

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

(Expressed in Canadian dollars)

As at August 31, 2018 and 2017 and for the years ended August 31, 2018 and 2017

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, 2018 and 2017, 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, 2018, and 2017, 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 31, 2018



Chartered Professional Accountants

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

As at	August 31, 2018	August 31, 2017
Assets		
Current		
Cash	\$ 11,432	\$ 37,011
Accounts and other receivables (note 9)	18,591	26,262
Prepaid expenses	-	2,159
	30,023	65,432
Intangible assets (note 6)	489,330	478,672
	\$ 519,353	\$ 544,104
Liabilities		
Current		
Accounts payable and accrued liabilities (note 4)	\$ 312,243	\$ 235,898
Funds held in trust (note 7)	5,752	2,278
	317,995	238,176
Shareholders' Equity		
Share capital	5,886,871	5,716,976
Other equity reserve	1,706,548	1,530,536
Deficit	(7,392,061)	(6,941,584)
	201,358	305,928
	\$ 519,353	\$ 544,104

Nature and Continuance of Operations (note 1)

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, 2018		August 31, 2017	
Revenue	\$	124,468	\$	70,817
Expenses				
Consulting fees		-		1,289
Amortization		104,171		99,550
General and administrative		48,036		36,941
Management fees (note 8)		240,000		229,534
Marketing		3,688		12,880
Professional fees		24,554		20,860
Stock based compensation (note 5 and 8)		133,012		-
Transfer agent & filing fees		18,297		17,612
Travel		3,187		1,874
		574,945		420,540
Results from operations		(450,477)		(349,723)
Other expenses (income)				
Impairment of goodwill (note 6)		-		227,648
		-		227,648
Net loss and comprehensive loss	\$	450,477	\$	577,371
Basic and diluted loss per share	\$	0.01	\$	0.01
Weighted average number of shares outstanding – basic and diluted		72,094,174		68,000,154

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

	<u>Share Capital</u>		Other equity reserve	Deficit	Total
	Number	Amount			
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
Private placements	4,300,000	172,000	43,000		215,000
Stock based compensation			133,012		133,012
Share issue costs		(2,105)			(2,105)
Loss for the year	-	-	-	(450,477)	(450,477)
Balance, August 31, 2018	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,392,061)	\$ 201,358

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

Years ended	August 31, 2018	August 31, 2017
Operating Activities		
Net loss for the year	\$ (450,477)	\$ (577,371)
Add back:		
Stock based compensation	133,012	-
Amortization	104,171	99,550
Impairment of goodwill	-	227,648
Changes in non-cash operating working capital items:		
Accounts payable and accrued liabilities	79,819	125,071
Prepaid expenses	2,159	-
Accounts and other receivables	7,671	(19,310)
	(123,645)	(144,412)
Financing Activities		
Share issuance (net)	212,895	127,800
	212,895	127,800
Investing Activities		
Development of intangible asset	(114,829)	(129,756)
	(114,829)	(129,756)
Inflow (outflow) of cash	(25,579)	(146,368)
Cash at beginning of year	37,011	183,379
Cash at end of year	\$ 11,432	\$ 37,011

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Darelle Online Solutions Inc. (the “Company”) was incorporated in Vancouver, British Columbia on February 11, 2005. The Company’s shares are listed on the TSX Venture Exchange (the “Exchange”) under the symbol “DAR”. The primary office is located at 4907 Fillinger Crescent, Nanaimo, 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 audited financial statements (“Financial Statements”) were authorized by the Board of Directors on December 31, 2018.

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, 2018, the Company had not achieved profitable operations and has a cumulative deficit of \$7,392,061 and a working capital deficit of \$287,972. There is a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

Management estimates that results from operation and working capital are not sufficient to meet the Company’s obligations and commitments and budgeted expenditures through August 31, 2019. These circumstances lend a significant doubt as to the ability of the Company to ensure its continuity of operation and, according, the appropriateness of the use of accounting principles of 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.

Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new debt or debt financing. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the Financial Statements.

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”).

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018.

The accounting policies set out below have been applied consistently to all periods 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.

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 closed.

(b) Consolidation

These consolidated financial statements include the accounts of Darelle Online Solutions Inc. and its wholly owned subsidiary, Darelle Media Inc. 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

Acquired

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. The estimated useful lives are as follows:

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Software Expected life of the software (5 years)

Intangible assets developed internally are 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. These intangible assets 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 of these development costs as of 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

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below. The Company categorizes its fair value measurements for financial assets and financial liabilities measured at fair value according to a three-level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 2 fair value measurements are those derived from inputs other than quoted prices included within 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets

The Company's financial assets are comprised of cash and accounts receivable and have been classified as loans and receivables for initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost 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 asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the accounts receivables is reduced by use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Financial liabilities

The Company's financial liabilities include accounts payable, accrued liabilities and funds held in trust. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

(g) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives 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. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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. Deferred tax assets are only recognized to the extent that it is probable that a deferred tax asset will be recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Business combinations are accounting for using the acquisition method. In applying the acquisition method, the Company separately records the identifiable assets acquired, the liabilities assumed, and goodwill acquired and any non-controlling interest in the acquired entity. The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values, less any non-controlling interest at fair value. Goodwill is measured

as the excess of the fair value of the consideration transferred, less any non-controlling interest in the entity being acquired over the fair value of the net identifiable assets acquired. The consideration transferred in a business combination is measured as the aggregate of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired entity and the equity interests issued by the Company.

Acquisition costs in connection with a business combination are expensed as incurred. Those costs include finder's fees, professional fees, consulting fees and general administrative costs.

(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:

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.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- i) The Company makes estimates related to the amortization method and the estimated useful life of the intangible assets.
- ii) Intangible assets are reviewed for impairment in the year of acquisition. As at August 31, 2017, there are no indicators that existing intangible assets of the Company are impaired.

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) Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgements relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgements and changes related to them impact current and deferred tax provisions, deferred tax assets and liabilities and results of operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

IFRS 2 – Share-based payments

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning September 1, 2018. The Company has evaluated the impact of the amendments and has determined that the amendments will not have a significant impact on the Company. The

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

3. NEW ACCOUNTING PRONOUNCEMENTS (continued)

Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014 the IASB issued the complete IFRS 9 *Financial Instruments* standard (“IFRS 9”). IFRS 9 introduces new requirements for the classification and measurement of financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging relationships or the requirement to measure and recognize ineffectiveness of a hedging relationship. Special transitional requirements have been set out for the application of the new general hedging model.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on September 1, 2018. The Company has evaluated the impact of IFRS 9 and has determined that IFRS 9 will not have a significant impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15. The clarifications to IFRS provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on September 1, 2018. The Company has evaluated the impact of IFRS 15 and has determined that IFRS 15 will not have a significant impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

3. NEW ACCOUNTING PRONOUNCEMENTS (continued)

IFRIC 23 – Uncertainty over Income Tax Payments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (“IFRIC 23”). The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount of expected value depending on whichever method better predicts the amount payable (recoverable).

The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The Company is currently evaluating the impact of IFRIC 23 on its consolidated financial statements and does not intent to early adopt the standard.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2018	August 31, 2017
Trade accounts payable	\$ 46,391	\$ 63,693
Due to Directors (note 8)	265,852	172,205
	\$ 312,243	\$ 235,898

5. SHARE CAPITAL

Authorized - Unlimited number of common shares without par value

a) Issued

On January 15, 2018 the Company completed a non-brokered private placement which included the issue of 4,300,000 units of the Company’s share capital at a price of \$0.05 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 24 months from closing at an exercise price of \$0.075 per common share purchase warrant. The Company attributed \$43,000 to the value of the warrants and incurred \$2,105 in share issuance costs.

On March 20, 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

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

5. SHARE CAPITAL (continued)

The Company has the following warrants outstanding:

Warrants outstanding at August 31, 2018		
Expiry	Exercise Price (CAD \$)	Number of Warrants
March 2, 2019	0.05	10,000,000
July 19, 2019	0.05	2,235,657
March 20, 2020	0.075	2,570,500
January 15, 2020	0.075	4,300,000
		19,105,657

The weighted-average remaining contractual life of options outstanding at August 31, 2018 was .85 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, 2018, 1,493,469 (2017 – 2,986,944) of the escrow shares were released and as at August 31, 2018, Nil (2017 – 1,493,473) remain in escrow.

d) Stock options

On January 10, 2018, 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, 2018:

	Number of options	Weighted average exercise price
Balance outstanding – August 31, 2016 & 2017	3,500,000	\$0.05
Issued	3,575,000	\$0.05
Balance outstanding – August 31, 2018	7,075,000	\$0.05

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

5. SHARE CAPITAL (continued)

As at August 31, 2018, the following stock options were outstanding and exercisable:

Exercise Price	Number of options outstanding	Expiry date	Number of options exercisable	Remaining contractual life (years)
\$ 0.05	950,000	June 23, 2019	950,000	0.75
\$ 0.05	1,000,000	February 10, 2020	1,000,000	1.42
\$ 0.05	1,550,000	February 8, 2021	1,550,000	2.42
\$ 0.05	3,375,000	January 14, 2023	3,375,000	4.33
\$ 0.05	200,000	March 28, 2023	200,000	4.58
	7,075,000		7,075,000	

The weighted-average remaining contractual life of options outstanding at August 31, 2018 was 3.07 years.

During the year ended August 31, 2018, the Company granted 3,575,000 options with fair value of \$133,012 using the Black-Scholes Option Pricing model. \$133,012 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. Options granted were issued to management, employees, and contractors of the Company. All options issued vest immediately. The weighted average fair value of the options granted was \$0.045 per option at the grant date using the Black-Scholes Option Pricing model.

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

Year ended August 31

	2018	2017
Risk free interest rate	2.1%	-
Expected life	5.0 Years	-
Expected volatility	339%	-
Expected dividend per share	\$Nil	-

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

6. INTANGIBLE ASSETS

Development costs	
Balance as at August 31, 2016	448,466
Additions	129,756
Amortization	(99,550)
Balance as at August 31, 2017	478,672
Additions	114,829
Amortization	(104,171)
Balance as at August 31, 2018	489,330
Goodwill	
Balance as at August 31, 2016	227,648
Impairment	(227,648)
Balance as at August 31, 2017 and 2018	-
Carrying amount	
At August 31, 2018	489,330

Intangible assets include software acquired in conjunction with the acquisition of Darelle Media Inc. and internally generated development costs. The remaining useful life of intangible assets as at August 31, 2018 is 58 months.

During the year ended August 31, 2017 impaired its goodwill of \$227,648. As at August 31, 2018, the Company concluded that there was no impairment required for the intangible assets (2017 - \$Nil).

7. 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, 2018, the balance of funds was \$5,752 (2017 - \$2,278).

8. 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, 2018, the Company incurred and recorded \$240,000 (2017 - \$229,534) 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, 2018, \$265,852 (2017 - \$172,205) was included in accounts payable to these companies for consulting fees rendered.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

8. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

Key Management Personnel	August 31, 2018	August 31, 2017
Consulting fees	\$240,000	\$229,534
Share based compensation	109,419	-
	\$349,419	\$229,534

Equity transactions

Pursuant to the private placement that was closed on January 15, 2018, two directors, Allen Scott Hamilton and Robert Solinger, participated in the placement for proceeds of \$15,000 and \$10,000, respectively.

9. FINANCIAL INSTRUMENTS

The carrying amounts present in the balance sheet relate to the following categories of assets and liabilities:

	August 31, 2018	August 31, 2017
Financial assets		
Cash	\$ 11,432	\$ 37,011
Accounts receivable and other receivable	18,591	26,262
	\$ 30,023	\$ 63,273
Financial liabilities		
Accounts payable and accrued liabilities	\$ 312,243	\$ 235,898
Funds held in trust	5,752	2,278
	\$ 317,995	\$ 238,176

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and funds held in trust approximate their varying amount due to their short-term nature.

The Company has exposure to credit, foreign exchange, liquidity, and interest rate risk as follows:

Credit risk

Credit risk is the risk of that a counter-party to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its cash and accounts receivable to a maximum of the varying value of the items at the reporting date.

The Company mitigates its exposure to credit risk by maintaining its bank accounts 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, 2018 and 2017

9. FINANCIAL INSTRUMENTS (Continued)

Accounts receivable is comprised of the following:

	August 31, 2018	August 31, 2017
Trade receivables	\$ 15,719	\$ 22,766
Allowance for doubtful debts	-	-
Net trade receivables	15,719	22,766
Other receivables	2,872	3,496
	\$ 18,591	\$ 26,262

The Company's trade receivables are monitored on an ongoing basis for impairment.

An analysis of the age of receivables is as follows:

	August 31, 2018	August 31, 2017
31 – 60 days	\$ -	\$ 3,675
61 – 90 days	1,838	88
Greater than 90 days	5,943	4,437
Balance past due	7,781	8,200
Current balance	7,938	14,566
Trade accounts receivable	\$ 15,719	\$ 22,766

Foreign exchange risk

The Company incurs certain operating expenses and capital expenditures in U.S. dollars. Accordingly, the fluctuations in the exchange rate between the U.S. and Canadian dollar can impact the Company's reported results.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations.

The Company's monitors its ability to meet its short-term operating expenditures by raising additional funds through share issuances when required. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generated or related to matters specific to the Company.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

9. FINANCIAL INSTRUMENTS (Continued)

The Company's contractual liabilities and obligations are as follows:

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
Accounts payable and accrued liabilities	\$ 307,243	5,000			\$ 312,243
Funds held in trust	5,752	-	-	-	5,752
Balance August 31, 2018	\$ 312,995	5,000	-	-	\$ 317,995

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
Accounts payable and accrued liabilities	\$ 235,898	-			\$ 235,898
Funds held in trust	2,278	-	-	-	2,278
Balance August 31, 2017	\$ 238,176	-	-	-	\$ 238,176

Interest rate risk

When the Company has cash balances, the Company's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of August 31, 2018, and 2017, the Company had no investment. The other financial assets and liabilities of the Company do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk. Management believes that the Company is not subject to significant interest rate risk.

10. CAPITAL MANAGEMENT

The Company defines its capital as follows:

- shareholders' equity, comprising of issued common shares, reserves and deficit;
- long term debt, including any current portion; 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, 2018. The Company is not subject to externally imposed capital requirements.

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

11. 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, 2018 and 2017.

August 31,	2018	2017
Income (loss) before income taxes	\$(450,477)	\$ (577,371)
Statutory rate	26.67%	26.00%
Income tax (recovery) expense at statutory rates	(120,127)	(150,116)
Deferred tax asset not recognized	120,127	150,116
	\$ -	\$ -

The statutory rate of 26.67% (2017 – 26.00%) is a blend of the change in the B.C. corporate tax rate on January 1, 2018. The statutory tax rate increased from 26.0% to 26.67 due to an increase in the BC corporate tax rate on January 1, 2018.

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, 2018 and 2017 are comprised of the following:

	2018	2017
Unrecognized deductible temporary differences		
Non-capital losses carryforwards	\$130,488	\$ 124,455
Intangible assets	(130,488)	(124,455)
Net deferred tax assets (liabilities)	\$ -	\$ -

The unrecognized deductible temporary differences as at August 31, 2018 and 2017 are comprised of the following:

	2018	2017
Unrecognized deductible temporary differences		
Financing costs	\$ 10,760	\$ 4,720
Intangible assets	398,382	398,382
Capital losses available for carryforward	237,174	237,174
Non-capital losses available for future periods	5,524,219	4,579,775
Total unrecognized deductible temporary differences	\$ 6,170,535	\$ 5,220,051

Darelle Online Solutions Inc.
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

11. INCOME TAXES (continued)

The Company has non-capital loss carryforwards of approximately \$6,013,549 (2017 - \$5,058,447) 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>
2026	721,525
2027	243,510
2028	687,952
2029	647,773
2030	258,782
2031	251,089
2032	309,486
2033	405,304
2034	435,858
2035	999,230
2036	343,223
2037	379,595
2038	330,222
	<u>\$6,013,549</u>

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