

**DARELLE ONLINE SOLUTIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

Years ended August 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Darelle Online Solutions Inc.:

We have audited the accompanying consolidated financial statements of Darelle Online Solutions Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Darelle Online Solutions Inc. and its subsidiaries as at August 31, 2017, and 2016, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these consolidated financial statements, which states that Darelle Online Solutions Inc. incurred significant losses from operations and has an accumulated deficit. These conditions, along with other matters described in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of Darelle Online Solutions Inc. to continue as a going concern.

Vancouver, British Columbia
December 22, 2017



Chartered Professional Accountants

DARELLE ONLINE SOLUTIONS INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	August 31, 2017	August 31, 2016
Assets		
Current		
Cash	\$ 37,011	\$ 183,379
Accounts and other receivable	26,262	6,952
Prepaid expenses	2,159	2,159
	65,432	192,490
Intangible assets (note 5)	478,672	676,114
	\$ 544,104	\$ 868,604
Liabilities		
Current		
Accounts payable and accrued liabilities (note 3)	\$ 235,898	\$ 113,105
Funds held in trust (note 6)	2,278	-
	238,176	113,105
Shareholders' Equity		
Share capital (note 4)	5,716,976	5,589,176
Other equity reserve	1,530,536	1,530,536
Deficit	(6,941,584)	(6,364,213)
	305,928	755,499
	\$ 544,104	\$ 868,604

Nature and Continuance of Operations (note 1)
Subsequent Events (note 12)

Approved on behalf of the Board of Directors:

....."Dean Bethune".....Director

....."Rob Solinger"..... Director

DARELLE ONLINE SOLUTIONS INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended	August 31, 2017		August 31, 2016	
Revenue	\$	70,817	\$	18,500
Expenses				
Consulting fees		1,289		18,000
Amortization		99,550		49,300
General and administrative		36,941		29,343
Management fees (note 7)		229,534		221,818
Marketing		12,880		6,058
Professional fees		20,860		13,963
Stock based compensation (note 4 and 8)		-		38,876
Transfer agent & filing fees		17,612		24,707
Travel		1,874		4,740
		420,540		406,805
Results from operations		(349,723)		(388,305)
Other expenses				
Gain on settlement of debt (note 6)		-		21,075
Impairment of goodwill (note 7)		227,648		-
		227,648		21,075
Net loss and comprehensive loss	\$	577,371	\$	367,230
Basic and diluted loss per share	\$	0.01	\$	0.01
Weighted average number of shares outstanding – basic and diluted		68,000,154		58,340,945

Darelle Online Solutions Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	<u>Share Capital</u>		Other equity reserve	Deficit	Total
	Number	Amount			
Balance, August 31, 2015	51,199,990	\$ 5,178,058	\$ 1,327,126	\$ (5,996,983)	\$ 508,200
Share for debt settlement	3,402,500	68,050	81,000	-	149,050
Private placements	12,235,657	344,897	83,535	-	429,432
Stock based compensation	-	-	38,876	-	38,876
Share issue costs		(1,829)			(1,829)
Loss for the year	-	-	-	(367,230)	(385,805)
Balance, August 31, 2016	66,838,147	5,589,176	1,530,536	(6,364,213)	755,499
Private placements	2,570,000	128,500	-		128,500
Share issue costs	-	(700)			(700)
Loss for the year	-	-		(577,371)	(577,371)
Balance, August 31, 2017	69,408,147	\$ 5,716,976	\$ 1,530,536	\$ (6,941,584)	\$305,928

Darelle Online Solutions Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended	August 31, 2017	August 31, 2016
Operating Activities		
Net loss for the year	\$ (577,371)	\$ (367,230)
Add back:		
Gain on forgiveness of debt	-	(21,075)
Stock based compensation	-	38,876
Amortization	99,550	49,300
Impairment of goodwill	227,648	-
Changes in non-cash operating working capital items:		
Accounts payable and accrued liabilities	125,071	119,079
Accounts and other receivables	(19,310)	(2,630)
	(144,412)	(183,680)
Financing Activities		
Share issuance (net)	127,800	426,603
	127,800	426,603
Investing Activities		
Development of intangible asset	(129,756)	(135,414)
	(129,756)	(135,414)
Inflow (outflow) of cash	(146,368)	107,509
Cash at beginning of year	183,379	75,870
Cash at end of year	\$ 37,011	\$ 183,379

Non-cash Transactions (note 11)

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

1. NATURE AND CONTINUANCE OF OPERATIONS

Darelle Online Solutions Inc. (the "Company") was incorporated in Vancouver, British Columbia on February 11, 2005. The primary office is located at 885 West 60th Avenue, Vancouver, British Columbia, Canada.

The Company provides an online raffle lottery system to charities. The online raffle program enables charitable and nonprofit organizations to create, sell, deliver and manage their raffle ticket and 50/50 draws completely online.

The consolidated financial statements were authorized by the Board of Directors on December 22, 2017.

The consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time.

As at August 31, 2017, the Company had not achieved profitable operations and has a cumulative deficit of \$6,941,584 and a working capital deficit of \$172,744. There is a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company's reporting year ended August 31, 2017.

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services rendered, the sales price is fixed and determinable and collection is reasonably assured.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue consists primarily of consideration from customers for “set-up fees” and “processing fees”. Set-up fees are non-refundable and are recorded upon the execution between the non-related parties of a service agreement. Processing fees included a flat fee per ticket which are sold during the course of a raffle. The Company recognizes processing fees once a raffle has been completed.

(b) Consolidation

These consolidated financial statements include the accounts of Darelle Online Solutions Inc. and its wholly owned subsidiaries, Darelle Media Inc., 0639305 B.C. Ltd., W2E Power Corporation and Free Energy Power Corporation. All inter-company transactions and balances have been eliminated.

(c) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss (“FVTPL”) and available-for-sale which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow.

These consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

(d) Cash and cash equivalents

The Company considers cash equivalents to consist of highly liquid investments that are cashable on demand, and which are subject to insignificant credit and interest rate risk. Cash and cash equivalents are comprised of cash in checking accounts.

(e) Intangible Assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product of process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized includes cost of materials, direct labor, and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

These development activities and development expenditures will be amortized straight-line over its useful life once the product is available for use. It has been determined by management that the useful life is for a period of 5 years.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on fair values. Goodwill is tested for impairment annually or more frequently if certain indicators arise that indicate they are impaired. The recoverable amount, in most cases, is estimated based on the value in use determined as the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset. The estimation process is complex and different assumptions may result in material differences. In particular, if different estimates of the projected future cash flows or different selection of an appropriate discount rate were made, these changes could materially alter the present value of the cash flows and as a consequence materially different amounts could be reported in the financial statements. Using the fair value of the goodwill, an impairment loss is recognized in profit and loss in an amount equal to the excess of the carrying amount over the fair value of goodwill.

(f) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit and loss, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as fair value through profit and loss are required to be measured at fair value, with gains and losses recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those at fair value through profit and loss) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income/loss.

The Company has implemented the following classification:

- Cash and accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, and funds held in trust are classified as other financial liabilities.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the statements of consolidated financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As of August 31, 2017, and 2016, none of the Company's financial instruments are recorded at fair value on the consolidated statements of financial position.

(g) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

(h) Share based payment transactions

The share option plan allows the Company to grant options to its employees and consultants. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in other equity reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

(i) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, or other comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and, differences relating to investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

(j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding, if dilutive, that may add to the total number of common shares.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the following:

- i) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.
- ii) The Company makes estimates related to the amortization method and the estimated useful life of the intangible assets.
- iii) Intangible assets are reviewed for indicators of impairment. These estimates are based on management's future projections and forecasts. As at August 31, 2017, there are no impairment on intangible assets.

Critical accounting judgements

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

- i) These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the statement of financial position classifications used (note 1).
- ii) A deferred tax asset is recognized to the extent that it is probable that future income tax profits will be available against which the asset can be used. To the extent that management does not consider it probable that a defer income tax asset will be recovered, a deferred tax asset is not recognized.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Adoption of new accounting standards

There are no new recently adopted standards, amendments and interpretations to existing standards, which have been published and are effective only for accounting periods beginning on or after September 1, 2016 that are expected to have a material impact on these consolidated financial statements.

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are not yet effective:

- IFRS 9 – Financial Instruments: Classification and Measurement, effective for periods beginning on or after January 1, 2018
- IFRS 15 – Revenue from Contracts with customers, effective for periods beginning on or after January 1, 2018
- IFRS 16 – Leases, effective for periods beginning on or after January 1, 2019.

The impact of these standards and interpretations are currently being assessed by the Company.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2017	August 31, 2016
Trade accounts payable and accrued liabilities	\$ 63,693	\$ 34,882
Due to Directors (note 8)	172,205	78,223
	\$ 235,898	\$ 113,105

On February 18, 2016 the Company issued 3,402,500 common shares to settle outstanding debt of \$170,125. Included in the Debt Settlement was settlement of \$135,000 in accrued liabilities and \$35,125 in trade accounts payable.

4. SHARE CAPITAL

Authorized - Unlimited number of common shares without par value

a) Issued

On March 2, 2016 the Company completed a non-brokered private placement which included the issue of 10,000,000 units of the Company's share capital at a price of \$0.035 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company for a period of 36 months from closing at an exercise price of \$0.05 per common share purchase warrant.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

4. SHARE CAPITAL (continued)

On February 18, 2016 the Company received approval from the Exchange to issue 3,402,500 common shares to settle outstanding debt of \$170,125. Included in the Debt Settlement were trade payables of \$35,125 and accrued liabilities of \$135,000 owed to two companies controlled by an Officer of the Company and an Officer of a wholly owned subsidiary of the Company. An amount of \$135,000 was recorded as a contribution to capital and the balance (\$35,125) was recorded as share capital. Share issuance costs of \$1,829 were recorded in equity pursuant to this transaction.

On July 19, 2016 the Company completed a non-brokered private placement which included the issue of 2,235,657 units of the Company's share capital at a price of \$0.035 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company for a period of 36 months from closing at an exercise price of \$0.05 per common share purchase warrant.

On February 24, 2017, the Company issued 2,570,000 Units at \$0.05 per Unit, to provide the Company with gross proceeds of \$128,500. Each Unit consists of one (1) common share of the Company and one share purchase warrant of the Company. Each whole warrant will be exercisable for a period of thirty-six months to purchase one (1) additional common share of the Company for \$0.075. The Company attributed \$Nil to the value of the warrants, which was included in contributed surplus, and incurred \$700 in share issuance costs.

b) Warrants

The Company has the following warrants outstanding:

Warrants outstanding at August 31, 2017		
Expiry	Exercise Price (CAD \$)	Number of Warrants
March 2, 2019	0.05	10,000,000
July 19, 2019	0.05	2,235,657
February 24, 2020	0.075	2,570,000
		14,805,657

The weighted-average remaining contractual life of warrants outstanding at August 31, 2017 was 1.73 years.

c) Escrow shares

In conjunction with the acquisition of Darelle Media Inc. certain security holders were subject to a Tier 2 Value Security Escrow Agreement dated January 31, 2015 for 9,956,480 common shares of the Company. These shares are subject to six month release intervals starting on February 6, 2015 at 10% of the initial escrowed total then increasing to 15% thereafter. During the year ended August 31, 2017, 2,986,946 (2016 – 2,986,944) of the escrow shares were released and as at August 31, 2017, 1,493,469 (2016 – 4,480,417) remain in escrow.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

4. SHARE CAPITAL (continued)

d) Stock options

On January 13, 2017, shareholders voted to adopt a new stock option plan which supersedes any prior stock option plans. Under the new plan, up to 10% of the issued and outstanding common shares may be allotted and reserved for issuance. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant and a maximum term of 10 years. The following table summarizes activity under the Company's stock option plan as of August 31, 2017:

	Number of options	Weighted average exercise price
Balance outstanding – August 31, 2015	2,125,000	\$0.29
Issued	1,550,000	\$0.05
Expired	(25,000)	\$0.05
Forfeited	(150,000)	\$0.05
Balance outstanding – August 31, 2016 & 2017	3,500,000	\$0.16

As at August 31, 2017, the following stock options were outstanding and exercisable:

Exercise Price	Number of options outstanding	Expiry date	Number of options exercisable	Remaining contractual life (years)
\$ 0.50	950,000	June 23, 2019	950,000	1.80
\$ 0.05	1,000,000	February 10, 2020	1,000,000	2.47
\$ 0.05	1,550,000	February 8, 2021	1,550,000	3.48
	3,500,000		3,500,000	

The weighted-average remaining contractual life of options outstanding at August 31, 2017 was 2.74 years.

During the year ended August 31, 2017, the Company did not grant any options.

During the year ended August 31, 2016, the Company granted 1,550,000 options with fair value of \$25,928 using the Black-Scholes Option Pricing model. \$38,876 was recorded as other equity reserves on the balance sheet and as stock based compensation on the statements of comprehensive loss related to vested stock options.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

4. SHARE CAPITAL (continued)

Years ended August 31

	2017	2016
Risk free interest rate	-	0.45%
Expected life	-	5.0 Years
Expected volatility	-	144%
Expected dividend per share	-	\$Nil

5. INTANGIBLE ASSETS

Development costs	
Balance as at August 31, 2015	362,352
Additions	135,414
Amortization	(49,300)
Balance as at August 31, 2016	448,466
Additions	129,756
Amortization	(99,550)
Balance as at August 31, 2017	478,672
Goodwill	
Balance as at August 31, 2015 and 2016	227,648
Impairment	(227,648)
Balance as at August 31, 2017	-
Carrying amount	
At August 31, 2016	676,114
At August 31, 2017	478,672

During the year, the Company impaired its goodwill of \$227,648 (2016 - \$Nil). At August 31, 2017, the Company concluded that there was no impairment required for the remaining intangible assets (2016 - \$Nil).

6. FUNDS HELD IN TRUST

The Company periodically receives funds through its online raffle system on behalf of charitable and nonprofit organizations through raffle ticket sales. These funds are held and distributed to organizations on a quarterly basis and/or on completion of the raffle. As at August 31, 2017, the balance of the funds was \$2,278 (2016 - \$Nil).

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

7. RELATED PARTY TRANSACTIONS

These transactions were in the normal course of operations and were valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

- a) During the year ended August 31, 2017, the Company incurred and recorded \$229,534 (2016 - \$221,818) as management fees pursuant to contracts with two companies owned by an officer of the Company and an officer of a wholly owned subsidiary of the Company. Under the terms of the agreements dated February 6, 2015, the officer of the Company and wholly owned subsidiary will receive a monthly consulting fee of \$10,000. At August 31, 2017, \$172,205 (2016 – \$78,223) was included in accounts payable to these companies for consulting fees rendered.
- b) During the year, the Company incurred and recorded \$Nil (2016 - \$2,500) in consulting fees paid to an officer of the Company. Consulting fees are incurred on a need be basis.
- c) During the year, the Company settled outstanding accounts payable and accrued liabilities and notes payable of \$Nil (2016 - \$135,000) with directors, former directors, and companies controlled by directors and former directors through the issuance of common shares (note 6).

Key Management Personnel	August 31, 2017	August 31, 2016
Management fees	\$229,534	\$221,818

8. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and funds held in trust approximate their fair values due to the short-term maturity and market interest rates of these financial instruments.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

- a) Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

8. FINANCIAL INSTRUMENTS (continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The following are the contractual maturities of financial liabilities and commitments as at August 31, 2017:

	Undiscounted contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Financial liabilities				
Accounts payable and accrued liabilities	\$ 235,898	\$ 235,898	-	-
Funds held in trust	2,278	2,278		
	\$ 238,176	\$ 238,176		

Contractual maturities of financial liabilities and commitments as at August 31, 2016:

	Undiscounted contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Financial liabilities				
Accounts payable and accrued liabilities	\$ 113,105	\$ 113,105	-	-
	\$ 113,105	\$ 113,105		

It is the Company's intention to meet these obligations through a combination of cash from operations and with the cash proceeds from equity financings.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of the following risks:

i. Interest rate risk

The Company's cash consists of cash held in bank accounts with a major Canadian financial institution. Due to the short-term nature of this financial instrument, fluctuations in market rates do not have a significant impact on estimated fair values as of August 31, 2017.

ii. Foreign currency risk

The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments are denominated in United States dollars. The Company has not entered into any foreign currency contracts to mitigate this risk, as it believes this risk is minimized by the minimal amount of cash held in United States funds.

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9. CAPITAL MANAGEMENT

The Company defines its capital as follows:

- shareholders' equity, comprising of issued common shares, reserves and deficit; and
- short term borrowing

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the funding of its marketing and operational plans and any joint venture and project commitments extending beyond one year. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended August 31, 2017. The Company is not subject to externally imposed capital requirements.

10. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended August 31, 2017 and 2016.

August 31,	2017	2016
Income (loss) before income taxes	\$ (577,371)	\$ (367,230)
Statutory rate	26.00%	26.00%
Income tax (recovery) expense at statutory rates	(150,116)	(95,480)
Non-deductible items	59,460	9,716
Change in estimates	33,135	(149,774)
Share issuance cost	(182)	(476)
Expiry of carryforward losses	84,303	-
Change in deferred tax asset not recognized	(26,600)	236,014
	\$ -	\$ -

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10. INCOME TAXES (continued)

Deferred tax reflects the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes, and amounts used for tax purposes. Deferred tax assets (liabilities) at August 31, 2017 and 2016 are comprised of the following:

	2017	2016
Deferred tax assets (liabilities)		
Non-capital losses carryforwards	124,455	116,601
Intangible assets	(124,455)	(116,601)
Net deferred tax assets (liabilities)	-	-

The unrecognized deductible temporary differences as at August 31, 2017 and 2016 are comprised of the following:

	2017	2016
Deferred income tax assets		
Financing costs	4,720	6,057
Non-capital losses available for future periods	4,579,775	4,883,599
Total unrecognized deductible temporary differences	4,584,495	4,889,656

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10. INCOME TAXES (continued)

The Company has non-capital loss carryforwards of approximately \$5,058,447 (2016 - \$5,175,886) which may be carried forward to apply against future year tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	<u>Non-capital losses</u>
2025	31,134
2026	75,503
2027	480,026
2028	203,840
2029	720,916
2030	640,679
2031	138,912
2032	427,266
2033	456,520
2034	160,276
2035	999,230
2036	343,223
2037	380,922
	<u>\$5,058,447</u>

Deferred tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

11. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statements of cash flows for year ended August 31, 2017 and 2016:

- During the year ended August 31, 2016, the Company issued 3,402,500 common shares to settle outstanding debt of \$170,125. Included in the Debt Settlement was the settlement of accrued liabilities of \$135,000 and trade accounts payable of \$35,125.

12. SUBSEQUENT EVENTS

On December 12, 2017 the Company completed a private placement sale of 4,300,000 units ("Units") at \$0.05 per Unit, to provide the Company with gross proceeds of \$215,000. Each Unit consisted of one (1) common share of the Company and one share purchase warrant of the Company. Each warrant will be exercisable for a period of twenty-four months to purchase one (1) additional common share of the Company for \$0.075.