2022		2021	
Exercise price	Number of options outstanding	Estimated contractual time remaining in years	Number of options outstanding	Estimated contractual time remaining in years
\$				
0.300	133,200	2.32	215,169	3.32
0.350	20,000	4.99	-	-
0.375	64,000	1.53	138,000	2.53
0.400	236,800	0.49	276,500	1.49
0.625	30,000	0.25	50,000	1.25
0.650	-	-	10,000	2.01
0.720	900,000	4.32	-	-
0.850	255,000	3.29	305,000	4.29
0.875	-	-	30,000	4.75
0.925	20,000	2.36	20,000	3.36
0.940	80,000	4.00	-	-
1.000	-	-	106,000	0.50
1.100	35,000	3.52	35,000	4.52
	<u>1,774,000</u>		<u>1,185,669</u>	

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NOTE 15. SHARE OPTIONS AND WARRANTS (Continued)

The fair value of share options granted by the Corporation was determined using the Black & Scholes valuation model based on the following weighted average assumptions:

	2022	2021
Weighted average price at the grant date	0.73 \$	0.87 \$
Weighted average exercise price	0.73 \$	0.79 \$
Expected dividend	-	-
Expected average volatility	87%	109%
Risk-free average interest rate	2.82 %	0.55 %
Expected average life	5 years	5 years
Weighted fair value per share option	0,29 \$	0.62 \$

The expected volatility used in share option valuation was determined using the historical volatility of the Corporation's share price based on each expected life of the share options.

An expense for share-based payments of \$352,569 was recognized during the year ended September 30, 2022 (\$150,720 during the year ended September 30, 2021).

Warrants

The following table shows the changes in warrants:

	2022		2021	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding, beginning of period	4,490,957	1.14	2,134,892	0.90
Issued	134,894	1.13	3,083,305	1.20
Exercised	(202,560)	0.625	(527,240)	0.629
Expired	(1,270,781)	1.07	(200,000)	0.63
Outstanding and exercisable, end of period	3,152,510	1.20	4,490,957	1.14

The number of outstanding warrants is as follow:

Expiry date	Exercise price	Number of warrants outstanding
	\$	
April 6, 2023	1.20	3,017,616
September 29, 2023	1.13	134,894
	1.20	3,152,510

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NOTE 16. NET EARNINGS (LOSS) PER SHARE

	2022	2021
	\$	\$
Numerator:		
Net loss	(1,590,153)	(3,708,735)
Denominator		
Weighted average number of common shares outstanding	35,459,109	25,224,784
Effect of potential dilutive securities		
Share options	454,002	-
Total potential dilutive securities	<u>454,002</u>	<u>-</u>
Adjusted denominator for diluted net income (loss) per share	35,913,111	25,224,784
Basic net loss per common share	<u>(0.04)</u>	<u>(0.15)</u>
Diluted net loss per common share	<u>(0.04)</u>	<u>(0.15)</u>

For the years ended September 30, 2022 and 2021, the calculation of the diluted net loss per share excludes warrants outstanding and earn-outs payable as a result of their anti-dilutive effect.

URBANIMMERSIVE INC.

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NOTE 17. SUPPLEMENTARY INFORMATION ON THE STATEMENT OF INCOME

	2022	2021
	\$	\$
Cost of goods sold	90,046	788,218
Subcontracting	2,324,082	10,214
Wages and employee benefits	3,683,367	1,745,798
SR&ED credits	(40,000)	(53,781)
CEWS wage subsidy	(32,315)	(302,634)
Share-based payments	352,569	150,720
Share payments	299,225	187,078
Sales commissions	61,184	50,182
Consulting fees	307,918	229,044
Professional fees	220,630	161,393
Office expenses	121,245	59,220
Utilities	76,441	-
Rent	42,475	25,073
Equipment rental	3,276	3,955
Representation and travel	156,403	14,500
Regulatory fees	75,204	98,664
Delivery charges	11,796	63,341
Advertising and promotion	269,313	85,548
Insurance	39,164	30,419
Licence and product development	362,011	130,750
Credit card processing fees	216,191	99,528
Hosting fees	376,685	371,796
Exchange loss (gain)	4,592	60,714
Bad debts	7,760	992
Business acquisitions and set up costs	114,960	21,059
Franchise setup fees	15,403	-
Restructuring charges	60,000	18,940
Other	6,800	11,610
	<u>9,226,425</u>	<u>4,062,341</u>
Direct charges	4,160,398	1,439,883
Operating expenses	<u>5,066,027</u>	<u>2,622,458</u>
	<u>9,226,425</u>	<u>4,062,341</u>

The cost of inventories recognized as an expense and included in the cost of goods sold is \$90,046 in 2022 (\$788,218 in 2021).

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 18. FINANCIAL EXPENSES

	2022	2021
	\$	\$
Amortization - Issuance costs of long-term debts	6,561	269,259
Interest on long-term debts	201,429	80,933
Theoretical interest on lease liabilities	7,746	321
Interest on convertible debentures	-	151,325
Theoretical interest on convertible debentures	-	204,559
Interest and bank charges	19,135	25,905
Other financial fees	50,530	31,004
	<u>285,401</u>	<u>763,306</u>

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19.

INCOME TAXES

	2022	2021
	\$	\$
Major components of tax expense (income)		
The major components of tax expense (income) are outlined below:		
Current tax expense (income)	(23,976)	1,303
Deferred tax expense (income)		
Origination and reversal of temporary differences	(270,475)	(220,766)
Deferred tax expense arising from the write-down of a deferred tax asset	210,967	(32,778)
Total deferred tax expense (income)	(59,508)	(253,544)
Total income tax expense (income)	(83,484)	(252,240)

Relationship between expected tax expense and accounting profit or loss

The relationship between the expected tax expense based on the combined income tax rate in Canada and the reported tax expense in the statement of comprehensive loss can be reconciled as follows:

	2022	2021
	\$	\$
Expected tax expense calculated using the combined federal and provincial income tax rate in Canada of 26.5% (26.5% in 2021).	(428,560)	(1,049,658)
Differences to tax rates of subsidiaries	17,786	-
Non-deductible share-based payments	93,431	39,941
Non-deductible other elements	50,837	153,067
Variation in fair value of the balance of embedded derivatives and warrants	-	656,614
Variation in fair value of the earn-outs	(77,748)	-
Reversal of an deferred tax asset previously recognized	52,131	-
Variation in unrecognized temporary differences	158,836	(32,778)
Previous year adjustment and others	49,803	(19,426)
Deferred income tax expense (income)	(83,484)	(252,240)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19. INCOME TAXES (Continued)

Recognized deferred tax assets and liabilities

The following differences between the carrying amounts and tax bases from timing differences, unused tax losses and unused tax credits give rise to the following recognized deferred income tax assets and liabilities.

	Balance on October 1, 2021	Profit or loss	Business combination	Balance on September 30, 2022
	\$	\$	\$	\$
Deferred tax liabilities				
Property and equipment	(208,693)	301,352	3,049	95,708
Right-of-use assets	-	(34,892)	(5,259)	(40,151)
Intangible assets and goodwill	<u>(1,104,151)</u>	<u>(280,319)</u>	<u>(201,930)</u>	<u>(1,586,400)</u>
	(1,312,844)	(13,859)	(204,140)	(1,530,843)
Deferred tax assets				
Lease liabilities	-	33,420	5,259	38,679
Tax losses	<u>705,425</u>	<u>39,948</u>	<u>-</u>	<u>745,373</u>
Deferred income tax assets (liabilities)	<u>(607,419)</u>	<u>59,509</u>	<u>(198,881)</u>	<u>(746,791)</u>

	Balance on October 1, 2020	Profit or loss	Business combination	Balance on September 30, 2021
	\$	\$	\$	\$
Deferred tax liabilities				
Property and equipment	(208,072)	(621)	-	(208,693)
Intangible assets and goodwill	<u>(1,104,151)</u>	<u>368,401</u>	<u>(368,401)</u>	<u>(1,104,151)</u>
	(1,312,223)	367,780	(368,401)	(1,312,844)
Deferred tax assets				
Tax losses	<u>705,425</u>	<u>-</u>	<u>-</u>	<u>705,425</u>
Deferred income tax assets (liabilities)	<u>(606,798)</u>	<u>367,780</u>	<u>(368,401)</u>	<u>(607,419)</u>

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19. INCOME TAXES (Continued)

Unrecognized deferred tax assets and liabilities

As at September 30, 2022, the Corporation has the following temporary differences in Canada for which no deferred tax has been recognized representing income taxes of \$2,587,439.

	2022	
	Federal	Provincial
	\$	\$
Tax losses	9,632,733	9,593,348
Issuance costs	148,281	148,281
	9,781,014	9,741,629

The Corporation has the following non-capital losses in Canada which are available to reduce income taxes in future periods, for which no deferred tax asset has been recognized in the statement of financial position, that can be carried over the following years:

	Federal	Provincial
	\$	\$
2032	538,492	538,056
2033	1,846,921	1,846,922
2034	1,577,947	1,577,947
2035	612,763	612,764
2036	976,561	976,561
2037	1,398,715	1,398,715
2038	1,417,918	1,417,920
2039	204,341	185,193
2040	485,684	489,892
2041	50,545	20,001
2042	522,846	529,376
	9,632,733	9,593,348

The Corporation has a federal non-refundable credit in Canada of \$174,854 (\$127,389 in 2021) which expires in 2033. This tax credit is not recognized.

URBANIMMERSIVE INC.

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NOTE 20. ADDITIONAL CASH FLOW INFORMATION

Changes in working capital items

	2022	2021
	\$	\$
Trade and other receivables	113,502	(23,277)
Inventories	86,282	(28,642)
Research and development credits receivable	-	23,206
Prepaid expenses	(16,698)	(5,497)
Trade and other payables	160,009	(266,463)
Deferred revenues	8,130	(7,896)
Income taxes payable	-	(30,845)
Loan to an employee	36,491	(36,491)
	<u>387,716</u>	<u>(375,905)</u>

Additional disclosures regarding cash flows that did not result in a cash outflow:

	2022	2021
	\$	\$
Share capital		
Issuance of shares as part of the settlement of a liability	-	265,569
Issuance of shares as part of the acquisition of businesses	4,808,501	905,000
Issuance of shares as part of the acquisition of intangible assets	312,354	-
Bonus paid in shares	299,225	214,354
Cost related to the issuance of units	-	106,266
Trade and other payables		
Office improvements (a)	-	40,853

(a) included in trade and other payables

NOTE 21. RELATED PARTIES

Related parties are the members of the Board of Directors, the President and the Vice-Presidents. The remuneration of key management personnel includes the following expenses:

	2022	2021
	\$	\$
Wages and employee benefits	375,846	410,068
Share-based payments	106,673	73,480
Share payments	299,225	151,562
Cost related to the issuance of shares paid in units	-	106,266
	<u>781,744</u>	<u>741,376</u>

These transactions, entered into the normal course of operations, are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

URBANIMMERSIVE INC.

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NOTE 22. FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets at amortized cost				
Cash	674,984	674,984	1,677,917	1,677,917
Trade receivables	189,173	189,173	281,544	281,544
Considerations receivable from businesses acquisitions	81,839	81,839	-	-
	<u>945,996</u>	<u>945,996</u>	<u>1,959,461</u>	<u>1,959,461</u>
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	708,519	708,519	440,356	440,356
Long-term debts	3,681,508	3,681,508	1,855,233	1,855,233
	<u>4,390,027</u>	<u>4,390,027</u>	<u>2,295,589</u>	<u>2,295,589</u>
Financial liabilities measured at fairvalue through profit or loss				
Balance of purchase	73,903	73,903	-	-
Warrants	-	-	42,120	42,120
	<u>73,903</u>	<u>73,903</u>	<u>42,120</u>	<u>42,120</u>

The carrying value of cash, trade receivables, considerations receivable from businesses acquisitions, trade and other payables (excluding salaries and employee benefits) and balance of purchase is considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

The carrying value of long-term debt is considered a reasonable approximation of fair value because management believes that the interest rate of these financial instruments represents the interest rate on the market on the date of presentation of the financial information.

Fair value of the warrants was determined using the Binomial and Monte Carlo valuation models.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 22. FINANCIAL ASSETS AND LIABILITIES (Continued)

Financial assets and liabilities measured at amortized cost for which a fair value is provided in the consolidated statement of financial position are presented in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Long-term debts and the liability component of the convertible debenture were classified under level 2. Warrants and Embedded derivatives on convertible debentures were classified level 3.

There have been no significant transfers in the reporting periods.

The techniques and evaluation methods used to measure fair value were not changed compared to previous years.

URBANIMMERSIVE INC.

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NOTE 23. INFORMATION ON CAPITAL MANAGEMENT

The Corporation manages its capital structure and makes adjustments related to changes in the economic environment and the underlying risks of its assets. To preserve or modify its capital structure and to carry on the development and commercialization of its technology, and fulfill its various financial obligations, the Corporation may issue additional shares or negotiate new loans.

The following table shows the items included in this definition of capital:

	2022	2021
	\$	\$
Long-term debts	3,681,508	1,855,233
Warrants	-	42,120
Equity	12,838,291	9,415,659
	<u>16,519,799</u>	<u>11,313,012</u>

There has been no change with respect to the overall capital management strategy during the year ended on September 30, 2022.

NOTE 24. FINANCIAL RISKS

The Corporation is exposed to various risks through its financial instruments, and the following analysis provides a measurement of these risks.

Credit risk

Credit risk refers to the risk that one party to a financial instrument fails to perform any of its obligations and causes the Corporation to incur a financial loss. Credit risk is primarily related to trade receivables and considerations receivable from business acquisitions.

The Corporation evaluates the financial condition of its customers on an ongoing basis and reviews the credit history of each new customer. The Corporation establishes an allowance for doubtful accounts taking into account the global credit risk, historical trends and other information.

There was no concentration of credit risk for the years ended September 30, 2022 and 2021.

The aging of trade receivables is disclosed in Note 6.

The carrying value of financial assets represents the Corporation's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Corporation may not meet its financial obligations as they come due. The Corporation manages this risk by taking into account operational needs and using its authorized bank loans to maintain its flexibility. The Corporation establishes budgets and cash flows to ensure it has the necessary funds to meet its obligations (Note 1).

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 24. FINANCIAL RISKS (Continued)

The following tables present the maturities of the Corporation's financial liabilities and other liabilities including interests:

				2022
	Less than a year	1 year to 5 years	More than 5 years	Total
	\$	\$	\$	\$
Trade payables and accrued liabilities	905,443	-	-	905,443
Long-term debts and interests	3,611,508	70,000	-	3,681,508
Lease liabilities	57,982	87,172	-	145,154
Balance of purchase	73,903	-	-	73,903
	<u>4,648,836</u>	<u>157,172</u>	<u>-</u>	<u>4,806,008</u>

Also, the Corporation's commitments are disclosed in Note 25.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to a cash flows risk on its line of credit and long-term debt bearing interest at a variable rate. A variation of 1% of the prime rate would have increase or decrease the Corporation's net loss and equity by \$37,000. The Corporation does not hedge this cash flows risk.

Exchange rate risk

The Corporation is exposed to US exchange risk arising from the degree of volatility of the US exchange rate. A variation of 10% of the US exchange rate would have increase or decrease the Corporation's net loss by \$155,000. The Corporation does not use derivative financial instruments to reduce its exposure to foreign exchange risk.

The net exposure for the balance sheet items is the following:

	2022	2021
	\$	\$
Short-term financial assets	34,355	119,521
Short-term financial liabilities	<u>(121,083)</u>	<u>(89,910)</u>
Net exposure	<u>(86,728)</u>	<u>29,610</u>

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 25. COMMITMENTS

As part of the EDC guarantee described in Note 12, the Corporation will have to pay a guarantee fee of \$33,850, including \$31,510 in 2023 and \$2,340 in 2024.

Lease liabilities

The Corporation signed a lease for its Imoto office until February 2024 with remaining payments totaling \$US 33,600, including \$25,200 in 2023 and \$8,400 in 2024.

The Corporation signed a lease for its photography equipment until March 2027 with remaining payments totaling \$99,008, including \$22,848 in 2023, 2024, 2025 and 2026 and \$7,616 in 2027.

The Corporation signed a lease for a vehicle until May 2024 with remaining payments totaling \$14,497, including \$8,698 in 2023 and \$5,799 in 2024.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 26.

OPERATING SEGMENT

2022

	Software	Photography Equipment (1)	Services	Total
	\$	\$	\$	\$
Segmented revenues	2,119,853	159,242	6,058,077	8,337,172
COGS and direct charges	<u>(501,114)</u>	<u>(104,004)</u>	<u>(3,555,280)</u>	<u>(4,160,398)</u>
Segmented gross margin (before amortization)	1,618,739	55,238	2,502,796	4,176,774
Operating expenses	<u>(1,362,181)</u>	<u>(78,848)</u>	<u>(3,624,998)</u>	<u>(5,066,027)</u>
Segmented operational income (before amortization)	<u>256,558</u>	<u>(23,610)</u>	<u>(1,122,202)</u>	<u>(889,253)</u>
Amortization				1,266,459
Gain on disposal of property and equipment				<u>(5,117)</u>
Operational income				<u>(2,150,595)</u>
Segmented assets	<u>7,738,456</u>	<u>72,241</u>	<u>11,102,834</u>	<u>18,913,531</u>
Segmented liabilities	<u>2,193,471</u>	<u>109,068</u>	<u>3,772,701</u>	<u>6,075,240</u>

(1) Revenues include \$62,860 of royalties related to a photography equipment distribution agreement in Canada.

2021

	Software	Photography Equipment (1)	Services	Total
	\$	\$	\$	\$
Segmented revenues	2,392,678	1,369,389	306,941	4,069,008
COGS and direct charges	<u>(361,317)</u>	<u>(878,972)</u>	<u>(199,594)</u>	<u>(1,439,883)</u>
Segmented gross margin (before amortization)	2,031,361	490,417	107,347	2,629,125
Operating expenses	<u>(2,191,949)</u>	<u>(232,685)</u>	<u>(197,824)</u>	<u>(2,622,458)</u>
Segmented operational income (before amortization)	<u>(160,588)</u>	<u>257,732</u>	<u>(90,477)</u>	<u>6,667</u>
Amortization				729,845
Operational income				<u>(723,178)</u>
Segmented assets	<u>9,026,051</u>	<u>481,235</u>	<u>3,124,759</u>	<u>12,632,045</u>
Segmented liabilities	<u>3,018,591</u>	<u>11,075</u>	<u>186,720</u>	<u>3,216,386</u>

(1) Revenues include \$283,741 of royalties related to a photography equipment distribution agreement in Canada.

URBANIMMERSIVE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 26. OPERATING SEGMENT (con't)

			2022
	Canada	United States	Total
	\$	\$	\$
Revenues	2,894,777	5,442,395	8,337,172
Non-current assets			
Property and equipment	1,113,998	-	1,113,998
Intangible assets	5,243,748	3,094,412	8,338,160
Right-of-use assets	106,348	44,327	150,675
Goodwill	5,031,080	3,216,599	8,247,679
	11,495,174	6,355,338	17,850,512
			2021
	Canada	United States	Total
	\$	\$	\$
Revenues	1,610,847	2,458,161	4,069,008
Non-current assets			
Property and equipment	1,103,140	-	1,103,140
Intangible assets	5,134,266	-	5,134,266
Right-of-use assets	-	-	-
Goodwill	4,231,914	-	4,231,914
	10,469,320	-	10,469,320

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NOTE 27. SUBSEQUENT EVENTS

On October 20, the Corporation completed the acquisition of all the interests of the real estate photography agency, HomeVisit, LLC from CoreLogic Solutions, LLC for a purchase price of \$CAD 9,000,000, subject to customary adjustments, satisfied through 1) the issuance of 9,287,707 common shares of the Corporation at a price per share of \$0.25 for a value of \$2,321,927 and 2) the issuance of a 5-year Secured Promissory Note in the principal amount of \$6,434,835 for the adjusted balance of the purchase price, bearing interest at 7.50% per annum and capitalized to the Note.

On January 25, 2023, the Corporation received a request for a claim in connection with a business acquisition made during the fiscal year ended September 30, 2022. The Corporation will analyze the merits of this request over the coming months and a provision will be recognized in the financial statements subsequently only if an indemnity is deemed probable and the amount can be reliably estimated.