

# **EIGHT SOLUTIONS INC.**

June 30, 2017

## **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 six months ended June 30, 2017 and 2016

# EIGHT SOLUTIONS INC.

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

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 903,402	\$ 179,865
Trade and other receivables (note 9)	131,587	901,632
	<u>1,034,989</u>	<u>1,081,497</u>
Non-current assets:		
Prepaid expenses and deposits	45,956	45,956
Property and equipment (note 10)	114,291	117,082
Intangible assets (note 11)	4,007,947	5,241,162
	<u>4,168,194</u>	<u>5,404,200</u>
<b>Total assets</b>	<b>\$ 5,203,183</b>	<b>\$ 6,485,697</b>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>		
Current liabilities:		
Trade payables and accrued liabilities (note 12)	\$ 1,049,119	\$ 997,960
Bank loan (note 13)	-	1,800,000
Deferred revenue	115,238	54,021
Current portion of lease incentives	50,813	76,200
Promissory note due to director (note 5(c))	-	530,719
Current portion of government loan payable (note 14)	45,800	-
Current portion of convertible promissory note (notes 5(a) and 5(d))	1,517,191	54,135
	<u>2,778,161</u>	<u>3,513,035</u>
Non-current liabilities:		
Convertible promissory note due to founding shareholder (note 5(a))	-	1,431,216
Convertible promissory note (note 5(d))	270,000	270,000
Promissory note due to founding shareholder (note 5(b))	884,391	786,156
Government loan payable (note 14)	865,219	571,711
Lease incentives	-	12,723
Deferred tax liability	228,815	560,282
	<u>2,248,425</u>	<u>3,632,088</u>
<b>Total liabilities</b>	<b>5,026,586</b>	<b>7,145,123</b>
Shareholders' equity (deficiency) (note 17):		
Share capital (note 17(a))	19,425,546	19,281,546
Contributed surplus	4,372,531	4,273,159
Deficit	(23,895,234)	(24,920,113)
Total equity (deficiency) attributed to owners of the Company	(97,157)	(1,365,408)
Non-controlling interest	273,754	705,982
<b>Total equity (deficiency)</b>	<b>176,597</b>	<b>(659,426)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 5,203,183</b>	<b>\$ 6,485,697</b>

Reporting entity and going concern (note 1)  
Commitments and contingencies (note 16)  
Subsequent events (note 20)

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		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue (note 6)	\$ 2,318,572	\$ 1,553,199	\$ 2,929,092	\$ 2,202,734
Expenses:				
Employee expenses (note 7)	1,244,402	1,273,172	2,539,344	2,580,824
Contracted services	168,349	183,683	229,420	302,676
Supplies and materials	227,504	260,873	455,390	586,169
Amortization (notes 10 and 11)	642,554	638,525	1,283,962	1,276,735
Stock based compensation (note 18)	40,287	98,146	99,372	241,134
	2,323,096	2,454,399	4,607,488	4,987,538
Loss before other income (expenses)	(4,524)	(901,200)	(1,678,396)	(2,784,804)
Other income (expenses):				
Foreign exchange gain (loss)	(3,363)	(1,247)	(6,383)	5,610
Finance income (expense) (note 8)	(30,656)	76,239	(90,037)	(89,703)
Gain on debt conversion (note 17(a))	-	-	36,000	-
Gain on disposition (note 4)	2,000,000	-	2,000,000	-
Gain on extinguishment of loan (note 15)	-	3,294,635	-	3,294,635
	1,965,981	3,369,627	1,939,580	3,210,542
Income before tax	1,961,457	2,468,427	261,184	425,738
Deferred income tax recovery	183,913	192,654	331,467	350,299
Net income and comprehensive income for the period	\$ 2,145,370	\$ 2,661,081	\$ 592,651	\$ 776,037
Total comprehensive income attributable to:				
Shareholders of the Company	\$ 2,360,715	\$ 2,883,282	\$ 1,024,879	\$ 1,227,041
Non-controlling interest	(215,345)	(222,201)	(432,228)	(451,004)
Net income per share attributable to owners of the Company:				
Basic (note 17(b))	\$ 0.04	\$ 0.05	\$ 0.02	\$ 0.02
Diluted (note 17(b))	\$ 0.04	\$ 0.05	\$ 0.02	\$ 0.02

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)

Six months ended June 30, 2017 and 2016

	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, 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	-	-	256,216	-	256,216	-	256,216
Net loss and comprehensive loss	-	-	-	(2,869,868)	(2,869,868)	(1,668,553)	(4,538,421)
<b>Balance at December 31, 2016</b>	<b>53,862,619</b>	<b>\$19,281,546</b>	<b>\$ 4,273,159</b>	<b>\$ (24,920,113)</b>	<b>\$ (1,365,408)</b>	<b>\$ 705,982</b>	<b>\$ (659,426)</b>
Balance at January 1, 2017	53,862,619	\$19,281,546	\$ 4,273,159	\$ (24,920,113)	\$ (1,365,408)	\$ 705,982	\$ (659,426)
Stock-based compensation (note 18(b))	-	-	99,372	-	99,372	-	99,372
Issuance of common shares (note 17(a))	1,359,091	144,000	-	-	144,000	-	144,000
Net income (loss) and comprehensive income (loss)	-	-	-	1,024,879	1,024,879	(432,228)	592,651
<b>Balance at June 30, 2017</b>	<b>55,221,710</b>	<b>\$19,425,546</b>	<b>\$ 4,372,531</b>	<b>\$ (23,895,234)</b>	<b>\$ (97,157)</b>	<b>\$ 273,754</b>	<b>\$ 176,597</b>

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)

	Six months ended	
	June 30, 2017	June 30, 2016
Cash provided by (used in):		
Cash flows from operating activities:		
Net income for the period	\$ 592,651	\$ 776,037
Adjustments for:		
Amortization	1,283,962	1,276,735
Amortization of lease inducement	(38,110)	(38,110)
Stock based compensation	99,372	241,134
Gain on disposition (note 4)	(2,000,000)	-
Gain on debt conversion	(36,000)	-
Deferred income tax recovery	(331,467)	(350,299)
Gain on extinguishment of loan (note 15)	-	(3,294,635)
Finance expense	90,037	89,703
	(339,555)	(1,299,435)
Changes in non-cash working capital:		
Trade and other receivables	770,045	1,759,510
Deferred revenue	61,217	(70,933)
Trade payables and accrued liabilities	110,348	(1,250,828)
Net cash from (used in) operating activities	602,055	(861,686)
Cash flows from financing activities:		
Increase (decrease) in bank indebtedness (note 13)	(1,800,000)	900,000
Increase in government loan (note 14)	448,453	289,133
Increase (decrease) in shareholder loans	(375,000)	200,000
Proceeds from issuance of share capital	90,000	-
Interest paid	(194,015)	(74,851)
Net cash from (used in) financing activities	(1,830,562)	1,314,282
Cash flows from investing activities:		
Purchase of property and equipment	(47,956)	(12,758)
Cash received on disposition (note 4)	2,000,000	-
Net cash from (used in) investing activities	1,952,044	(12,758)
Increase in cash and cash equivalents	723,537	439,838
Cash and cash equivalents, beginning of period	179,865	122,763
Cash and cash equivalents, end of period	\$ 903,402	\$ 562,601

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

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three and six months ended June 30, 2017 and 2016

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## 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<sup>th</sup> Avenue, Vancouver, B.C., Canada. The unaudited condensed consolidated interim financial statements of the Company as at June 30, 2017 and for the three and six 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. ("Reehouse") (together referred to as the "Company" and individually as "Company entities"). The Company is in the business of developing 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 June 30, 2017, the Company had a working capital deficiency of \$1,743,172 and a deficit of \$23,895,234. 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.

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
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Three and six months ended June 30, 2017 and 2016

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## 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 August 28, 2017.

### (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.

##### Convertible promissory note:

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

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Notes to Condensed Consolidated Interim Financial Statements  
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Three and six months ended June 30, 2017 and 2016

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## 2. Basis of presentation (continued):

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

Government loan:

Determining the fair value of the government loan.

Share-based payments and warrants:

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

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include the application of the going concern assessment.

## 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, 2016.

## 4. 3D technology disposition:

On May 1, 2017, the Company signed an Asset Purchase Agreement ("APA") and a Technology Support Agreement ("TSA") with Gener8 Digital Media Services Ltd., a subsidiary of Prime Focus Limited ("Prime Focus"), in connection with the Technology License Termination Agreement between the Company and Prime Focus which was signed on March 31, 2017 (together called the "Transaction"). Upon receiving shareholder and regulatory approval, the Transaction closed on May 30, 2017 (the "Closing Date"). Pursuant to the terms of the Transaction, the Company received \$2 million on the sale of its 3D conversion technology plus \$3 million for terminating its original license agreement and settling the remaining license payments. Of the total \$5 million, the Company received a \$1 million license payment on March 23, 2017 which was also due under the Technology License Agreement but now applied towards the License Termination Agreement as payment per the terms of the Transaction and \$1 million on April 4, 2017. The balance was received on the closing date of the Transaction. The TSA is an 18 month agreement totaling an estimated \$810,000 in fees with an option for Prime Focus to renew for further one year terms. The Company's 3D conversion technology had a carrying value of nil, which resulted in a gain on disposition of \$2 million being recognized during the period. The remaining \$2 million in license payments received has been recognized in revenue during the period as all of the Company's obligations have been met.

## 5. Related party transactions:

(a) Convertible promissory note due to founding 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

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
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## 5. Related party transactions (continued):

### (a) Convertible promissory note due to founding shareholder (continued):

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 June 30, 2017, the carrying value of the liability portion of the convertible promissory note is \$1,462,575 (December 31, 2016 - \$1,431,216).

### (b) Promissory note due to founding shareholder:

On November 26, 2015, the Company's founding shareholder provided a demand loan facility to the Company to borrow up to \$1,000,000, and has subsequently been increased to \$1,500,000. The shareholder has agreed to not demand repayment of any drawings against the facility until at least July 1, 2018, 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 June 30, 2017, \$884,391 (December 31, 2016 - \$786,156) 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. The promissory note was repaid on May 31, 2017.

### (d) Reelhouse convertible promissory notes:

As at June 30, 2017 and December 31, 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.

The founding 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

# EIGHT SOLUTIONS INC.

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Three and six months ended June 30, 2017 and 2016

## 5. Related party transactions (continued):

### (d) Reelhouse convertible promissory notes (continued):

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 July 1, 2018. 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 (\$24,616 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, 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 ("NCI") on acquisition and represent other NCI.

## 6. Revenue:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
3D licensing and support revenue	\$ 2,150,000	\$ 1,505,000	\$ 2,655,000	\$ 2,009,658
Cumul8 licensing and other revenue	168,572	48,199	274,092	193,076
Total	\$ 2,318,572	\$ 1,553,199	\$ 2,929,092	\$ 2,202,734

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
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## 7. Employee expenses:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Research and development	\$ 898,775	\$ 965,010	\$ 1,820,131	\$ 1,941,547
General and administrative	345,627	308,162	719,213	639,277
<b>Total</b>	<b>\$ 1,244,402</b>	<b>\$ 1,273,172</b>	<b>\$ 2,539,344</b>	<b>\$ 2,580,824</b>

## 8. Finance expense (income):

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest expense (income)	\$ 17,695	\$ (108,677)	\$ 59,228	\$ 13,304
Financing fees	4,930	24,247	15,630	57,449
Service charges	8,031	8,191	15,179	18,950
<b>Total</b>	<b>\$ 30,656</b>	<b>\$ (76,239)</b>	<b>\$ 90,037</b>	<b>\$ 89,703</b>

## 9. Trade and other receivables:

	June 30, 2017	December 31, 2016
Trade receivables	\$ 89,844	\$ 122,157
Unbilled revenue	41,743	779,475
<b>Total</b>	<b>\$ 131,587</b>	<b>\$ 901,632</b>

## 10. Property and equipment:

Cost	Balance at January 1, 2017	Additions	Disposals	Balance at June 30, 2017
Computer hardware	\$ 34,336	\$ 47,956	\$ -	\$ 82,292
Leasehold improvements	398,491	-	-	398,491
<b>Total</b>	<b>\$ 432,827</b>	<b>\$ 47,956</b>	<b>\$ -</b>	<b>\$ 480,783</b>

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
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Three and six months ended June 30, 2017 and 2016

## 10. Property and equipment (continued):

Cost	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Computer hardware	\$ 15,060	\$ 19,276	\$ -	\$ 34,336
Leasehold improvements	398,491	-	-	398,491
<b>Total</b>	<b>\$ 413,551</b>	<b>\$ 19,276</b>	<b>\$ -</b>	<b>\$ 432,827</b>

Accumulated amortization	Balance at January 1, 2017	Amortization expense	Disposals	Balance at June 30, 2017
Computer hardware	\$ 10,462	\$ 10,898	\$ -	\$ 21,360
Leasehold improvements	305,283	39,849	-	345,132
<b>Total</b>	<b>\$ 315,745</b>	<b>\$ 50,747</b>	<b>\$ -</b>	<b>\$ 366,492</b>

Accumulated amortization	Balance at January 1, 2016	Amortization expense	Disposals	Balance at December 31, 2016
Computer hardware	\$ 2,715	\$ 7,747	\$ -	\$ 10,462
Leasehold improvements	225,586	79,697	-	305,283
<b>Total</b>	<b>\$ 228,301</b>	<b>\$ 87,444</b>	<b>\$ -</b>	<b>\$ 315,745</b>

Carrying amounts, net book value	June 30, 2017	December 31, 2016
Computer hardware	\$ 60,932	\$ 23,874
Leasehold improvements	53,359	93,208
<b>Total</b>	<b>\$ 114,291</b>	<b>\$ 117,082</b>

# EIGHT SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
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Three and six months ended June 30, 2017 and 2016

## 11. Intangible assets:

Cost	Balance at January 1, 2017	Additions	Disposals	Balance at June 30, 2017
Intellectual property	\$ 12,332,148	\$ -	\$ -	\$ 12,332,148

Cost	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Intellectual property	\$ 12,332,148	\$ -	\$ -	\$ 12,332,148

Accumulated amortization	Balance at January 1, 2017	Amortization expense	Disposals	Balance at June 30, 2017
Intellectual property	\$ 7,090,986	\$ 1,233,215	\$ -	\$ 8,324,201

Accumulated amortization	Balance at January 1, 2016	Amortization expense	Disposals	Balance at December 31, 2016
Intellectual property	\$ 4,624,556	\$ 2,466,430	\$ -	\$ 7,090,986

Carrying amounts, net book value	June 30, 2017	December 31, 2016
Intellectual property	\$ 4,007,947	\$ 5,241,162

## 12. Trade payables and accrued liabilities:

	June 30, 2017	December 31, 2016
Trade accounts payable	\$ 231,192	\$ 172,656
Salary and benefits payable	681,675	597,238
Accrued liabilities	136,252	228,066
<b>Total</b>	<b>\$ 1,049,119</b>	<b>\$ 997,960</b>

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Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)  
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Three and six months ended June 30, 2017 and 2016

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## 13. 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 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.

On March 28, 2017, the Company repaid \$900,000 of the \$1,800,000 operating loan and on May 31, 2017 the Company repaid the balance of the operating loan to the Royal Bank of Canada.

## 14. 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 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 June 30, 2017, the Company had borrowed \$1,349,989 (December 31, 2016 - \$901,536). Given the interest-free period, a gain of \$156,548 was recognized in interest income with an accretion expense of \$47,403 also being recorded during the six months ended June 30, 2017. Using the effective interest rate method, the loan's carrying value as at June 30, 2017 is \$911,019 (December 31, 2016 - \$571,711).

## 15. 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

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## 15. Loan payable (continued):

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 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

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## 15. Loan payable (continued):

\$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 \$39,000 plus certain costs from FFD; and iv) the Court extinguished all of the security held by FFD.

On October 5, 2016, the arbitrator order that the arbitration be discontinued pursuant to the LCIA Rules.

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.

## 16. Commitments and contingencies:

### (a) Commitments:

#### (i) As at June 30, 2017, non-cancellable operating lease rentals are payable as follows:

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2017	\$	152,440
2018		330,287
2019		335,368
2020		335,368
2021		55,895
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Total	\$	1,209,358

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The Company has operating lease for its office facility. On April 18, 2017, the Company extended its lease until 2021 with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals.

#### (ii) As at June 30, 2017, 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:

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2017	\$	18,716
2018		5,000
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Total	\$	23,716

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The term of the agreement is 24 months with 2-month penalty for early termination. The Company has the option to renew for an additional year with the same initial terms.

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## 17. 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 June 30, 2017, the Company has no preferred shares issued and outstanding.

#### *Issuance of common shares:*

On January 20, 2017, the Company issued 450,000 common shares at a price of \$0.20 per common share to one of its creditors to settle a debt of \$90,000. Given the market price on the date of issuance was at \$0.12 per common share, a gain of \$36,000 was recorded due to the higher price per common share at which the debt was settled compared to the market price of the date issuance.

On February 1, 2017 the Company issued 409,091 common shares at a price of \$0.11 per common share for gross proceeds of \$45,000 to an industry partner in accordance with their product development and royalty agreement. The partner has committed to paying the Company a total of \$360,000 over a one-year period wherein the Company will issue common shares to the partner every three months for 50% thereof.

On May 23, 2017, in accordance with their product development and royalty agreement, the Company issued a second tranche of common shares totaling 500,000 common shares at a price of \$0.09 per common share for gross proceeds of \$45,000 to an industry partner.

Warrant activity from December 31, 2015 to June 30, 2017 is as follows:

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## 17. Shareholders' equity (continued):

### (a) Share capital (continued):

	Common shares warrants	Weighted average exercise price
Outstanding, December 31, 2015	6,854,361	\$ 0.78
Expiration of warrants	(4,581,991)	0.86
Outstanding, December 31, 2016	2,272,370	\$ 0.60
Expiration of warrants	(25,000)	\$ 1.54
Outstanding, June 30, 2017	2,247,370	\$ 0.59

The weighted average remaining contractual life of the warrants outstanding is 1.1 years (June 30, 2016 – 1.2 years).

No warrants were issued in the six-month period ended June 30, 2017 (June 30, 2016 – nil).

### (b) Earnings per share:

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

	Three month period ended		Six month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income attributable to the Shareholders of the Company	\$ 2,360,715	\$ 2,883,282	\$ 1,024,879	\$ 1,227,041
Weighted average number of common shares outstanding	54,930,501	53,862,619	54,581,228	53,862,619
Dilutive stock options and warrants	-	-	50,940	29,338
Weighted average number of common shares used in the calculation of basic earnings per share	54,930,501	53,862,619	54,632,168	53,891,957
Earnings (loss) per share:				
Basic	\$ 0.04	\$ 0.05	\$ 0.02	\$ 0.02
Diluted	0.04	0.05	0.02	0.02

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## 18. 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 December 31, 2015 to June 30, 2017 is as follows:

	Common shares under option	Weighted average exercise price
Outstanding, December 31, 2015	4,493,441	\$ 0.77
Granted	700,000	0.21
Forfeited, cancelled or expired	(1,499,223)	0.75
Outstanding, December 31, 2016	3,694,218	\$ 0.42
Granted	1,175,000	0.10
Forfeited, cancelled or expired	(879,069)	0.75
Outstanding, June 30, 2017	3,990,149	\$ 0.32

At June 30, 2017, 2,721,706 options were exercisable. The weighted average remaining contractual life of the options outstanding is 7.28 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 June 30, 2017 and June 30, 2016 are the following:

	June 30, 2017	June 30, 2016
Expected volatility	120%	120%
Expected life of options	1.5 – 6.5 years	7.0 years
Dividend yield	0.0%	0.0%
Risk free interest rate	0.64-0.90%	0.98%
Fair value per share	\$0.06 - \$0.08	\$0.25
Forfeiture rate	18-19%	20%

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## **18. Stock-based compensation plans (continued):**

### (b) Total stock based compensation expense:

Total stock based compensation expense for the period ended June 30, 2017 was \$99,372 (June 30, 2016 – \$241,134).

## **19. 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.

## **20. Subsequent Events:**

On August 11, 2017 the Company issued 500,000 common shares at a price of \$0.09 per common share for gross proceeds of \$45,000 to an industry partner in accordance with a product development and royalty agreement between the Company and the partner.