EIGHT SOLUTIONS INC.

September 30, 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. They include appropriate accounting principles, judgment and estimates in accordance with IFRS for interim financial statements.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian institute of Chartered Professional Accountants for a review of condensed consolidated interim financial statements by an entity's auditors.

Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

EIGHT SOLUTIONS INC.

Three and nine months ended September 30, 2016 and 2015

EIGHT SOLUTIONS INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 146,471	$ 122,763
Trade and other receivable (notes 4 and 10)	744,993	1,583,083
	891,464	1,705,846
Non-current assets:		
Prepaid expenses and deposits	45,956	45,956
Other receivable (note 4)	-	1,136,875
Property and equipment (note 11)	132,571	185,250
Intangible assets (note 12)	5,857,770	7,707,592
Goodwill (note 5)	2,631,419	2,631,419
	8,667,716	11,707,092
Total assets	$ 9,559,180	$ 13,412,938
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities (note 13)	$ 1,061,920	$ 2,187,586
Bank loan (note 14)	900,000	-
Loan payable (note 16)	-	3,294,635
Deferred revenue	43,103	76,500
Current portion of lease incentives	76,200	76,200
Current portion of promissory note due to shareholder (note 6(c))	515,138	-
Current portion of convertible promissory note (note 6(d))	53,894	53,191
	2,650,255	5,688,112
Non-current liabilities:		
Convertible promissory note due to shareholder (note 6(a))	1,415,536	1,369,849
Convertible promissory note (note 6(d))	270,000	270,000
Promissory note due to shareholder (note 6(b))	531,677	846,080
Government loan payable (note 15)	675,636	211,828
Lease incentives	31,778	88,943
Deferred tax liability	775,920	1,315,347
	3,700,547	4,102,047
Total liabilities	6,350,802	9,790,159
Shareholders' equity (note 18):		
Share capital (note 18(a))	19,281,546	19,281,546
Contributed surplus	4,358,206	4,016,943
Deficit	(22,136,405)	(22,050,245)
Total equity attributed to owners of the Company	1,503,347	1,248,244
Non-controlling interest	1,705,031	2,374,535
Total equity	3,208,378	3,622,779
Total liabilities and shareholders' equity	$ 9,559,180	$ 13,412,938

Reporting entity and going concern (note 1)
Commitments and contingencies (note 17)
Subsequent events (note 21)

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

Approved on behalf of the Board:

/s/ Roderick Armes Director

EIGHT SOLUTIONS INC.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue (note 7)	$ 637,418	$ 640,707	$ 2,840,152	$ 7,473,525
Expenses:				
Employee expenses (note 8)	1,226,276	1,014,386	3,807,099	6,316,583
Contracted services	128,756	264,563	431,433	1,805,333
Supplies and materials	192,570	93,514	778,810	975,293
Amortization (notes 11 and 12)	638,525	637,617	1,915,259	1,975,768
Stock based compensation (note 19)	100,129	129,540	341,263	452,355
	2,286,256	2,139,620	7,273,864	11,525,332
Loss before other income (expenses)	(1,648,838)	(1,498,913)	(4,433,712)	(4,051,807)
Other income (expenses):				
Foreign exchange gain (loss)	725	4,438	6,335	(43,155)
Finance expense (note 9)	(72,646)	(141,701)	(162,349)	(383,521)
Gain on disposition (note 4)	-	-	-	5,000,039
Gain on extinguishment of loan (note 16)	-	-	3,294,635	-
	(71,921)	(137,263)	3,138,621	4,573,363
Income (loss) before tax	(1,720,759)	(1,636,176)	(1,295,091)	521,556
Deferred income tax recovery	189,128	190,278	539,427	575,368
Net (loss) income and comprehensive (loss) income for the period	$ (1,531,631)	$ (1,445,898)	$ (755,664)	$ 1,096,924
Total comprehensive (loss) income attributable to:				
Shareholders of the Company	$ (1,313,131)	$ (1,226,271)	$ (86,160)	$ 1,761,176
Non-controlling interest	(218,500)	(219,627)	(669,504)	(664,252)
Net (loss) income per share attributable to owners of the Company:				
Basic (note 18(b))	$ (0.02)	$ (0.02)	$ 0.00	$ 0.04
Diluted (note 18(b))	$ (0.02)	$ (0.02)	$ 0.00	$ 0.04

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

EIGHT SOLUTIONS INC.

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

Nine months ended September 30, 2016 and 2015

	Number of common shares	Share capital	Contributed surplus	Deficit	Total equity (deficiency) attributable to shareholders of the Company	Non-controlling interest	Total shareholders' equity (deficiency)
Balance at January 1, 2015	49,095,488	17,268,579	3,005,930	(22,306,009)	(2,031,500)	3,243,679	1,212,179
Stock-based compensation (note 19(b))	-	-	174,071	-	174,071	-	174,071
Issuance of common shares (note 18(a))	4,741,738	1,980,066	287,740	-	2,267,806	-	2,267,806
Issuance of warrants for consulting services (note 18(a))	-	-	82,526	-	82,526	-	82,526
Issuance of convertible debenture (note 6(a))	-	-	115,073	-	115,073	-	115,073
Option exercise (note 19)	25,393	32,901	(17,666)	-	15,235	-	15,235
Net income (loss) and comprehensive income (loss)	-	-	-	4,509,439	4,509,439	(221,379)	4,288,060
Balance at December 31, 2015	53,862,619	$19,281,546	$ 4,016,943	$ (22,050,245)	$ 1,248,244	$ 2,374,535	$ 3,622,779
Balance at January 1, 2016	53,862,619	$19,281,546	$4,016,943	$ (22,050,245)	$ 1,248,244	$ 2,374,535	$ 3,622,779
Stock-based compensation (note 19(b))	-	-	341,263	-	341,263	-	341,263
Net (loss) and comprehensive (loss)	-	-	-	(86,160)	(86,160)	(669,504)	(755,664)
Balance at September 30, 2016	53,862,619	$19,281,546	$ 4,358,206	$ (22,136,405)	$ 1,503,347	$ 1,705,031	$ 3,208,378

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

EIGHT SOLUTIONS INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash provided by (used in):		
Cash flows from operating activities:		
Net income (loss) for the period	$ (755,664)	$ 1,096,924
Adjustments for:		
Amortization	1,915,259	1,975,768
Amortization of lease inducement	(57,165)	(57,165)
Stock based compensation	341,263	452,355
Gain from disposition (note 4)	-	(5,000,039)
Issuance of warrants for consulting services	-	82,526
Deferred income tax recovery	(539,427)	(575,368)
Gain on extinguishment of loan (note 16)	(3,294,635)	-
Finance expense	162,349	383,521
	(2,228,020)	(1,641,478)
Changes in non-cash working capital:		
Trade and other receivable	2,004,756	(764,637)
Prepaid expenses and deposits	-	(104,228)
Deferred revenue	(33,397)	(1,110,172)
Trade payables and accrued liabilities	(1,135,526)	(882,513)
Net cash used in operating activities	(1,392,187)	(4,503,028)
Cash flows from financing activities:		
Increase in bank indebtedness (note 14)	900,000	34,622
Increase in government loan (note 15)	463,808	97,500
Advances from shareholders	1,175,000	275,000
Repayment of due to shareholders	(975,000)	(335,037)
Proceeds from issuance of share capital (net of costs)	-	906,445
Interest paid	(135,155)	(36,649)
Net cash from financing activities	1,428,653	941,881
Cash flows from investing activities:		
Purchase of property and equipment	(12,758)	(15,060)
Purchase of intangible assets	-	(127,421)
Cash received on disposition of 3D studio assets (note 4)	-	3,450,500
Net cash from (used in) investing activities	(12,758)	3,308,019
Increase (decrease) in cash and cash equivalents	23,708	(253,128)
Cash and cash equivalents, beginning of period	122,763	572,164
Cash and cash equivalents, end of period	$ 146,471	$ 319,036

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

1. Reporting entity and going concern:

Eight Solutions Inc. was incorporated on January 24, 2011 pursuant to the provisions of the *Business Corporations Act* (British Columbia). The address of the Company's operating office is Suite 100, 138 East 7^{th} Avenue, Vancouver, B.C., Canada. The unaudited condensed consolidated interim financial statements of the Company as at September 30, 2016 and for the three and nine month periods then ended comprise of the Company and its subsidiaries, Eight Technologies Inc., Eight Productions Corp., Eight Interactive Media Corp., 8055661 Canada Inc., and Reelhouse Media Ltd. (note 5) (together referred to as the "Company" and individually as "Company entities"). The Company is in the business of developing 3D conversion software and cloud-based data management and analytic software.

These unaudited condensed consolidated interim financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. As at September 30, 2016, the Company had a working capital deficit of $1,758,791 and had an accumulated deficit of $22,136,405. These conditions raise significant doubt about the Company's ability to continue as a going concern.

The Company's future operations are dependent upon many factors, including the ability of the Company to generate sufficient profit and cash flows from operations. The decision to fund the Company is ultimately at the lenders' or investors' discretion, and there is no guarantee that funds will be provided at reasonable rates, or at all. These unaudited condensed consolidated interim financial statements do not reflect adjustments to the carrying values of assets and liabilities and the classifications used on the unaudited condensed consolidated interim statement of financial position that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in compliance with IAS 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those followed in the most recent annual consolidated financial statements. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These unaudited condensed consolidated interim financial statements were approved for issuance by the Board of Directors on November 29, 2016.

(b) Basis of measurement:

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

(d) Use of estimates and judgments:

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Use of estimates:

Revenue recognition – percentage completion:

Determining the amount of revenue to be recognized requires estimating the amount of the contract that has been completed during the reporting period.

Business combination:

Determining the allocation of purchase consideration to the fair value of assets acquired and liabilities assumed.

2. Basis of presentation (continued):

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

Convertible promissory note:

Determining the fair value of the convertible debenture and the allocation of its value between equity and liabilities.

Share-based payments and warrants:

Determining the fair value of share-based payments and warrants upon issuance.

3. Changes in accounting policies:

The accompanying financial information reflects the same accounting policies and methods of application as the Company's consolidated financial statements for the year ended December 31, 2015.

4. 3D studio disposition:

On January 27, 2015, the Company signed an agreement with Prime Focus to sell certain assets of the Company related to the 3D studio conversion business for consideration of $6,312,500, net of closing adjustments and estimated deferred revenue of $1,112,000. The Company also entered into a five-year worldwide exclusive software license agreement to license its proprietary 3D conversion technology to Prime Focus for use throughout the entertainment industry and a five-year non-compete that mirrors the term of the license agreement. The Company will receive $1,000,000 annually for the license fee plus up to an additional $1,000,000 annually based on the 3D conversion revenue achieved by Prime Focus. As well, a technology support agreement was entered into by the Company to provide technical services and support to Prime Focus for approximately $1,000,000 per year for two years. If the technology support agreement is terminated or not renewed, Prime Focus will no longer have exclusive rights under the software license agreement. On February 25, 2015, the Company received shareholder approval for the transaction which closed on March 23, 2015 (the "Closing Date") enabling the Company to focus on the development of its other technologies. Post-closing, an adjustment to reduce the purchase price of $833,333 was made (note 13). The Company recognized a gain on disposition of $5,000,039 calculated as follows:

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

4. 3D studio disposition (continued):

Cash proceeds on closing	$	2,150,500
Cash deposit received January 27, 2015		1,300,000
Other receivable		1,750,000
Post-closing adjustment payable to Prime Focus		(833,333)
Purchase consideration, net of closing adjustments		4,367,167
Net assets sold:		
Property and equipment		(194,708)
Intangible assets		(271,557)
Deferred revenue		1,266,515
Prepaid expenses		(167,378)
		632,872
Gain on disposition	$	5,000,039

The other receivable is due without interest on the earlier of the settlement of the dispute over the loan payable as described in note 16 or in three equal annual instalments receivable each year after the Closing Date. As outlined in note 16, the other receivable was released following settlement of the dispute over the loan payable. Of the $833,333 post-closing adjustment payable, $483,333 was set-off against the $1,000,000 license fee plus one-third of the other receivable, together due on March 23, 2016 and $350,000 was set-off against the license fee receivable due on June 15, 2016. The Company plans to utilize its tax losses from previous years to offset the gain from the disposition of its 3D studio assets.

5. Business combination:

On January 29, 2014, the Company converted a promissory note of $1,125,000 into 18,750,000 Reelhouse Media Ltd. ("Reelhouse") common shares providing it a 48% interest in Reelhouse. On February 25, 2014, the Company acquired an additional 7,000,000 Reelhouse common shares in consideration of 1.3 million common shares issued by the Company, resulting in an increase in equity interest in Reelhouse from 48% to 66%. Headquartered in Vancouver, British Columbia, Reelhouse is an open video sharing platform dedicated specifically for quality entertainment content.

The following table summarizes the fair value of the consideration transferred and the final estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

5. Business combination (combination):

Share capital issued on acquisition of 18% interest	$	2,015,000
Gain on investment, representing the fair value of the 48% investment held		5,373,333
Purchase consideration		7,388,333
Net assets acquired (liabilities assumed):		
Cash		1,757
Trade receivables		4,621
Intellectual property		12,332,148
Trade and other payables		(51,661)
Convertible promissory notes		(321,199)
Deferred income tax liability		(2,631,419)
Non-controlling interest		(4,577,333)
Fair value of net identifiable assets acquired		4,756,914
Goodwill	$	2,631,419

The Company gained control of Reelhouse with the February 25, 2014 transaction and has accounted for the acquisition as a business combination. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2014.

The re-measurement to fair value of the Company's 48% interest in Reelhouse, which had a carrying value of nil, resulted in a gain of $5,373,333.

The fair value of non-controlling interest ("NCI") was determined in two components. The fair value of the ordinary NCI component was calculated with reference to the $2,015,000 in Company shares that were provided to obtain an 18% interest in Reelhouse. The fair value of other NCI, representing the value of the conversion feature component of the convertible promissory notes, was determined using the Black-Scholes valuation model (note 6(d)). The most significant input used in this model was the expected life of the conversion feature, which was estimated to be one year.

Goodwill is attributed to the skills and technical talent of the employees of Reelhouse and other operational efficiencies.

On April 24, 2014, the Company acquired additional Reelhouse common shares in consideration of 269,286 common shares issued by the Company, resulting in an increased interest in Reelhouse from 66% to 70%. Non-controlling interest was adjusted by $515,657 for the additional interest acquired, and the difference of $200,593 was recorded in deficit.

6. Related party transactions:

(a) Convertible promissory note due to shareholder:

On July 28, 2015, the Company entered into an agreement to convert an aggregate of $2,932,869 of indebtedness owed to the Company's majority shareholder, through the issuance of 2,847,738 common shares at a deemed issuance price of $0.50 per common share and an unsecured convertible debenture in the principal amount of $1,500,000 with a maturity date of January 27, 2018. Under the terms of the debenture, the remaining outstanding balance of the indebtedness owed in the amount of $1,500,000 has been amended such that the previous demand loan bearing interest at 7.5% payable quarterly has been reduced to an interest rate of 6% and all amounts outstanding under the loan are convertible into common shares of the Company at a conversion price of $0.55 per common share at the option of the holder. On the date of issuance, the convertible promissory note was accounted for at fair value with $40,431 recorded as a deferred tax asset netted against the equity portion of the convertible promissory note of $155,504 with $115,073 recorded in equity and $1,344,496 as the fair value of the liability portion of the convertible promissory note. As at September 30, 2016, the carrying value of the liability portion of the convertible promissory note is $1,415,536.

(b) Promissory note due to majority shareholder:

On November 26, 2015, the Company's majority shareholder provided a demand loan facility to the Company to borrow up to $1,000,000. The shareholder has agreed to not demand repayment of any drawings against the facility until at least October 1, 2017, although the Company has the option to make earlier repayments. The loan bears interest of 12%. The loan is secured by a general security agreement against the assets of the Company. As at September 30, 2016, $531,677 was drawn on this facility.

(c) Promissory note due to director of the Company:

On January 15, 2016, the Company entered into a loan agreement with a director of the Company in the amount of $500,000. The demand loan bears interest of 12% per annum, matures six months from the date of advance and is secured by a general security agreement against the assets of the Company. The lender may demand repayment of principal and interest any time after March 31, 2016. In connection with entering into the loan agreement the lender will receive a commitment fee equal to 2% of the principal amount. As at September 30, 2016, $515,138 was drawn on this facility including accrued interest.

(d) Reelhouse convertible promissory notes:

As at September 30, 2016, the Company indirectly held a $333,034 convertible promissory note in Reelhouse. The carrying value of the convertible promissory note was recorded at fair value, but is eliminated upon consolidation. The Company indirectly held has the option to convert the note into common shares of Reelhouse at a price of $0.15 per share.

6. Related party transactions (continued):

(d) Reelhouse convertible promissory notes (continued):

The majority shareholder of the Company holds a $270,000 convertible promissory note and 333,333 common shares of Reelhouse, which were received in exchange for the shareholder settling certain amounts owing to the Company and for software development services provided to Reelhouse by the Company in 2012. The shareholder reimbursed the Company for the cost of the services provided by way of a reduction of $320,000 of the amount otherwise due to the shareholder. This promissory note is non-interest bearing and can be converted at any time into common shares of Reelhouse at the option of the holder at $0.06 per common share. Although the note is due on demand, the holder has confirmed in writing that the note will not be demanded for repayment before October 1, 2017. Another shareholder of the Company holds a $30,000 convertible promissory note with similar terms, which can be converted into common shares of Reelhouse at any time at the option of the holder at $0.15 per common share. The $30,000 note is due on demand, and both notes bear interest at 4%.

An unrelated party also holds a convertible promissory note of $20,000 USD ($23,894 CAD) with an interest rate at 4%. The convertible promissory note is payable upon demand and can be converted into common shares of Reelhouse upon the next equity financing of greater than $1,000,000 USD at 80% of the price paid per share.

These convertible notes, which were acquired as part of the Reelhouse acquisition (note 5), are considered to be compound financial instruments. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

The carrying value of the liability components of these convertible promissory notes approximates fair value due to the nature of the notes. The difference between the total fair value of the convertible promissory notes and the liability components were allocated as the equity components to non-controlling interest on acquisition (note 5) and represent other NCI.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

7. Revenue:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
3D conversion revenue	$ -	$ -	$ -	$ 6,134,081
Licensing, royalty and other revenue	637,418	640,707	2,840,152	1,339,444
Total	$ 637,418	$ 640,707	$ 2,840,152	$ 7,473,525

8. Employee expenses:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Production	$ -	$ -	$ -	$ 2,883,575
Research and development	885,681	694,597	2,827,227	2,155,024
General and administrative	340,595	319,789	979,872	1,277,984
Total	$ 1,226,276	$ 1,014,386	$ 3,807,099	$ 6,316,583

9. Finance expense:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest expense	$ 65,477	$ 39,978	$ 78,782	$ 136,168
Financing fees	917	95,926	58,365	217,938
Service charges	6,252	5,797	25,202	29,415
Total	$ 72,646	$ 141,701	$ 162,349	$ 383,521

10. Trade and other receivables:

	September 30, 2016	December 31, 2015
Trade receivables	$ 206,205	$ 211,813
Unbilled revenue	538,788	786,912
Prepaid expenses	-	1,025
Other	-	583,333
Total	$ 744,993	$ 1,583,083

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

11. Property and equipment:

Cost	Balance at January 1, 2016	Additions	Disposals	Balance at September 30, 2016
Computer hardware	$ 15,060	$ 12,758	$ -	$ 27,818
Leasehold improvements	398,491	-	-	398,491
Total	$ 413,551	$ 12,758	$ -	$ 426,309

Cost	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Furniture and fixtures	$ 68,911	$ -	$ 68,911	$ -
Computer hardware	1,029,834	15,060	1,029,834	15,060
Leasehold improvements	398,491	-	-	398,491
Total	$ 1,497,236	$ 15,060	$1,098,745	$ 413,551

Accumulated amortization	Balance at January 1, 2016	Amortization expense	Disposals	Balance at September 30, 2016
Computer hardware	$ 2,715	$ 5,663	$ -	$ 8,378
Leasehold improvements	225,586	59,774	-	285,360
Total	$ 228,301	$ 65,437	$ -	$ 293,738

Accumulated amortization	Balance at January 1, 2015	Amortization expense	Disposals	Balance at December 31, 2015
Furniture and fixtures	$ 62,462	$ 1,111	$ 63,573	$ -
Computer hardware	812,732	30,447	840,464	2,715
Leasehold improvements	145,888	79,698	-	225,586
Total	$ 1,021,082	$ 111,256	$ 904,037	$ 228,301

Carrying amounts, net book value	September 30, 2016	December 31, 2015
Computer hardware	$ 19,440	$ 12,345
Leasehold improvements	113,131	172,905
Total	$ 132,571	$ 185,250

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

12. Intangible assets and goodwill:

(a) Intangible assets:

Cost	Balance at January 1, 2016	Additions	Disposals	Balance at September 30, 2016
Intellectual property	$ 12,332,148	$ -	$ -	$ 12,332,148

Cost	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Computer software	$ 746,079	$ 127,421	$ 873,500	$ -
Intellectual property	12,332,148	-	-	12,332,148
Total	$ 13,078,227	$ 127,421	$ 873,500	$ 12,332,148

Accumulated amortization	Balance at January 1, 2016	Amortization expense	Disposals	Balance at September 30, 2016
Intellectual property	$ 4,624,556	$ 1,849,822	$ -	$ 6,474,378

Accumulated amortization	Balance at January 1, 2015	Amortization expense	Disposals	Balance at December 31, 2015
Computer software	$ 566,074	$ 35,869	$ 601,943	$ -
Intellectual property	2,158,126	2,466,430	-	4,624,556
Total	$ 2,724,200	$ 2,502,299	$ 601,943	$ 4,624,556

Carrying amounts, net book value	September 30, 2016	December 31, 2015
Intellectual property	$ 5,857,770	$ 7,707,592

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

12. Intangible assets and goodwill (continued):

(b) Goodwill:

Goodwill was recorded as a result of the business combination described in note 5. In accordance with its policy, the Company has completed its annual impairment test as at December 31, 2015 and 2014. The Company determined the recoverable amount of its cash generating units ("CGU") using the fair value less costs to sell approach. The fair value of the CGU was determined with reference to the Company's independent calculation of value from the prior year, and taking into consideration changes to the overall business and the digital film distribution industry market and inflation less costs to sell. For 2014, the fair value was determined with reference to the Company's quoted market value on the Canadian Securities Exchange on the date of analysis. No impairment was recorded as at December 31, 2015 and 2014. The Company will continue to assess the valuation of goodwill for any indicators of potential impairment on an ongoing basis, and as at September 30, 2016, no impairment has been recorded.

13. Trade payables and accrued liabilities:

	September 30, 2016	December 31, 2015
Trade accounts payable	$ 235,609	$ 357,010
Salary and benefits payable	718,657	763,419
Accrued liabilities	107,654	233,824
Closing adjustment payable to Prime Focus (note 4)	-	833,333
Total	$ 1,061,920	$ 2,187,586

14. Bank loan:

On March 21, 2016, the Company entered into a $900,000 operating loan from the Royal Bank of Canada, which bears interest at the bank's prime rate plus 5.8% and is to be repaid on March 23, 2017. It is secured by amongst other terms, a credit insurance policy issued by Export Development Canada and a general security agreement on the assets of the Company. On April 26, 2016, the Company received $900,000 under the operating loan.

15. Government loan payable:

On May 22, 2015, the Company entered into an agreement with the Minister of Western Economic Diversification Canada ("the Minister") to borrow up to $1,375,000. The Minister funds 50% of certain costs incurred in the development and commercialization of the Company's data visualization product as specified in the terms of the agreement. The Company requests funding on a quarterly basis. The Company shall repay any amounts owing in equal instalments starting May 1, 2018 for 59 consecutive months ending April 1, 2023. The loan is unsecured and interest

15. Government loan payable (continued):

accrues at the average bank rate plus 3%, compounding monthly, and only accrues on the due date of the installment payment and ends on the day before the day on which the installment payment is received. . As at September 30, 2016, the Company has borrowed $675,636.

16. Loan payable:

On October 30, 2013 the Company entered into a loan agreement for $3,000,000 with Tianjin Fu Feng Da Movie & Television Technology Investment and Development Co., Ltd. (“FFD”). At the same time, it entered into a Letter of Intent (“LOI”) with a Canadian wholly-owned subsidiary of FFD (“Newco”) to acquire 100% of the net assets and business related to the Company's 2D-3D conversion business (the “Proposed Transaction”).

The Loan bears interest at a rate of 8% per annum, matured on October 31, 2014, and is secured by the Company's present and after-acquired personal property and a limited guarantee of Gener8 Digital Media Corp.

On March 18, 2014, the Company signed an Asset Purchase Agreement (“APA”) with FFD pursuant to the LOI signed on October 30, 2013. The definitive agreement was subject to closing conditions including all requisite regulatory, exchange approval, obtaining any requisite government approvals and third party consents, and various other conditions customary for an agreement of this nature. Shareholder approval was obtained on April 10, 2014. Subsequently, on April 30, 2014, the Company signed a letter agreement to extend the closing date of the APA to May 23, 2014 in consideration for a non-refundable advance payment of $1,000,000. The non-refundable advance was recorded as a gain on non-refundable loan in the statements of comprehensive loss in the 2014 fiscal year.

With the Proposed Transaction still incomplete and following dispute resolution procedures to address the Company’s claims against FFD, on December 12, 2014 the Company signed a loan amendment with FFD to reduce the Loan from $3,000,000 plus accrued interest to $1,250,000 and to extend the repayment date to December 31, 2015 (“Amendment Agreement”).

On January 23, 2015, the Company delivered repayment of $1,250,000 to FFD pursuant to the Amendment Agreement, terminated the Proposed Transaction with FFD and took steps to discharge the security against the Company’s property. FFD rejected the loan repayment and made demands to repay the $1,250,000 in a manner that is a breach of the Amendment Agreement.

On March 6, 2015, the Company brought legal action in British Columbia Supreme Court (“Court”) against FFD, its sole shareholder and FFD’s legal counsel seeking a declaration that the Company’s indebtedness to FFD was reduced to $1,250,000 by the Amendment Agreement; an award for damages for misrepresentation, breach of contract, inducing breach of contract, malicious interference with economic relations, defamation and slander of title; an order that the

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

16. Loan payable (continued):

Company is entitled to set-off damages it has suffered against the amount of $1,250,000 with the result that the debt with FFD is entirely extinguished; an order that the Company is entitled to discharge all of FFD's security; as well as special damages, aggravated and punitive damages, and costs.

On April 3, 2015, FFD commenced arbitration proceedings in the London Court of International Arbitration ("LCIA") seeking a ruling that the Amendment Agreement was procured by an incorrect translation and is void, with the result that the Company continues to owe the sum of $3,000,000 to FFD, with interest. These proceedings have been opposed by the Company on the basis that the LCIA is without jurisdiction, as well as on the merits. On November 6, 2015, the LCIA required each of the Company and FFD to deposit a further £30,000 to the LCIA as advances on the fees and expenses of the LCIA and the arbitration tribunal. On November 27, 2015, FFD's counsel informed the LCIA that FFD was unable to make the deposit, and requested that the deadline for making the deposit be extended to January 31, 2016. This request was granted. FFD then requested a further extension and advised that its principal was in prison in China and being investigated for unidentified offences. The Company objected to any further extension, and asked that FFD's claim be dismissed. The arbitrator stayed the proceedings until June 6, 2016.

On June 20, 2016, the Company obtained an order from the Court as follows: i) the Court declared that the debt owed to FFD was reduced to $1,250,000 plus interest of approximately $11,000 as of January 23, 2015, and the Court capped the amount of interest as of that date; ii) the Court awarded the Company damages as of February 25, 2015 in the amount of $1,250,000 plus another $50,000 in punitive damages with prejudgment interest; iii) the Court ordered that the damages be set-off against the amount owing to FFD, with the result that the debt owed to FFD is extinguished entirely, and the Company is owed an additional $35,000 plus certain costs from FFD; and iv) the Court extinguished all of the security held by FFD.

As the result of the Court order and resulting extinguishment of the loan payable to FFD, the Company recorded a gain in the amount of $3,294,635, including related interest. As required, Prime Focus also repaid the balance of the other receivable.

17. Commitments and contingencies:

(a) Commitments:

(*i*) As at September 30, 2016, non-cancellable operating lease rentals are payable as follows:

2016	$	76,223
2017		304,890
2018		50,813
Total	$	431,926

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

17. Commitments and contingencies (continued):

(a) Commitments (continued):

The Company has operating lease for its office facility. The lease ends in 2018 with an option to renew the leases after that date. Lease payments are increased annually to reflect market rentals.

(*ii*) As at September 30, 2016, the Company had entered into an agreement with a third party vendor to design, rack, finance, monitor, and host an off-site production datacenter. The rental payables are as follows:

2016	$	25,009
2017		68,733
2018		5,000
Total	$	98,742

The term of the agreement is 24 months with 3-month penalty for early termination. The Company has the option to renew for an additional year with the same initial terms.

18. Shareholders' equity:

(a) Share capital:

Authorized:
Unlimited common shares without par value with special rights
Unlimited class A preferred shares without par value, convertible
Unlimited class B preferred shares without par value
Unlimited class C preferred shares without par value

Class A preferred shares are convertible at the option of the holder, at any time into such number of fully paid and non-assessable common shares. The conversion price for each preferred share shall initially be equal to the original issue price.

Upon the occurrence of certain events in the future, the class A preferred shares will be converted into common shares at the then effective conversion price.

As at September 30, 2016, the Company has no preferred shares issued and outstanding.

Issuance of common shares:

On July 28, 2015, the Company entered into an agreement to convert an aggregate of $2,932,869 of indebtedness owed to the Company's majority shareholder, through the issuance of 2,847,738 common shares at a deemed issuance price of $0.50 per common share and an unsecured convertible debenture in the principal amount of $1,500,000 with a maturity date of January 27, 2018 subject to any earlier conversion of the outstanding amount in accordance with the terms of the debenture (note 6(a)).

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

18. Shareholders' equity (continued):

(a) Share capital (continued):

On August 27, 2015, the Company closed the first tranche of a private placement raising gross proceeds of $947,000 consisting of units at a price of $0.50 per unit. The Company issued 1,894,000 common shares and 1,894,000 warrants with an exercise price of $0.60 expiring 24 months from closing. In connection with the closing, an aggregate fee of $55,790 was paid in cash and 153,370 compensation options were issued. Each compensation option consists of a warrant exercisable at $0.50 and an entitlement to a warrant exercisable at $0.60 upon the exercise of the $0.50 warrant.

Warrant activity from December 31, 2014 to September 30, 2016 is as follows:

	Common shares warrants	Weighted average exercise price
Outstanding, December 31, 2014	6,036,703	$ 0.87
Issuance pursuant to consulting agreement	200,000	$ 0.60
Issuance pursuant to private placement	2,047,370	0.59
Expiration of warrants	(1,429,712)	0.87
Outstanding, December 31, 2015	6,854,361	$ 0.78
Expiration of warrants	(4,531,991)	$ 0.86
Outstanding, September 30, 2016	2,322,370	$ 0.61

The weighted average remaining contractual life of the warrants outstanding is 1.8 years (2015 – 0.9 years).

The fair values of all warrants issued were measured based on the Black-Scholes option-pricing model and was recorded in contributed surplus. No warrants were issued in the nine month period ended September 30, 2016. The inputs used in the measurement of the fair values at issuance dates of warrants as at September 30, 2015 were as follows:

	Nine months ended	
	September 30, 2016	September 30, 2015
Volatility	-	174%
Expected life of warrants	-	1.38 years
Dividend yield	-	0.0%
Risk free interest rate	-	0.35%

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

18. Shareholders' equity (continued):

(b) Earnings per share:

The following table sets forth the computation of net income (loss) per common share:

	Three month period ended		Nine month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income (loss) attributable to the Shareholders of the Company	$(1,313,131)	$ (1,226,271)	$ (86,160)	$ 1,761,176
Weighted average number of common shares outstanding	53,862,619	51,832,826	53,862,619	50,032,192
Dilutive stock options and warrants	73,461	6,705	834,649	43,207
Weighted average number of common shares used in the calculation of basic earnings per share	53,936,080	51,839,531	54,697,268	50,075,399
Earnings (loss) per share:				
Basic	$ (0.02)	$ (0.02)	$ 0.00	$ 0.04
Diluted	(0.02)	(0.02)	0.00	0.04

19. Stock-based compensation plans:

Effective July 15, 2011, the Company adopted a Stock Option Plan. The purpose of the Stock Option Plan is to retain the services of valued key employees and consultants of the Company. Under the Stock Option Plan, the Plan Administrator is authorized to grant Stock Options to acquire up to a total of ten percent (10%) of the total number of issued common shares of the Company (calculated on a non-diluted basis) at the time a Stock Option is granted.

Stock option activity from January 1, 2015 to September 30, 2016 is as follows:

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

19. Stock-based compensation plans (continued):

	Common shares under option	Weighted average exercise price
Outstanding, December 31, 2014	3,664,832	$ 0.83
Forfeited, cancelled or expired	(309,248)	0.85
Granted	1,163,250	0.58
Exercised	(25,393)	0.60
Outstanding, December 31, 2015	4,493,441	$ 0.77
Granted	700,000	0.21
Forfeited, cancelled or expired	(1,324,670)	0.81
Outstanding, September 30, 2016	3,868,771	$ 0.42

At September 30, 2016, 2,190,109 options were exercisable. On July 13, 2016, 1,740,842 options were repriced to an exercise price of $0.18 per share with no other terms being changed. The weighted average remaining contractual life of the options outstanding is 7.73 years.

(a) Valuation of share options:

The fair values of all share-based payments were measured based on the Black-Scholes option-pricing model. Expected volatility was calculated based on the Company's stock price. The inputs used in the measurement of the fair values at grant dates of the share-based payments as at September 30, 2016 and September 30, 2015 are the following:

	September 30, 2016	September 30, 2015
Expected volatility	118.8-120.6%	171.3%
Expected life of options	5.85 years	7.18 years
Dividend yield	0.0%	0.0%
Risk free interest rate	0.53-0.98%	1.42%
Fair value per share	$0.15	$0.59
Forfeiture rate	19%	29%

(b) Total stock based compensation expense:

Total stock based compensation expense for the period ended September 30, 2016 was $341,263 (September 30, 2015 – $452,355).

20. Financial instruments:

(a) Fair values:

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The carrying amounts for cash and cash equivalents, trade and other receivables, and trade payables and accrued liabilities approximate their fair value because of the limited term of the instruments. The carrying amounts of the convertible promissory notes, bank loan and government loan payable approximate their fair value because the terms are consistent with similar instruments. All of the instruments have a fair value hierarchy of Level 3 excluding cash and cash equivalents which is Level 1. It is not possible to determine the fair value of the shareholder promissory notes as there is no comparable market value for such loans.

21. Subsequent Events:

On October 5, 2016, the Company increased the operating loan from the Royal Bank of Canada from $900,000 to $1,800,000, of which $900,000 is to be repaid on March 23, 2017, and $900,000 is to be repaid on June 15, 2017. All other terms and security remain the same.