



ARHT MEDIA INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2023 and 2022

**(Expressed in Canadian dollars)
(Unaudited)**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars – except for share and per share amounts)
(Unaudited)
As at September 30, 2023 and December 31, 2022

	Note	September 30, 2023	December 31, 2022
ASSETS			
		\$	\$
CURRENT			
Cash and cash equivalents		513,079	4,224,926
Accounts receivable	3, 17	2,268,751	2,478,306
Inventory	5	417,884	1,569,599
Deposits		3,935	30,495
Prepaid expenses	4	381,115	531,559
Total current assets		<u>3,584,764</u>	<u>8,834,885</u>
NON-CURRENT			
Equipment and right of use assets	7	2,575,422	2,489,137
Subscription equipment	8	190,414	-
Total non-current assets		<u>2,765,836</u>	<u>2,489,137</u>
TOTAL ASSETS		<u>6,350,600</u>	<u>11,324,022</u>
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	15, 16, 17	2,636,086	2,825,949
Customer deposits		93,084	-
Lease liability	9	138,247	105,106
Deferred revenue		558,706	498,254
Loan payable	10	40,000	40,000
Operating line of credit	20	110,974	-
Total current liabilities		<u>3,577,097</u>	<u>3,469,309</u>
NON-CURRENT			
Lease liability	9	107,338	17,316
Debenture	11	2,077,210	-
Total non-current liabilities		<u>2,184,548</u>	<u>17,316</u>
TOTAL LIABILITIES		<u>5,761,645</u>	<u>3,486,625</u>
SHAREHOLDERS' EQUITY			
Share capital	12	48,402,626	48,388,626
Reserves	13	7,618,918	6,978,285
Deficit		(55,432,589)	(47,529,514)
TOTAL SHAREHOLDERS' EQUITY		<u>588,955</u>	<u>7,837,397</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>6,350,600</u>	<u>11,324,022</u>

Nature of operations (Note 1)

Commitments and contingencies (Note 16)

APPROVED ON BEHALF OF THE DIRECTORS ON NOVEMBER 29, 2023: “Larry O’Reilly” “William Connell Steers”

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

(Expressed in Canadian dollars – except for share and per share amounts)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

	Note	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Revenue	19	\$ 1,360,488	\$ 2,027,538	\$ 4,712,805	\$ 5,432,308
Cost of Sales		(585,930)	(1,002,009)	(1,942,856)	(2,635,762)
Gross Margin		\$ 774,558	\$ 1,025,529	\$ 2,769,949	\$ 2,796,546
Expenses					
Employee and consultant expenses		(1,549,830)	(1,476,865)	(5,325,523)	(3,980,224)
Research expenditures		(224,577)	(259,999)	(821,905)	(667,799)
General administration and selling expenses	14	(1,082,810)	(465,778)	(2,092,981)	(1,184,931)
Marketing and advertising expenses		(86,917)	(220,350)	(734,878)	(557,644)
Amortization	7	(346,548)	(185,866)	(965,087)	(462,925)
Share-based compensation	13, 15	(439,456)	(151,341)	(759,609)	(725,968)
Finance income/(costs)		(83,202)	10,353	(90,715)	(10,331)
Foreign exchange gain/(loss)		(78,408)	134,288	(1,299)	108,753
Total expenses		(3,891,748)	(2,615,558)	(10,791,997)	(7,481,069)
Net loss and comprehensive loss		(3,117,190)	(1,590,029)	(8,022,048)	(4,684,523)
Net loss per share - basic and diluted	12	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Weighted average number of common shares outstanding	12	192,372,685	192,309,642	192,330,887	177,829,363

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
(Unaudited)

For the nine months ended September 30, 2023 and 2022

	Note	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Cash used in operating activities			
Net (loss) for the period		\$ (8,022,048)	\$ (4,684,523)
Items not involving cash:			
Share-based compensation	13, 15	759,609	725,968
Amortization	7	965,087	462,925
Non cash finance costs		61,544	75,000
		<u>(6,235,808)</u>	<u>(3,420,630)</u>
Cash used in operating activities before change in working capital items			
Net change in working capital items:			
Change in accounts payable, accrued liabilities		(189,863)	172,350
Change in deferred revenue		60,452	131,267
Change in inventory		406,576	(739,070)
Change in customer deposits		93,084	-
Change in prepaid expenses		150,444	(575,390)
Change in deposits		26,560	79,213
Change in accounts receivable		209,555	(1,307,716)
		<u>(5,479,000)</u>	<u>(5,659,976)</u>
Net cash used in operating activities			
Cash provided by financing activities			
Private placement of units	12	-	10,000,000
Share issuance cost	12	-	(735,145)
Proceeds from operating line of credit	20	110,974	-
Proceeds from secured debentures issued	11	2,029,666	-
Proceeds from share options exercised	13	-	126,108
Proceeds from warrants exercised	13	-	1,334,077
Lease payments	9	(165,152)	(141,162)
Subscription equipment	8	(190,414)	-
		<u>1,785,074</u>	<u>10,583,878</u>
Net cash provided by financing activities			
Cash used in investing activities			
Expenditures on equipment	7	(17,921)	(1,521,572)
		<u>(17,921)</u>	<u>(1,521,572)</u>
Net cash used in investing activities			
Net change in cash and cash equivalents		(3,711,847)	3,402,330
Cash and cash equivalents, beginning of period		<u>4,224,926</u>	<u>3,075,770</u>
Cash and cash equivalents, end of period		\$ <u>513,079</u>	\$ <u>6,478,100</u>
Supplemental information:			
Right of use asset acquired through assumption of lease liability	7, 9	296,500	-
Broker compensation warrants	12	94,936	206,781

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

ARHT MEDIA INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian dollars)

(Unaudited)

For the nine months ended September 30, 2023 and nine months ended September 30, 2022

	Note	Number of shares	Share capital	Reserves			Deficit	Shareholders' equity
				Options	Warrants	RSU's		
				\$	\$	\$		
		#	\$	\$	\$	\$	\$	
Balance, December 31, 2022		192,309,642	48,388,626	1,725,524	5,252,761	-	(47,529,514)	7,837,397
Shares issued to broker		100,000	14,000	-	-	-	-	14,000
Share-based compensation	13	-	-	738,316	-	21,293	-	759,609
Cancelled/expired options	13	-	-	(118,976)	-	-	118,973	(3)
Net (loss) for the period		-	-	-	-	-	(8,022,048)	(8,022,048)
Balance, September 30, 2023		192,409,642	48,402,626	2,344,864	5,252,761	21,293	(55,432,589)	588,955
Balance, December 31, 2021		146,935,635	39,696,307	1,038,849	3,340,713	-	(40,388,251)	3,687,618
Shares issued in private placement		36,363,636	7,626,597	-	-	-	-	7,626,597
Shares issued to broker		407,166	75,000	-	-	-	-	75,000
Share issuance cost		-	(633,103)	-	(102,042)	-	-	(735,145)
Share-based compensation	13	-	-	725,968	-	-	-	725,968
Cancelled/expired options	13	-	-	(161,906)	-	-	161,906	-
Options exercised	13	1,191,667	202,830	(76,722)	-	-	-	126,108
Warrants issued in private placement	12, 13	-	-	-	2,373,403	-	-	2,373,403
Warrants expired	12, 13	-	-	-	(192,305)	-	192,305	-
Warrants exercised	12, 13	7,411,538	1,624,461	-	(290,384)	-	-	1,334,077
Net (loss) for the period		-	-	-	-	-	(4,684,523)	(4,684,523)
Balance, September 30, 2022		192,309,642	48,592,092	1,526,189	5,129,385	-	(44,718,563)	10,529,103

ARHT MEDIA INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION

ARHT Media Inc. (the “Company” or “ARHT”) is a publicly traded company with the registered office located at Unit 2, 195 Bentworth Avenue, Toronto, Ontario, M6A 1P9. ARHT Media trades under the symbol “ART” on the Toronto Venture Stock Exchange as a Tier 2 Technology Issuer and under the symbol “ARHTF” on the OTCQB Market.

The Company empowers executives, educators, entertainers, medical practitioners, and speakers to be present anywhere on the planet appearing live as a high-quality lifelike hologram. Presenters are captured using ARHT’s proprietary capture studio and then transmitted over the common internet and appear live or pre-recorded on a HoloPod™ Display, Capsule Display, a H – Series Portable Display or online using Virtual Global Stage™. In all cases the presenter appears in life-size proportions, with the ability to interact live with their audience.

ARHT’s technology is protected by U.S. Patent No. 9,581,962, U.S. Patent No. 9,658,462 and U.S. Patent No. 9,904,066. The Company has offices in Toronto, Los Angeles, London, UK, Hong Kong and Singapore.

Nature of operations

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

At September 30, 2023, the Company had cash and cash equivalents of \$513,079 (December 31, 2022 - \$4,224,926) and working capital of \$7,667 (December 31, 2022 - \$5,365,576). During the nine months ended September 30, 2023, the Company incurred a net loss of \$8,022,048 (nine months ended September 30, 2022 - \$4,684,523), used cash in operations totaling \$5,479,000 (September 30, 2022 - \$5,659,976), generated cash in financing activities of \$1,785,074 (September 30, 2022 - generated \$10,583,878) and used cash in investing activities of \$17,921 (September 30, 2022 - \$1,521,572).

Basis of presentation

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

ARHT MEDIA INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC"). The accounting policies adopted are consistent with those of the previous financial year, unless otherwise noted.

These condensed interim financial statements were approved and authorized by the Board of Directors on November 29, 2023.

Basis of consolidation

The condensed interim financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries, ARHT Media (USA) Inc., Be There Networks Inc., both incorporated in the State of California, USA, ARHT Media (UK) Limited, a UK registered company and ARHT Media Singapore Pte Limited, a Singapore registered company.

Subsidiaries

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

IAS 1

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The adopting of these amendments as at January 1, 2020 has no material effect on the condensed interim financial statements.

IAS 34

These condensed interim consolidated financial statements are in compliance with IAS 34, Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2022.

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2023 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. Certain of the following pronouncements have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated financial statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however early adoption is permitted.

ARHT MEDIA INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date.

The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 12 – In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

3. ACCOUNTS RECEIVABLE

	September 30, 2023	December 31, 2022
Trade receivables	\$ 2,410,343	\$ 2,432,522
HST and VAT receivables	(141,592)	45,784
	\$ 2,268,751	\$ 2,478,306

4. PREPAID EXPENSES

	September 30, 2023	December 31, 2022
Prepaid trade expenses	\$ 309,938	\$ 447,921
Prepaid insurance	71,177	83,638
	\$ 381,115	\$ 531,559

5. INVENTORY

	September 30, 2023	December 31, 2022
Raw materials	\$ 77,400	\$ 27,711
Finished goods	340,484	1,541,888
	\$ 417,884	\$ 1,569,599

ARHT MEDIA INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

5. INVENTORY (continued)

During the three months ended September 30, 2023 the Company recorded a provision for inventory impairment for end-of-life items in the amount of \$395,878 (September 30, 2022 - \$nil)

6. JOINT VENTURE AND INVESTMENT IN ASSOCIATE

Joint arrangement with WeWork Management LLC ("WeWork")

During 2021, the Company entered into a joint arrangement with WeWork whereby the Company's holographic technology was to be installed in various WeWork locations worldwide. This arrangement was subsequently amended in February 2022 and was accounted for as a joint operation. The Company and WeWork had signed a revenue sharing agreement outlining how the revenues will be allocated to each entity based on various criteria including the type of services provided and the sourcing of the customer. As of September 30, 2023, this agreement was terminated, and the joint arrangement has ceased.

The Company has recorded a total cost of studio equipment of \$Nil for the nine months ended September 30, 2023 (December 31, 2022 - \$1,832,821) in these markets. This equipment was reallocated to other Company locations or sold.

7. EQUIPMENT AND RIGHT OF USE ASSETS

	Computer hardware	Video projectors and screens	Leasehold improvements	Right of Use Assets	Studio equipment	Total
Cost as at December 31, 2022	\$ 199,709	\$ 1,651,510	\$ 280,321	\$ 944,227	\$ 1,832,821	\$ 4,908,588
Additions/(Subtractions)	(577)	711,481	-	296,500	43,968	1,051,372
Cost as at September 30, 2023	\$ 199,132	\$ 2,362,992	\$ 280,321	\$ 1,240,727	\$ 1,876,789	\$ 5,959,960
Accumulated amortization as at December 31, 2022	\$ (132,753)	\$ (704,561)	\$ (280,321)	\$ (819,709)	\$ (482,107)	\$ (2,419,451)
Charge for the period	(25,069)	(325,619)	-	(155,778)	(458,622)	(965,087)
Accumulated amortization as at September 30, 2023	\$ (157,822)	\$ (1,030,180)	\$ (280,321)	\$ (975,487)	\$ (940,728)	\$ (3,384,538)
Net book value as at September 30, 2023	41,310	1,332,812	0	265,240	936,061	2,575,422

8. SUBSCRIPTION EQUIPMENT

During the nine months ended September 30, 2023 the Company entered into a Subscription Agreement with a customer for the use of various products of the Company for a period of 36 months. The terms of the contract include equal payments over 36 months as well as a refundable deposit of \$72,820. Net amount of equipment sold is recorded as an asset totaling \$190,414.

ARHT MEDIA INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

9. LEASE LIABILITY

Balance, December 31, 2022	\$ (122,422)
Lease repayments	193,654
Additions	(296,500)
Interest	(20,317)
Balance, September 30, 2023	\$ (245,585)
Of which are:	
Current	\$ 138,247
Non-current	\$ 107,338

The Company entered into leasing arrangements as a lessee for office premises. There is one lease as at September 30, 2023, which expires in March 2024. In April 2023, one of the office leases was extended by two years.

The future remaining undiscounted lease payments are as follows as at September 30, 2023:

Year	
2023	\$ 85,674
2024-2025	258,834
	<u>\$ 344,508</u>

10. LOANS PAYABLE

On May 15, 2020, the company received a \$40,000 loan from The Canada Emergency Business Account (CEBA). CEBA is a federal program designed to help cover operating costs for organizations experiencing temporary revenue reductions as a result of COVID-19. There are no minimum monthly principal payments required and the loan is non-interest bearing until December 31, 2023. If the balance is fully paid on or before December 31, 2023, \$10,000 of the principal balance is forgiven. To the extent that the loan remains unpaid as at January 1, 2024, it is converted to a 2 – year term loan with a 5% interest rate.

11. SECURED DEBENTURES

Balance, June 30, 2023	\$ -
Secured debentures issued	2,029,666
Accretion expense	47,544
Balance, September 30, 2023	\$ 2,077,210

On August 3, 2023 the Company closed a private placement (the "Private Placement") of secured subordinated debentures (the "Debentures") in an aggregate of \$2,029,666 principal amount. The Debentures mature on August 3, 2025 (the "Maturity Date") and carry an annual interest rate of 15%, accrued and payable semi-annually on each of June 30 and December 31, payable in cash or shares at the option of the Company and subject to the approval of the TSX Venture Exchange (the "TSXV").

Subject to certain conditions, the Company will have the right to prepay any or part of the Debentures at any time prior to the Maturity Date by paying the principal amount of the Debentures. The principal amount of the Debentures are not convertible into common shares or any other securities of the Company. The Debentures are secured by substantially all of ARHT's assets.

ARHT MEDIA INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

11. SECURED DEBENTURES (continued)

The security interest in collateral comprising of accounts receivable and inventory will be subordinated to the Company's current senior lender's security interest. The Debentures are subject to a four-month statutory hold period commencing on the date of their issuance. Subject to the foregoing, the Debenture may not be assigned, transferred or resold, except upon the prior written consent of the Company.

An aggregate of \$763,000 principal amount of the Debentures were purchased by officers and directors of the Company and are exempt from the formal valuation and minority approval provisions of National Instrument 61-101 – Protection of Minority Security Holder in Special Transactions. The Company has paid an aggregate of \$11,100 in cash and issued an aggregate of 100,000 common shares as finders' fees to certain finders in accordance with TSX Venture Exchange policies.

12. SHARE CAPITAL

(a) Authorized share capital

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

(b) Common shares issued:

	Number of Shares	Amount
Balance, December 31, 2021	146,935,635	\$ 39,696,307
Private Placement	36,363,636	7,423,131
Shares issued to broker	407,166	75,000
Share issuance cost		(633,103)
Warrants Exercised	7,411,538	1,624,461
Options exercised	1,191,667	202,830
Balance, December 31, 2022	192,309,642	\$ 48,388,626
Shares issued to broker	100,000	14,000
Balance, September 30, 2023	192,409,642	\$ 48,402,626

On February 22, 2022, the Company closed a private placement of units of the Company at a price of \$0.275 per unit for gross proceeds of \$10,000,000. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each Warrant entitles the holder to acquire an additional common share at an exercise price of \$0.40 for a period of 36 months following the closing of the offering. A director of the Company subscribed for 7,272,728 units for gross proceeds of \$2,000,000.

The agent received a commission equal to 4% of the gross proceeds of the offering. In addition to the agent's commission, the agent received a work fee of \$150,000 and compensation options entitling the agent to purchase 1,454,545 units. Each compensation option entitles the holder to purchase one unit at the offering price at any time on or before the date that is 36 months following the closing date. The compensation options are valued at \$213,082. The Agent's commission and other cash expenses of the offering totaled \$735,145.

(c) Per Share Amounts

The weighted average number of common shares outstanding during the nine months ended September 30, 2023 was 192,330,887 (December 31, 2022 – 181,479,187).

ARHT MEDIA INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

13. RESERVES

The Company has an omnibus long term incentive plan (the "LTIP") for its directors, officers, consultants, and employees. The total number of common shares issuable under the LTIP is 27,555,965 (being 15% of the issued and outstanding common shares on the date the directors approved the LTIP). Subject to the terms and conditions of the LTIP, the board of directors may grant stock options ("Options"), restricted share units ("RSUs") and performance awards ("PSUs") to eligible participants.

The Company's stock options, warrants and RSU's as at and for the periods ended September 30, 2023 and December 31, 2022 were as follows:

	No. of options	Weighted average exercise price	Value of options vested	No. of warrants	Weighted average exercise price	Value of warrants vested	No. of RSU's	Value of RSU's vested	Total value
Balance, December 31, 2021	11,558,834	\$ 0.16	1,038,849	51,408,986	\$ 0.13	3,340,713	-	\$ -	4,379,562
Granted	6,732,001	0.21	-	19,636,363	0.40	2,474,827	-	-	2,474,827
Vesting	-	0.08	925,302	-	-	-	-	-	925,302
Cancelled/Expired	(1,473,333)	0.19	(161,905)	(8,625,190)	0.18	(272,401)	-	-	(434,306)
Exercised	(1,191,667)	0.11	(76,722)	(7,411,538)	0.18	(290,378)	-	-	(367,100)
Balance, December 31, 2022	15,625,835	\$ 0.17	\$ 1,725,524	55,008,621	\$ 0.35	\$ 5,252,761	-	\$ -	\$ 6,978,285
Granted	6,925,000	0.13	-	-	-	-	1,965,487	-	-
Vesting	-	-	738,316	-	-	-	-	21,293	759,609
Cancelled/Expired	(495,000)	0.52	(118,976)	-	-	-	-	-	(118,976)
Balance, September 30, 2023	22,055,835	\$ 0.17	\$ 2,344,864	55,008,621	\$ 0.35	\$ 5,252,761	1,965,487	\$ 21,293	\$ 7,618,918

STOCK OPTIONS

On February 24, 2022, the Company granted a total of 600,000 options to two directors under the stock option plan of the Company. The options are exercisable at a price of \$0.245 per option and shall expire on February 24, 2027. The options shall vest in three equal tranches, with the first tranche vesting on the date of grant, the second tranche vesting on February 24, 2023 and the third tranche vesting on February 24, 2024, all subject to a four-month regulatory hold period.

On May 27, 2022, the Company granted a total of 5,240,000 options to various directors, officers, consultants, and employees under the stock option plan of the Company. The options are exercisable at a price of \$0.21 per option and shall expire on May 27, 2027. The options shall vest in three equal tranches, with the first tranche vesting on the date of grant, the second tranche vesting on May 27, 2023 and the third tranche vesting on May 27, 2024, all subject to a four-month regulatory hold period.

On September 1, 2022, the Company cancelled a total of 1,473,333 options. The options were forfeited by a senior executive of the Company and were exercisable at prices ranging from \$0.14 to \$0.215.

On November 15, 2022, the Company granted a total of 892,001 options to various directors, officers, consultants, and employees under the stock option plan of the Company. The options are exercisable at a price of \$0.17 per option and shall expire on November 15, 2027. The options shall vest in three equal tranches, with the first tranche vesting on the date of grant, the second tranche vesting on November 15, 2023 and the third tranche vesting on November 15, 2024, all subject to a four-month regulatory hold period.

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13. RESERVES (continued)

On August 28, 2023, the Company granted a total of 6,925,000 options to various directors, officers, consultants, and employees under the stock option plan of the Company. The options are exercisable at a price of \$0.13 per option and shall expire on August 28, 2028. The options shall vest in three equal tranches, with the first tranche vesting on the date of grant, the second tranche vesting on August 28, 2024 and the third tranche vesting on August 28, 2025, all subject to a four-month regulatory hold period.

As at September 30, 2023, outstanding options to acquire common shares of the Company were as follows:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Grant date fair value vested	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
1,674,000	558,000	January 29, 2019	January 29, 2024	\$ 0.140	37,378	146%	5.00	0%	2.80%
2,779,834	2,779,834	February 11, 2020	February 11, 2025	\$ 0.095	217,534	107%	5.00	0%	1.51%
677,500	677,500	November 10, 2020	November 10, 2025	\$ 0.300	148,237	120%	5.00	0%	0.25%
3,622,500	3,622,500	May 14, 2021	May 14, 2026	\$ 0.215	645,577	108%	5.00	0%	0.32%
600,000	400,000	February 24, 2022	February 24, 2027	\$ 0.245	140,660	108%	5.00	0%	1.44%
5,115,000	3,410,000	May 27, 2022	May 27, 2027	\$ 0.210	847,129	108%	5.00	0%	2.50%
662,001	220,667	November 15, 2022	November 15, 2027	\$ 0.170	49,516	105%	5.00	0%	3.84%
6,925,000	2,308,333	August 28, 2023	August 28, 2028	\$ 0.130	258,833	100%	5.00	0%	4.81%
22,055,835	13,976,834			\$ 0.17	\$ 2,344,864				

The Company recorded share-based compensation expense of \$738,318 in relation to the stock options, during the nine months ended September 30, 2023 (September 30, 2022 - \$725,968). As at September 30, 2023, the options outstanding had a weighted average remaining contractual life of 3.30 years (December 31, 2022– 3.31 years). Expected volatility is based on ARHT's historical share price.

WARRANTS

As at September 30, 2023, outstanding warrants to acquire common shares of the Company were as follows:

Number outstanding	Grant date	Expiry date	Exercise price	Grant date fair value vested	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
33,251,667	March 17, 2021	March 17, 2024	0.33	2,571,152	117%	3	0%	0.28%
2,120,591	March 17, 2021	March 17, 2024	0.33	206,781	124%	3	0%	0.28%
18,181,818	February 22, 2022	February 22, 2025	0.40	2,379,892	99%	3	0%	1.45%
1,454,545	February 22, 2022	February 22, 2025	0.40	94,936	99%	3	0%	1.45%
55,008,621			\$ 0.35	\$ 5,252,761				

See also note 12 for additional information about compensation options issued on February 22, 2022.

A total of 7,411,538 warrants were exercised in August 2022. The warrants were exercisable at a price of \$0.18 for the total of \$1,334,077 in proceeds.

Additionally, 4,076,923 warrants expired in November 2022. The warrants were exercisable at a price of \$0.18.

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13. RESERVES (continued)

As at September 30, 2023, the warrants outstanding had a weighted average remaining contractual life of 0.80 years (December 31, 2022 – 1.54 years). Expected volatility is based on ARHT's historical share price.

RESTRICTED STOCK UNITS

On September 8, 2023, the Company granted a total of 1,965,487 Restricted Stock Units ("RSU's") to various employees under the LTIP plan of the Company. The RSU's vest on September 8, 2024. Out of the units issued, 692,307 can be paid out in cash or common shares on the vesting day. The remaining units can only be converted to common shares. If RSU's are not converted within 3 years following the vesting date, they are deemed forfeited.

14. GENERAL ADMINISTRATION AND SELLING EXPENSES

The following table illustrates spending activity related to general administration and selling expenses for the three and nine months ended September 30, 2023 and 2022:

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Business development	\$ 39,282	\$ 66,816	\$ 342,225	\$ 260,970
Investor relations	13,754	65,741	160,176	282,317
Administration expenses	855,591	244,089	1,314,489	483,353
Occupancy expenses	174,183	89,132	276,091	158,291
	\$ 1,082,810	\$ 465,778	\$ 2,092,981	\$ 1,184,931

15. RELATED PARTY TRANSACTIONSKey management compensation

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

The remuneration of key management personnel during the three and nine months ended September 30, 2023 and 2022 were as follows:

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Short-term benefits	\$ 297,708	\$ 260,184	\$ 939,216	\$ 953,252
Share-based payments	431,234	72,138	466,241	399,598
Total compensation	\$ 728,942	\$ 332,322	\$ 1,405,457	\$ 1,352,850

See also note 16 for additional information about related party balances and transactions.

Additionally, as at September 30, 2023, the Company had \$66,348 (2022 - \$25,000) of consulting and travel fee expense reimbursements owing to directors and officers of the Company. These amounts are non-interest bearing, unsecured and due on demand.

ARHT MEDIA INC.

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16. COMMITMENTS AND CONTINGENCIES

Management Contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately \$700,000 be made upon the occurrence of certain events such as change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management commitments remaining under agreements are approximately \$603,557 all due within one year.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, amounts receivables, accounts payable and accrued liabilities and loans payable approximate their fair values due to the short-term nature of these instruments.

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

Currency Risk

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar, namely the U.S. dollar, European Euro, GBP or SGD. As a result, fluctuations in the rate of exchange between U.S. and Canadian dollars can have an effect on the Company's reported results. The Company has not utilized any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates. The Canadian dollar equivalent of the Company's net asset value denominated in USD, EUR, GBP or SGD as at September 30, 2023 was approximately \$1,515,935 (2022 – \$1,013,086). A \$0.01 increase or decrease in the exchange rate between these currencies and Canadian dollars would impact net loss by approximately \$15,159 (2022 – \$10,130).

Credit Risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. Cash and cash equivalents are held with a reputable Canadian financial institution, from which management believes the risk of loss is remote. HST receivable is due from the Federal Government of Canada. Trade receivables are all to be received in the normal course of business. The company recorded an allowance for doubtful accounts of \$199,107 as at September 30, 2023 (2022 - \$91,239). Allowance of doubtful accounts is comprised of specific accounts.

The Company is exposed to credit risk from customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses. The Company has also secured Accounts Receivable insurance to limit Customer Credit risk exposure.

Liquidity Risk

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

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17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

As at September 30, 2023 and December 31, 2022, the contractual maturities of the Company's non-derivative financial liabilities were as follows:

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows
at September 30, 2023					
Accounts payable and accrued expenses	\$ 2,636,086	\$ -	\$ -	\$ -	\$ 2,636,086
Lease liabilities (Note 9)	100,503	37,744	107,338	-	245,585
Loans payable (Note 10)	40,000	-	-	-	40,000
Total	\$ 2,776,589	\$ 37,744	\$ 107,338	\$ -	\$ 2,921,671
at December 31, 2022					
Accounts payable and accrued expenses	\$ 2,825,949	\$ -	\$ -	\$ -	\$ 2,825,949
Lease liabilities (Note 9)	53,159	51,947	17,316	-	122,422
Loans payable (Note 10)	-	40,000	-	-	40,000
Total	\$ 2,879,108	\$ 91,947	\$ 17,316	\$ -	\$ 2,988,371

18. CAPITAL MANAGEMENT

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

The Company manages its capital structure and adjusts it, based on the funds available to the Company, changes in economic conditions and the risk characteristics of underlying assets. There were no changes in the Company's approach to capital management during the periods ended September 30, 2023 and 2022.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

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19. SEGMENTED INFORMATION

IFRS 8 requires operating segments to be determined based on the Company's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Company's CEO as he is primarily responsible for the allocation of resources and the assessment of performance.

The CODM uses net loss, as reviewed at periodic business review meetings, as the key measure of the Company's results as it reflects the Company's underlying performance for the period under evaluation.

The CODM's primary focus for review and resource allocation is the Company as a whole and not any component part of the business. All revenue streams for the business are managed by divisional managers. Having considered these factors, management has judged that the Company's operations comprise one operating segment under IFRS 8.

The nine months ended September 30, 2023	Canada (\$)	USA (\$)	Europe and the Middle		Total (\$)
			East (\$)	Asia (\$)	
Revenue	1,562,770	1,720,864	1,048,893	380,278	4,712,805
Total non-current assets	1,089,598	1,012,146	521,988	142,104	2,765,836

The nine months ended September 30, 2022	Canada (\$)	USA (\$)	Europe and the Middle		Total (\$)
			East (\$)	Asia (\$)	
Revenue	1,017,757	2,368,370	986,801	1,059,380	5,432,308
Total non-current assets	383,105	1,454,064	151,204	-	1,988,373

Timing of revenue recognition	The nine months ended September 30, 2023		The nine months ended September 30, 2022	
Products and services transferred at a point in time	\$ 4,357,515	92.5%	\$ 5,208,667	95.9%
Services transferred over time	355,290	7.5%	223,641	4.1%
	\$ 4,712,805	100.0%	\$ 5,432,308	100.0%

Significant customers

In the nine months ended September 30, 2023 revenues from one customer accounted for 10% or more of the Company's revenues and totaled \$486,792.

20. ACCOUNTS RECEIVABLE & INVENTORY FINANCING

On June 25, 2023, the Company entered into an agreement with a financial services firm, Sallyport Financial LLC, to receive asset-based financing. The agreement provides the Company with an operating line of credit based on the value of its accounts receivable and inventory. The Operating Line is for up to \$2,000,000 with a \$200,000 Inventory Sublimit. As a result of this agreement, the Company has assigned select outstanding accounts receivable accounts to the financial services firm. As at September 30, 2023 a total of \$110,974 was provided to the Company.