

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

(Expressed in Canadian dollars)

As at August 31, 2019 and 2018 and for the years ended August 31, 2019 and 2018

# Independent Auditor's Report

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To the Shareholders of Darelle Online Solutions Inc.:

## Opinion

We have audited the consolidated financial statements of Darelle Online Solutions Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2019 and August 31, 2018, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2019 and August 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company, as at August 31, 2019, had not achieved profitable operations and had a cumulative deficit of \$7,921,127 and a working capital deficit of \$522,665. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ronald D. Miller.

Vancouver, British Columbia  
December 6, 2019

*MNP* LLP  
Chartered Professional Accountants

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

As at	August 31, 2019	August 31, 2018
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 61,484	\$ 11,432
Accounts and other receivables (note 9)	21,833	18,591
	83,317	30,023
Intangible assets (note 6)	194,957	489,330
	\$ 278,274	\$ 519,353
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 4)	\$ 105,130	\$ 46,391
Due to related party (note 8)	500,852	265,852
Funds held in trust (note 7)	-	5,752
	605,982	317,995
<b>Shareholders' Equity</b>		
Share capital	5,886,871	5,886,871
Other equity reserve	1,706,548	1,706,548
Deficit	(7,921,127)	(7,392,061)
	(327,708)	201,358
	\$ 278,274	\$ 519,353

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)

<b>Years ended</b>	<b>August 31, 2019</b>		<b>August 31, 2018</b>	
<b>Revenue</b>	\$	130,631	\$	124,468
<b>Expenses</b>				
Consulting fees		105,856		-
Amortization		127,260		104,171
General and administrative		40,842		48,036
Management fees (note 8)		240,000		240,000
Marketing		942		3,688
Professional fees		26,625		24,554
Stock based compensation (note 5 and 8)		-		133,012
Transfer agent & filing fees		16,144		18,297
Travel		916		3,187
		558,585		574,945
<b>Results from operations</b>		(427,954)		(450,477)
Other income		66,000		-
Impairment of intangible assets (note 6)		(167,113)		-
<b>Net and Comprehensive loss</b>	\$	<b>529,066</b>	\$	<b>450,477</b>
<b>Basic and diluted loss per share</b>	\$	<b>0.01</b>	\$	<b>0.01</b>
<b>Weighted average number of shares outstanding – basic and diluted</b>		<b>73,708,147</b>		<b>72,094,174</b>

**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, 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
Loss for the year	-	-	-	(529,066)	(529,066)
Balance, August 31, 2019	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,921,127)	\$ (327,708)

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

Years ended	August 31, 2019	August 31, 2018
<b>Operating Activities</b>		
Net loss for the year	\$ (529,066)	\$ (450,477)
<b>Add back:</b>		
Stock based compensation	-	133,012
Amortization	127,260	104,171
Impairment of intangible assets	167,113	-
<b>Changes in non-cash operating working capital items:</b>		
Accounts payable and accrued liabilities	293,740	79,819
Funds held in trust	(5,752)	
Prepaid expenses	-	2,159
Accounts and other receivables	(3,243)	7,671
	50,052	(123,645)
<b>Financing Activities</b>		
Share issuance (net)	-	212,895
	-	212,895
<b>Investing Activities</b>		
Development of intangible asset	-	(114,829)
	-	(114,829)
<b>Inflow (outflow) of cash</b>	50,052	(25,579)
<b>Cash at beginning of year</b>	11,432	37,011
<b>Cash at end of year</b>	<b>\$ 61,484</b>	<b>\$ 11,432</b>

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

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**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 6, 2019.

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 Company has additionally entered into a reverse transaction agreement with North Star Holdings (note 12). The outcome of these matters cannot be predicted at this time.

As at August 31, 2019, the Company had not achieved profitable operations and has a cumulative deficit of \$7,921,127 and a working capital deficit of \$522,665. 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, 2019 and 2018**

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**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, 2019.

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 subsidiaries, Darelle Media Inc. and 0639305 B.C. Ltd. 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:

- Stock-based compensation which is measured pursuant to IFRS 2, *Share-based payments* (Note 3(a)(i)); and,

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

(d) Cash

Cash 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

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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:

Software	Expected life of the software (5 years)
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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.

(f) Share-based payments

The Company recognizes share-based compensation expense for all stock options awarded to employees, officers and directors based on the fair values of the stock options at the date of the grant. The fair values of the stock options at the date of grant are expensed over the vesting periods of the stock options with a corresponding increase to equity. The fair value of stock options granted to employees, officers, and directors is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. The fair value of stock options granted to consultants is measured at the fair value of the services delivered unless fair value cannot be estimated reliably, in which case, fair value is determined using the Black-Scholes option pricing model. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Forfeitures are accounted for using estimates based on historical actual forfeiture data.

Upon the exercise of the stock option, consideration received and the related amount transferred from reserves are recorded as share capital.

(g) 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

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

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.

(h) 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.

(i) 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.

- 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. Using the fair value of the intangible assets, an impairment loss is recognized in profit and loss in an amount equal to the excess of carrying amount over the fair value of intangible assets.

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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. ADOPTION OF NEW AND REVISED STANDARDS AND CHANGE IN ACCOUNTING POLICIES**

**(a) New and revised IFRS standards that are effective for the current year**

The Company has adopted the following new or amended IFRS standards for the interim and annual periods beginning on September 1, 2018.

**(i) IFRS 9, *Financial Instruments***

Effective September 1, 2018, the Company adopted IFRS 9 *Financial Instruments* standard ("IFRS 9") which replaced IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on the transition date.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables, and available-for-sale.

Under IFRS 9, on initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL.

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

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**3. ADOPTION OF NEW AND REVISED STANDARDS AND CHANGE IN ACCOUNTING POLICIES (continued)**

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated, and instead the hybrid financial instrument as a whole is assessed for classification. On initial recognition of an equity instrument that is not being held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (loss). This election is made on an investment-by-investment basis.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to initial recognition and how changes in value in value are recorded. The following accounting policies apply to the subsequent measurement of financial assets.

- a) Financial assets at FVTPL – These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- b) Financial assets at amortized cost – These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses, interest income, foreign exchange gains and losses and impairment are recognized in profit and loss. Any gain or loss on derecognition is recognized in profit or loss.
- c) Financial assets at FVOCI – These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of the equity investment are recognized in other comprehensive income (loss) and are never reclassified to profit or loss.

Financial liabilities are designated as either fair value through profit or loss, or amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

The Company completed an assessment of its financial instruments as at September 1, 2018. The following table shows the new classification under IFRS 9 and the original classification under IAS 39:

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
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**3. ADOPTION OF NEW AND REVISED STANDARDS AND CHANGE IN ACCOUNTING POLICIES (continued)**

	NEW (IFRS 9)	Original (IAS 39)
<b>Financial Assets</b>		
Cash	Amortized cost	FVTPL
Accounts receivable and other receivables	Amortized cost	Loans and receivables
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Due to related parties	Amortized cost	Other financial liabilities
Deposits received	Amortized cost	Other financial liabilities
Funds held in trust	Amortized cost	Other financial liabilities

IFRS 9 introduces a three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recorded and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk. There was no adjustment relating to the implementation of the expected credit loss model for the Company's trade receivables.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

**(ii) IFRS 15, Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") specifies how and when revenue should be recognized on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively. The implementation of IFRS 15 did not have a significant impact on the Company's revenue. The Company determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized.

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligations are satisfied.

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 of a service agreement with a customer. Processing fees include a flat fee per ticket which are sold during

**Darelle Online Solutions Inc.**  
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**3. ADOPTION OF NEW AND REVISED STANDARDS AND CHANGE IN ACCOUNTING POLICIES** (continued)

the course of a raffle. The Company recognizes processing fees once a raffle has closed. The evaluation was made on the basis that once a raffle is closed, all ticket sales have been recognized and there are no further ticket returns which would impact the processing fee earned by the Company.

The pattern and timing of revenue recognition under the new standard is consistent with prior year practise. There were no adjustments recognized on the adoption of IFRS 15 in the year ended August 31, 2019.

**4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	August 31, 2019	August 31, 2018
Trade accounts payable	\$ 105,130	\$ 46,391
Due to related party (note 8)	500,852	265,852
	<b>\$ 605,982</b>	<b>\$ 312,243</b>

**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.

b) Warrants

The Company has the following warrants outstanding:

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
Warrants outstanding at August 31, 2018		19,105,657

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended August 31, 2019 and 2018**

Expire warrants – March 2, 2019	\$0.05	(10,000,000)
Expired warrants – July 19, 2019	\$0.05	(2,235,657)
<b>Warrants outstanding at August 31, 2019</b>		<b>6,870,500</b>

The weighted-average remaining contractual life of options outstanding at August 31, 2019 was .40 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, 2019, Nil (2018 – 1,493,469) of the escrow shares were released and as at August 31, 2019, Nil (2018 – Nil) 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, 2019:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance outstanding – August 31, 2017	3,500,000	\$0.05
Issued	3,575,000	\$0.05
Balance outstanding – August 31, 2018	7,075,000	\$0.05
Expired	(950,000)	\$0.05
Forfeited	(200,000)	\$0.05
<b>Balance outstanding – August 31, 2019</b>	<b>5,925,000</b>	<b>\$0.05</b>

As at August 31, 2019, the following stock options were outstanding and exercisable:

<b>Exercise Price</b>	<b>Number of options outstanding</b>	<b>Expiry date</b>	<b>Number of options exercisable</b>	<b>Remaining contractual life (years)</b>
\$ 0.05	1,000,000	February 10, 2020	1,000,000	0.45
\$ 0.05	1,550,000	February 8, 2021	1,550,000	1.44
\$ 0.05	3,375,000	January 14, 2023	3,375,000	3.38
	<b>5,925,000</b>		<b>5,925,000</b>	

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**5. SHARE CAPITAL** (continued)

The weighted-average remaining contractual life of options outstanding at August 31, 2019 was 2.34 years.

During the year ended August 31, 2019, the Company did not grant any options.

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.

**Year ended August 31**

	2019	2018
Risk free interest rate	-	2.1%
Expected life	-	5.0 Years
Expected volatility	-	339%
Expected dividend per share	-	\$Nil

**6. INTANGIBLE ASSETS**

<b>Development costs</b>	
Balance as at August 31, 2017	478,672
Additions	114,829
Amortization	(104,171)
Balance as at August 31, 2018	489,330
Additions	-
Amortization	(127,260)
Impairment	(167,113)
Balance as at August 31, 2019	194,957
Carrying amount At August 31, 2019	194,957

Intangible assets include software acquired in conjunction with the acquisition of Darelle Media Inc. and internally generated development costs. In conjunction with the acquisition of Darelle Media Inc. the Company acquired intangible assets of \$300,582 which have a remaining useful life of 38 months. The remaining useful life of intangible assets as at August 31, 2019 is 46 months.

During the year ended August 31, 2019, the Company impaired its intangible assets of \$167,113 (2018 - \$Nil).

**Darelle Online Solutions Inc.**  
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**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, 2019, the balance of funds was \$Nil (2018 - \$5,752).

**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, 2019, the Company incurred and recorded \$240,000 (2018 - \$240,000) 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, 2019, \$500,852 (2018 - \$265,852) was included in accounts payable to these companies for consulting fees rendered.

**Key management compensation**

Key Management Personnel	August 31, 2019	August 31, 2018
Consulting fees	\$240,000	\$240,000
Share based compensation	-	109,419
	<b>\$240,000</b>	<b>\$349,419</b>

**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, 2019	August 31, 2018
<b>Financial assets</b>		
Cash	\$ 61,484	\$ 11,432
Accounts receivable and other receivable	21,833	18,591
	<b>\$ 83,317</b>	<b>\$ 30,023</b>

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
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**9. FINANCIAL INSTRUMENTS** (continued)

<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	\$ 105,130	\$ 46,391
Due to related party	500,852	265,852
Funds held in trust	-	5,752
	<b>\$ 605,982</b>	<b>\$ 317,995</b>

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 counterparty 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.

Accounts receivable is comprised of the following:

	<b>August 31, 2019</b>	<b>August 31, 2018</b>
Trade receivables	\$ 21,261	\$ 15,719
Allowance for doubtful debts	-	-
Net trade receivables	21,261	15,719
Other receivables	572	2,872
	<b>\$ 21,833</b>	<b>\$ 18,591</b>

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

An analysis of the age of receivables is as follows:

	<b>August 31, 2019</b>	<b>August 31, 2018</b>
31 – 60 days	\$ 1,575	\$ -
61 – 90 days	-	1,838
Greater than 90 days	1,024	5,943
Balance past due	2,599	7,781
Current balance	18,662	7,938
Trade accounts receivable	<b>\$ 21,261</b>	<b>\$ 15,719</b>

**Darelle Online Solutions Inc.**  
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**9. FINANCIAL INSTRUMENTS (Continued)**

**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.

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

	<b>&lt;1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 100,130	-	5,000	-	\$ 105,130
Due to related party	500,852	-	-	-	500,852
<b>Balance August 31, 2019</b>	<b>\$ 600,982</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 605,982</b>

	<b>&lt;1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 41,391	-	5,000	-	\$ 46,391
Due to related party	265,852	-	-	-	265,852
Funds held in trust	5,752	-	-	-	5,752
<b>Balance August 31, 2018</b>	<b>\$ 312,995</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 317,995</b>

**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.

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**10. CAPITAL MANAGEMENT** (continued)

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, 2019. The Company is not subject to externally imposed capital requirements.

**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.

<b>August 31,</b>	<b>2019</b>	<b>2018</b>
Income (loss) before income taxes	\$ (529,066)	\$ (450,477)
Statutory rate	27.00%	26.67%
Income tax (recovery) expense at statutory rates	(142,848)	(120,127)
Deferred tax asset not recognized	142,848	120,127
	<b>\$ -</b>	<b>\$ -</b>

The statutory rate increased from 26.67% to 27% due to a increase in the British Columbia 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, 2019 and 2018 are comprised of the following:

	<b>2019</b>	<b>2018</b>
<b>Net deferred tax assets (liabilities)</b>		
Non-capital losses carryforwards	\$ 52,638	\$ 130,488
Intangible assets	(52,638)	(130,488)
<b>Net deferred tax assets (liabilities)</b>	<b>\$ -</b>	<b>\$ -</b>

The unrecognized deductible temporary differences as at August 31, 2019 and 2018 are comprised of the following:

	<b>2019</b>	<b>2018</b>
<b>Unrecognized deductible temporary differences</b>		
Financing costs	\$ -	\$ 10,760
Intangible assets	398,382	398,382
Capital losses available for carryforward	574,997	237,174
Non-capital losses available for future periods	5,717,203	5,524,219
<b>Total unrecognized deductible temporary differences</b>	<b>\$ 6,690,582</b>	<b>\$ 6,170,535</b>

**Darelle Online Solutions Inc.**  
**Notes to Consolidated Financial Statements**  
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**11. INCOME TAXES** (continued)

The Company has non-capital loss carryforwards of approximately \$5,717,203 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	765,894
2027	168,007
2028	687,952
2029	647,773
2030	258,782
2031	251,089
2032	172,289
2033	149,639
2034	399,137
2035	999,230
2036	343,223
2037	379,595
2038	330,222
2039	133,237
	<u>\$5,717,203</u>

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

**12. TRANSACTION PENDING**

On June 26, 2019, the Company announced it had entered into an arm's length binding letter of intent ("LOI") with North Star Holdings ("North Star") in which the securityholders of North Star would acquire control of the Company ("Proposed Transaction").

The reverse-takeover of the Company would result in North Star shareholders receiving 167,410,516 post-consolidation shares representing 98.8% of the outstanding shares of the Company once a consolidation is completed. The existing Company shareholders will continue to hold shares representing a 1.2% interest on a post-consolidation basis.

The transaction also involves the spin-out of the Company's wholly owned subsidiary, Darelle Media Inc. ("darelle"). The darelle business currently constitutes all or all substantially all of the business of the Company. Current shareholders of the Company will receive an interest in the spin-out entity equal to their existing equity interest based upon a record date to be determined.

On or before closing of the Proposed Transaction, North Star has agreed to make a cash payment of \$250,000 to darelle in consideration of the issuance of such number of common shares as will constitute 17.5% of the issued and outstanding shares of darelle (on a fully diluted basis) on closing.

Immediately prior to closing of the Proposed Transaction, the Company shall have no outstanding indebtedness, liabilities or obligations except for \$150,000 which shall be settled on

**Darelle Online Solutions Inc.**  
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**12. TRANSACTION PENDING** (continued)

closing date of the Proposed Transaction through the issuance of shares of the resulting issuer at a price per share equal to the concurrent offering price of any financing completed on closing.

Upon execution of the LOI North Star was to make two (2) non-refundable payments of \$25,000 to the Company. In addition, North Star will pay the Company an amount equal to the reasonable out-of-pocket expenses including listing fees, expenses associated with shareholder meeting, reasonable fees of legal counsel, accountants and other advisors incurred by the Company in connection with the Proposed Transaction.