ARHT MEDIA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended March 31, 2019 and the three months ended April 30, 2018

(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 STATEMENT OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian dollars)
As at March 31, 2019 and December 31, 2018

	Note	March 31, 2019	December 31, 2018
ASSETS		$	$
CURRENT			
Cash and cash equivalents		259,734	831,776
Restricted cash equivalents		87,500	87,500
Amounts receivable	3, 5	652,163	467,826
Deposits		111,019	36,539
Prepaid expenses	4	23,999	42,071
Total current assets		1,134,415	1,465,712
NON-CURRENT			
Equipment and right of use assets	2, 6	768,116	174,019
Total non-current assets		768,116	174,019
TOTAL ASSETS		1,902,531	1,639,731
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		823,226	713,219
Advances received	5	1,108,296	1,131,435
Lease liability	2, 7	131,188	-
Deferred revenue		63,622	115,002
Loans payable	8	85,965	250,249
Total current liabilities		2,212,297	2,209,905
NON-CURRENT			
Lease liability	2, 7	443,989	-
Total non-current liabilities		443,989	-
TOTAL LIABILITIES		2,656,286	2,209,905
SHAREHOLDERS' EQUITY/(DEFECIENCY)			
Share capital	9	27,302,267	26,926,520
Reserves	10	3,249,188	3,422,620
Accumulated deficit		(31,305,210)	(30,919,314)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		(753,755)	(570,174)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUTY (DEFICIENCY)		1,902,531	1,639,731

Going concern (Note 1)
Commitments and contingencies (Note 13)

APPROVED ON BEHALF OF THE DIRECTORS ON May 7, 2019: ***"Larry O'Reilly"*** ***"William Connell Steers"***

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

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian dollars)
For the three months ended March 31, 2019 and the three months ended April 30, 2018

	Note	For the three months ended March 31, 2019	For the three months ended April 30, 2018
Revenue	16	$ 793,618	$ 303,090
Expenses			
Event costs		(456,951)	(111,662)
Employee and consultant expenses		(670,420)	(711,589)
Research expenditures		(143,780)	(312,298)
General administration and selling expenses	11	(277,081)	(513,421)
Amortization and accretion	6	(56,978)	(82,173)
Share-based compensation	10, 12	(102,723)	(637,837)
Loan interest	8	(5,185)	(7,971)
Gain on settlement of debt	8	20,788	-
Foreign exchange gain/(loss)		13,559	(50,751)
Total expenses		(1,678,771)	(2,427,702)
Net loss and comprehensive loss		(885,153)	(2,124,612)
Net loss per share - basic and diluted		$ (0.02)	$ (0.08)
Weighted average number of common shares outstanding		53,904,655	27,454,428

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian dollars)
For the three months ended March 31, 2019 and the three months ended April 30, 2018

	Note	For the three months ended March 31, 2019	For the three months ended April 30, 2018
Cash (used) in operating activities			
Net (loss) for the period		(885,153)	(2,124,612)
Items not involving cash:			
Share-based compensation		102,723	637,837
Amortization and accretion	6	56,978	82,173
Gain on settlement of debt	8	(20,788)	-
Cash (used) in operating activities before change in working capital items		(746,240)	(1,404,602)
Net change in working capital items:			
Change in accounts payable and accrued liabilities and advances		107,655	(2,014,135)
Change in deferred revenue		(51,380)	(32,142)
Change in prepaid expenses		18,072	(597,202)
Change in deposits		(74,480)	(1,385)
Change in amounts receivable		(184,337)	(358,786)
Net cash (used) in operating activities		(930,710)	(4,408,252)
Cash provided by financing activities			
Private placement	9	612,500	6,900,000
Share issuance cost	9	(13,650)	(272,526)
Units issued		-	(742,100)
Principle element of lease payments	7	(24,405)	-
Loan repayments	8	(164,284)	(518,422)
Net cash provided by financing activities		410,161	5,366,952
Expenditures on equipment	6	(51,493)	(2,900)
Net cash (used in) investing activities		(51,493)	(2,900)
Change in cash and cash equivalents		(572,042)	955,800
Cash and cash equivalents, beginning of period		831,776	732,720
Cash and cash equivalents, end of period		259,734	1,688,520
Supplemental Information			
Right of use asset acquired through assumption of lease liability	2, 6, 7	$ 471,894	$ -

ARHT MEDIA INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY/(DEFICIENCY)
(Expressed in Canadian dollars)
For the three months ended March 31, 2019 and the three months ended April 30, 2018

	Note	Number of shares	Share capital	Shares to be issued	Reserves: Options	Reserves: Warrants	Accumulated deficit	Shareholders' equity/(deficiency)
			$	$	$	$	$	$
Balance, December 31, 2018		48,762,679	26,926,520	-	1,223,982	2,198,638	(30,919,314)	(570,174)
Private placement	9	6,805,556	612,500	-	-	-	-	612,500
Share issuance cost	9	-	(13,650)	-	-	-	-	(13,650)
Share-based compensation	10	-	-	-	102,723	-	-	102,723
Cancelled/expired options	10	-	-	-	(20,762)	-	20,762	-
Warrants issued	10	-	(223,103)	-	-	223,103	-	-
Warrants expired	10	-	-	-	-	(478,496)	478,496	-
Net (loss) for the period		-	-	-	-	-	(885,153)	(885,153)
Balance, March 31, 2019		55,568,235	27,302,267	-	1,305,943	1,943,245	(31,305,210)	(753,755)
Balance, January 31, 2018		11,474,900	20,087,022	742,100	575,334	560,496	(25,555,820)	(3,590,868)
Private placement	9	17,250,000	6,900,000	(742,100)	-	-	-	6,157,900
Share issuance cost	9	-	(272,526)	-	-	-	-	(272,526)
Share-based compensation	10	-	-	-	637,836	-	-	637,836
Warrants issued	10	-	(946,951)	-	-	946,951	-	-
Finder's warrants issued	10	-	(84,683)	-	-	84,683	-	-
Net (loss) for the period		-	-	-	-	-	(2,124,612)	(2,124,612)
Balance, April 30, 2018		28,724,900	25,682,862	-	1,213,170	1,592,130	(27,680,432)	807,730

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

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. The Company is traded on the TSX Venture Exchange (the "Exchange") under the symbol "ART". The Company creates lifelike digital representations providing an end-to-end solution for the creation, transmission, and delivery of digital human holograms through a variety of revenue streams across multiple media channels and distribution platforms.

The Company's technology is protected by U.S. Patent No. 9,581,962. ARHT has offices in Toronto, Ontario and demonstration studios in New York, Los Angeles and London, UK.

In the prior reporting period, the Company changed its year end from January 31 to December 31, as a result, the comparative period used for the three months ended March 31, 2019 is April 30, 2018.

Going concern

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. To date, the Company has not generated significant revenues and is dependent on the raising of sufficient capital to realize its assets and discharge its obligations. While the Company has been successful in obtaining financing in the past, there is no guarantee that it will continue to do so in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. These conditions include the fact that the Company has incurred operating losses since inception, has a working capital deficiency at March 31, 2019, has not yet generated positive cash flow from operating activities, and that there can be no assurances that sufficient funding will be available to cover general and administrative expenses necessary for the maintenance of a public company.

The Company's status as a going concern is contingent upon raising the necessary funds via private placement or debt financing. Continued support of shareholders and the ability to raise funds through the issuance of equity or debt will be required. Realization values may be substantially different from carrying values as shown in these condensed interim consolidated financial statements. These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments may be material.

The Company uses significant judgement in determining its ability to continue as a going concern. During the three months ended March 31, 2019, the Company completed a private placement for gross proceeds of $612,500 (see Note 9).

At March 31, 2019, the Company had cash and cash equivalents of $259,734 (December 31, 2018 - $831,776) and a working capital deficiency of $1,077,882. During the three months ended March 31, 2019, the Company incurred a net loss of $885,153 (April 30, 2018 - $2,124,612), used cash in operations totaling $930,710 (April 30, 2018 – $4,408,252), generated cash from financing activities of $410,161 (April 30, 2018 – $5,366,952) and used cash in investing activities of $51,493 (April 30, 2018- $2,900).

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The condensed interim consolidated financial statements of the Company have been prepared by management in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, effective for the Company's reporting for the period ended March 31, 2019. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

The preparation of condensed interim financial statements in accordance with International Account Standards ("IAS") 34, Interim Financial Reporting, requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Certain disclosures included in annual financial statements have been condensed or omitted.

The accounting policies as set out below were consistently applied to all the periods presented unless otherwise noted.

These condensed interim consolidated financial statements were approved and authorized by the Board of Directors of the Company on May 7, 2019.

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Basis of consolidation

The condensed interim consolidated 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, and ARHT Media (UK) Limited, a UK 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.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies

Effective January 1, 2019, the company adopted IFRS 16 - Leases, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in this standard, the Company adopted this standard retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2019.

IFRS 16 – Leases

The Company has adopted IFRS 16 retrospectively from January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7%.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:
· the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
· reliance on previous assessments on whether leases are onerous,
· the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
· the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and,
· the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Company leases various offices. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 fiscal year, leases of office space were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

The following table summarizes the impact of adopting IFRS 16 – Leases.

Consolidated Statement of Financial Position Impact	**Dec 31, 2018**	**IFRS 16 adjustment**	**Jan 1, 2019**
	$	$	$
Equipment and right of use assets	174,019	127,688	301,707
Lease liability (current)	-	97,622	97,622
Lease liability (non-current)	-	30,066	30,066

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments. Fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:
· the amount of the initial measurement of lease liability
· any lease payments made at or before the commencement date less any lease incentives received
· any initial direct costs, and
· restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 – Uncertainty over Income Tax Treatments ("IFRIC 23") was issued on June 7, 2017 to clarify how the recognition and measurement requirements of IAS 12 Income Taxes, are applied where there is uncertainty over income tax treatments. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The company adopted IFRIS 23 as at January 1, 2019 but there was no material effect on the condensed interim consolidated financial statements.

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, 2020 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.

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 amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

(Expressed in Canadian dollars)

3. AMOUNTS RECEIVABLE

		March 31, 2019		December 31, 2018
Joint venture receivable (Note 5)	$	143,951	$	75,275
Trade receivables		559,075		453,624
Allowance for doubtful accounts		(87,153)		(87,153)
HST		36,290		26,080
		652,163		**467,826**

4. PREPAID EXPENSES

		March 31, 2019		December 31, 2018
Prepaid events expenses	$	-	$	1,200
Prepaid trade expenses		23,999		40,871
		23,999		**42,071**

5. JOINT VENTURE

The Company signed an agreement with NetDragon Websoft Inc. ("NetDragon") to establish a joint venture which will operate in select Asia Pacific markets (the "Joint Venture").

The Joint Venture will hold an exclusive license to use ARHT's technology for a period of five years in countries within the Asia Pacific region to be mutually agreed upon with NetDragon. The Joint Venture will also hold a nonexclusive license to use NetDragon's 99U (mobile instant messaging and learning platform) and NetDragon app store (independent/proprietary app store) technology for a period of five years in countries within the Asia Pacific region also to be mutually agreed upon. Management has estimated the fair value of the licenses to be a nominal amount.

ARHT Asia Limited ("ARHT Asia") was incorporated in Hong Kong on June 22, 2016 by NetDragon and the Company for nominal consideration. NetDragon owns and exercises control over 51% of ARHT Asia and the Company owns 49%. NetDragon held 5.3% of the Company's common shares as at March 31, 2019.

NetDragon agreed to provide up to US$3,000,000 to initiate go-to-market efforts, which are funded through an interest-free loan from NetDragon to the Joint Venture. The loan is provided in tranches as funds are required by the Joint Venture based on the operating needs as agreed by NetDragon and the Company. Profits of the Joint Venture or any proceeds from future fund raising by ARHT Asia shall be applied in repaying and discharging the NetDragon shareholder loans, until such time as the NetDragon shareholder loans have been discharged in full.

An amount of $143,951 (approximately US$110,425) has been recorded as receivable as at March 31, 2019 from the Joint Venture, for expenses incurred on behalf of the Joint Venture (December 31, 2018 - $75,275).

An amount of $1,108,296 (approximately US$829,377) has been recorded in advances received as at March 31, 2019 (December 31, 2018-$1,131,435) from the Joint Venture, for expenses incurred in relation to past events. The amount is non-interest bearing and due on demand.

The Company accounts for its 49% interest in the Joint Venture using the equity method. The 49% share of the loss from the Joint Venture operations attributable to the Company for the three months ended March 31, 2019 was $42,484 (April 30, 2018 – profit of $2,984). As the losses exceed the amount of the Company's interest in the Joint Venture, these losses have not been reflected in the Company's condensed interim consolidated statement of operations.

(Expressed in Canadian dollars)

5. JOINT VENTURE (continued)

Summarized financial information for ARHT Asia as at March 31, 2019 and for the period from January 1 to March 31, 2019 and as at December 31, 2018 and for the period from February 1 to April 30, 2018 is as follows:

		March 31, 2019	April 30, 2018
Current assets	$	1,531,589	1,529,098
Non-current assets		118,735	120,005
Total liabilities		(4,330,947)	(3,947,370)
Total shareholders deficiency		(2,680,623)	(2,298,267)
Revenue		38,884	61,981
Operating expenses		(112,227)	(55,891)
Net (loss)/profit and comprehensive (loss)/profit		(86,702)	6,090

6. EQUIPMENT AND RIGHT OF USE ASSETS

	Computer hardware	Video projectors and screens	Leasehold improvements	Right of Use Assets	Total
Cost as at December 31, 2018	**$ 104,416**	**$ 522,246**	**$ 243,655**	**$ -**	**$ 870,317**
Adoption of IFRS - 16	-	-	-	127,688	127,688
Adjusted cost as at January 1, 2019	**104,416**	**522,246**	**243,655**	**127,688**	**998,005**
Additions	3,049	44,995	3,449	-	51,493
Right of use additions	-	-	-	471,894	471,894
Cost as at March 31, 2019	**107,465**	**567,241**	**247,104**	**599,582**	**1,521,392**
Accumulated amortization as at December 31, 2018	**(85,972)**	**(495,095)**	**(115,231)**	**-**	**(696,298)**
Change for the year	(1,462)	(7,136)	(22,843)	(25,538)	(56,978)
Accumulated amortization as at March 31, 2019	**(87,434)**	**(502,231)**	**(138,074)**	**(25,538)**	**(753,276)**
Net book value as at December 31, 2018	**18,444**	**27,151**	**128,424**	**-**	**174,019**
Net book value as at January 1, 2019	**18,444**	**27,151**	**128,424**	**127,688**	**301,707**
Net book value as at March 31, 2019	**20,031**	**65,011**	**109,031**	**574,044**	**768,117**

(Expressed in Canadian dollars)

7. LEASE LIABILTY

Balance, December 31, 2018	**$ -**
IFRS - 16 adjustment	(127,688)
Balance, January 1, 2019	**(127,688)**
Lease repayments	24,405
Additions	(471,893)
Balance, March 31, 2019	**(575,176)**
Of which are:	
Current	131,188
Non-current	443,989

8. LOANS PAYABLE

Balance, January 31, 2018		**$ 855,429**
Repayment of credit facility loan	(i)	(42,982)
Repayment of unsecured loan agreements	(ii, iii)	(470,000)
Transferred to balance of advances from joint venture	(iii)	(102,315)
Foreign exchange loss		10,117
Balance, December 31, 2018		**250,249**
Repayment of credit facility loan	(i)	(42,982)
Repayment of unsecured loan agreements	(ii, iii)	(120,899)
Foreign exchange loss		(403)
Balance, March 31, 2019		**85,965**

	March 31, 2019	**December 31, 2018**
	$	$
Royal Bank of Canada	85,965	128,948
Aberdeen International Inc.	-	121,301
	85,965	**250,249**

(i) On June 3, 2015, the Company entered a credit facility agreement with its commercial bank to arrange a $350,000 credit facility to finance the purchase of fixed assets. The facility has a 5 year term but is renewed annually with the first year anniversary being on August 12, 2016 and bears interest at Royal Bank of Canada's prime rate ("RBP") plus a 3% margin, and is secured by a general security agreement covering all the assets of the Company and an $87,500 guaranteed investment certificate. Principal is payable by monthly payments of $6,140 plus interest and any remaining principal balance is payable upon maturity. The first three months of principal payment was waived. The Company has classified the total balance of the loan payable of $85,965 (December 31, 2018 - $128,948) as due within one year in the condensed interim consolidated statement of financial position as at March 31, 2019.

(ii) On October 5, 2017, the Company received an unsecured loan of US$75,000 ($92,198) from Promethean, Inc. that bore interest at 5% per annum and contained no convertibility rights. The loan was to be repaid on or before November 13, 2017. If the loan was not repaid by November 13, 2017, the Company would pay an additional late fee in the amount of $5,000. During the period ended December 31, 2018, the loan of US$75,000 ($102,315) and accrued fees and interest of $13,680 were allocated to the balance of the advance to the Joint Venture (see Note 5).

(Expressed in Canadian dollars)

8. LOANS PAYABLE (continued)

(iii) On November 28, 2017, the Company signed an agreement with Aberdeen International Inc. where an amount up to $300,000 could be advanced to the Company to cover ongoing working capital needs. The loan bears interest at 12% per annum on the principal advanced. The principal, interest and any amounts were due on or before June 15, 2018. On January 23, 2019 an amount of $120,899 was paid against the outstanding balance of $141,009, the remaining balance of $20,788 was forgiven and recognized as a gain on settlement of debt. The balance as at March 31, 2019 is $Nil (December 31, 2018 - $141,009).

9. SHARE CAPITAL

(a) Authorized share capital

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

On November 30, 2017, the Company completed a share consolidation on a 11 for 1 basis, whereby each eleven shares of the Company were exchanged for one. All historical information presented in these condensed interim consolidated financial statements has been adjusted to reflect the share consolidation.

(b) Common shares issued:

		Number of Shares	Amount
Balance, January 31, 2018		**11,474,900**	**$ 20,087,022**
Private placement	(i, ii, ii, iv)	37,287,779	8,703,400
Share issuance cost	(i, ii)	-	(225,760)
Value of warrants	(i,ii)	-	(1,638,142)
Balance, December 31, 2018		**48,762,679**	**26,926,520**
Private placement	(v)	6,805,556	612,500
Share issuance cost	(v)	-	(13,650)
Value of warrants	(v)	-	(223,103)
Balance, March 31, 2019		**55,568,235**	**27,302,267**

(i) On February 1, 2018, the Company completed the second tranche of the non-brokered private placement financing for gross proceeds of $3,415,562 comprised of 8,538,906 units at a purchase price of $0.40 per unit. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one additional share at an exercise price of $0.60 per share for a period of two years from the date of closing of the first tranche. If at any time after four months and one day from the closing of the first tranche the common shares of ARHT trade at $0.80 per common share or higher (on a volume weighted adjusted basis) for a period of 20 consecutive days, the Company will have the right to accelerate the expiry date of the warrants to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. The Company also paid a finders' fee of $92,526 and issued 231,315 non-transferable finder warrants. Each finder warrant entitles the holder to purchase one share at a price of $0.60 for a period of two years from the date of closing. The Company received proceeds of $742,100 in connection to this financing during the year ended January 31, 2018.

(ii) On February 12, 2018, the Company completed the third and final tranche of the non-brokered private placement financing for gross proceeds of $3,484,438 comprised of 8,711,094 units at a purchase price of $0.40 per unit. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one additional share at an exercise price of $0.60 per share for a period of two years from the date of closing of the first tranche. If at any time after four months and one day from the closing of the first tranche the common shares of ARHT trade at $0.80 per common share or higher (on a volume weighted adjusted basis) for a period of 20 consecutive days, the Company will have the right to

9. SHARE CAPITAL (continued)

accelerate the expiry date of the warrants to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. The Company also paid a finders' fee of $133,234 and issued 450,000 non-transferable finder warrants. Each finder warrant entitles the holder to purchase one share at a price of $0.60 for a period of two years from the date of closing.

The total gross proceeds of the offering (tranches 2 and 3) was $6,900,000 and the Company issued 17,250,000 units. The Company paid a total of $225,760 in finder fees and issued a total of 681,315 finder warrants as part of the offering.

(iii) On November 26, 2018, the Company closed the first tranche of a non-brokered private placement of units for gross proceeds of $1,000,000 comprised of 11,111,112 units of the Company at a purchase price of $0.09 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one additional common share of the Company at an exercise price of $0.13 per share for a period of three years following the closing of the first tranche.

(iv) On December 19, 2018, the Company closed the second tranche of a non-brokered private placement of units for gross proceeds of $803,400 comprised of 8,926,667 units of the Company at a purchase price of $0.09 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one additional common share of the Company at an exercise price of $0.13 per share for a period of three years following the closing of the second tranche.

During the eleven months ended December 31, 2018, directors and officers of the company subscribed for 14,522,779 units in tranches 1 and 2 of the private placement for a total of $1,848,000.

(v) In January 2019, the Company closed the third tranche of a non-brokered private placement. The Company issued a total of 6,805,556 units at a purchase price on $0.09 for gross proceeds of $612,500. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one additional common share of the Company at a price of $0.13 per share for a period of 36 months following the closing.

(c) Per Share Amounts

The weighted average number of common shares outstanding during the three months ended March 31, 2019 was 53,904,655 (three months ended April 30, 2018 – 30,049,461). There was no dilutive effect of the issued and outstanding options and warrants for the periods ended March 31, 2019 and April 30, 2018.

(Expressed in Canadian dollars)

10. RESERVES

The Company has a stock option plan for its directors, officers, consultants and employees. The maximum number of shares issuable from time to time under the stock option plan is that number of shares equal to 10% of the number of issued and outstanding shares at the date of grant of the stock option, with no on individual being granted more than 5% of the issued and outstanding common shares. The term of the stock options shall be no greater than five years following the date of grant.

The Company's stock options and warrants as at and for the periods ended March 31, 2019 and December 31, 2018 are as follows:

	No. of options	Weighted average exercise price	Value of options vested	No. of warrants	Weighted average exercise price	Value of warrants vested	Total value
Balance, January 31, 2018	**372,726**	**$ 1.89**	**$ 575,334**	**1,153,273**	**$ 1.33**	**$ 560,496**	**$ 1,135,830**
Granted	2,500,000	0.74	1,123,088	29,344,094	0.27	1,638,142	2,761,230
Cancelled/Expired	(327,271)	1.65	(474,440)	-	-	-	(474,440)
Balance, December 31, 2018	**2,545,455**	**0.77**	**1,223,982**	**30,497,367**	**0.32**	**2,198,638**	**3,422,620**
Granted	2,909,000	0.14	102,722	6,805,556	0.13	223,103	325,825
Cancelled/Expired	(105,000)	0.74	(20,761)	(313,273)	3.30	(478,496)	(499,258)
Balance, March 31, 2019	**5,349,455**	**0.43**	**1,305,943**	**36,989,650**	**-**	**1,943,245**	**3,249,188**

<u>STOCK OPTIONS</u>

On February 20, 2018, the Company granted a total of 2,500,000 options to various directors, officers, consultants and employees under the stock option plan of the Company. The options are exercisable at a price of $0.74 per option and expire on February 20, 2023. The options vest in three equal tranches, with the first tranche vesting on the date of grant, the second tranche vesting on February 20, 2019 and the third tranche vesting on February 20, 2020, all subject to a four month regulatory hold period. In January 2019, 105,000 of these options were cancelled.

On January 29, 2019, the Company granted a total of 2,909,000 options to various directors, officers, consultants and employees under the stock option plan of the Company. These options will only vest as the Company's stock price appreciates in value. The options are exercisable at a price of $0.14 per option and shall expire on January 29, 2024. The options shall vest in three equal tranches, with the first tranche vesting on the date the Company's stock price trades at or above $0.28 for a period of 20 consecutive trading days, the second tranche vesting on the date the Company's stock price trades at or above $0.42 for a period of 20 consecutive trading days and the third tranche vesting on the date the Company's stock price trades at or above $0.56 for a period of 20 consecutive trading days, all subject to a four month regulatory hold period. Options grant in the three months ended March 31, 2019 had a fair value of $99,212, based on the Binomial valuation model.

(Expressed in Canadian dollars)

10. RESERVES (continued)

STOCK OPTIONS (continued)

As at March 31, 2019, outstanding options to acquire common shares of the Company were as follows:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Grant date fair value vested	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
45,455	45,455	February 19, 2016	February 19, 2021	$ 2.20	$ 91,784	169%	5.00	0%	0.44%
2,395,000	1,596,667	February 20, 2018	February 20, 2023	0.74	1,209,199	112%	5.00	0%	2.14%
2,909,000	-	January 29, 2019	January 29, 2024	0.14	4,961	146%	5.00	0%	2.80%
5,349,455	**1,642,122**			**$ 0.43**	**$ 1,305,943**				

The Company recorded share-based compensation expense of $102,723 during the three months ended March 31, 2019 (during the three months ended April 30, 2018 - $637,837). As at March 31, 2019, the options outstanding had a weighted average remaining contractual life of 4.39 years (December 31, 2018– 3.94 years). Expected volatility is based on ARHT's historical share price.

WARRANTS

As at March 31, 2019, 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
			$	$				
840,000	December 21, 2017	December 21, 2019	0.60	91,881	79%	2	0%	1.49%
4,500,768	February 1, 2018	February 1, 2020	0.60	494,145	86%	2	0%	1.66%
4,805,547	February 12, 2018	February 12, 2020	0.60	527,608	86%	2	0%	1.66%
11,111,112	November 23, 2018	November 23, 2021	0.13	336,155	106%	3	0%	2.25%
8,926,667	December 19, 2018	December 19, 2021	0.13	270,353	106%	3	0%	1.90%
6,805,556	January 22, 2019	January 22, 2022	0.13	223,103	119%	3	0%	1.88%
36,989,650			**$ 0.24**	**$ 1,943,245**				

As at March 31, 2019, the warrants outstanding had a weighted average remaining contractual life of 2.20 years (December 31, 2018 – 2.29 years). Expected volatility is based on ARHT's historical share price.

(Expressed in Canadian dollars)

11. GENERAL ADMINISTRATION AND SELLING EXPENSES

The following table illustrates spending activity related to general administration and selling expenses for the three months ended March 31, 2019 and the three months ended April 30, 2018:

		For the three months ended March 31, 2019		For the three months ended April 30, 2018
Professional fees	$	17,541	$	46,651
Shareholder, communications and filing fees		11,891		50,393
Travel		63,510		68,855
Selling and marketing		20,079		206,227
Office, rent and supplies		164,060		141,295
		277,081		**513,421**

12. RELATED PARTY TRANSACTIONS

Key management compensation

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

The remuneration of key management personnel during the three months ended March 31, 2019 and the three months ended April 30, 2018 were as follows:

	For the three months ended			
		March 31, 2019		**April 30, 2018**
Short-term benefits	$	176,250	$	195,000
Share-based payments		82,571		3,328
Total compensation		**258,821**		**198,328**

NetDragon indirectly owns 5.3% of ARHT's issued and outstanding common shares on a non-diluted basis through its wholly owned subsidiary, NetDragon Websoft Inc. ("NetDragon Websoft Inc. (BVI)"). NetDragon has the right to and did nominate one individual to the ARHT board of directors and also has the right to maintain its pro rata interest in the Company, in the event of future share offerings. Simon Leung was nominated by NetDragon to the board of directors of the Company.

See Notes 3 and 5.

13. COMMITMENTS AND CONTINGENCIES

Management Contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately $965,000 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 condensed interim consolidated financial statements. Additional minimum management commitments remaining under agreements are approximately $322,500 all due within one year.

Scientific Research & Experimental Development ("SR&ED") Tax Credits

The Company entered into an agreement with a consultant to assist with a SR&ED tax credit claim for the December 31, 2013, October 15, 2014 and January 31, 2015 tax periods. The Company has retained the consultant on a contingency fee basis. The fees payable to the consultant will be deducted from any SR&ED refunds received. Fees are earned only upon acceptance of the claim by the Canada Revenue Agency. No tax credit claim has been accrued in these financial statements as collectability is uncertain given the claim is subject to the review and approval of the Canada Revenue Agency. As at March 31, 2019, the Canada Revenue Agency has disallowed all claims, but the Company is currently appealing this decision.

Litigation

The Company is subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair Values of Financial Instruments
The carrying values of cash and cash equivalents, restricted 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. 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 liability value denominated in US dollars as at March 31, 2019 was approximately $599,527. A $0.01 increase or decrease in the exchange rate between U.S. and Canadian dollars would impact net loss by approximately $5,995.

Credit Risk
Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of counterparty on its obligation to the Company. Cash and cash equivalents and restricted 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. As at March 31, 2019, management has estimated an allowance of $87,153 (December 31, 2018 - $87,153) for uncollectible trade receivables.

(Expressed in Canadian dollars)

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company has a loan in the amount of $85,965 at RBP + 3%. The Company does not hedge its exposure to interest rate risk as it is minimal and does not believe there would be any material movements for the three months ended March 31, 2019 and three months ended April 30, 2018 as a result of changes in interest rates.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Given that the Company does not have internally generated cash 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.

As at 31 March 2019, 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
at March 31, 2019					
Trade Payables	$ 823,228	$ -	$ -	$ -	$ 823,228
Borrowings	36,842	36,842	12,281	-	85,965
Lease liabilities (Note 7)	85,754	85,754	133,903	389,684	695,095
Total	**945,823**	**122,596**	**146,184**	**389,684**	**1,604,287**
at December 31, 2018					
Trade Payables	$ 713,219	$ -	$ -	$ -	$ 713,219
Borrowings	177,851	36,842	35,556	-	250,249
Total	**891,070**	**36,842**	**35,556**	**-**	**963,468**

15. CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, changes in economic conditions and the risk characteristics of underlying assets. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019.

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. As at March 31, 2019, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

(Expressed in Canadian dollars)

16. SEGMENTED INFORMATION

The Company is structured as a single operating segment.

Revenues

Geographic market		Three months ended March 31, 2019			Three months ended April 30, 2018	
United States	$	388,676	49.0%	$	92,053	30.4%
Canada		145,721	18.4%		86,026	28.4%
Asia		259,221	32.7%		52,134	17.2%
Europe		-	0.0%		72,877	24.0%
	$	**793,618**	**100.0%**	**$**	**303,090**	**100.0%**

Significant customers

In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentage of the Company's total revenues and amounts receivable:

Significant customers		March 31, 2019				April 30, 2018		
		Revenues	% of revenues	% of amounts receivable at end of period		Revenues	% of revenues	% of amounts receivable at end of period
Customer A	$	103,022	13.0%	0.0%	$	-	0.0%	0.0%
Customer B		106,855	13.5%	0.0%		-	0.0%	0.0%
Customer C		150,317	18.9%	4.2%		-	0.0%	0.0%
Customer D		259,221	32.7%	55.4%		-	0.0%	0.0%
Customer E						91,553	30.3%	0.0%
Customer F						37,842	12.5%	17.9%
Customer G						35,035	11.6%	0.0%
	$	**619,415**	**78.0%**	**59.6%**	**$**	**164,430**	**54.3%**	**17.9%**

17. SUBSEQUENT EVENTS

On May 3, 2019, the Company announced plans to issue up to $800,000 principal amount of secured debentures of the Company. The debentures will be secured against the assets of the Company and will bear interest at the rate of 12% per annum. The debentures will mature on the earlier of: (i) 12 months from the date of issuance; and (ii) the date upon which ARHT completes a private placement financing raising gross proceeds of no less than $2 million. The Company will also issue 1,400 warrants per $1,000 principal amount of debenture. Each warrant will entitle the holder thereof to acquire one common share of the Company at an exercise price of $0.21 for a period of 12 months.