

**DARELLE ONLINE SOLUTIONS INC.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**As at May 31, 2020 and for the Three and Nine Month Periods Ended May 31, 2020**  
**and 2019**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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The accompanying unaudited condensed interim consolidated financial statements of Darelle Online Solutions Inc. (the "Company") for the three and nine month periods ended May 31, 2020 and 2019 (the "Financial Statements") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

The Financial Statements should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2019 which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) . The Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

As at	May 31, 2020	August 31, 2019
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 10,699	\$ 61,484
Accounts receivable and other receivables	21,086	21,833
	31,785	83,317
Intangible assets (note 5)	122,666	194,957
	\$ 154,451	\$ 278,274
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 3)	\$ 99,299	\$ 105,130
Due to related party (note 3 & 6)	662,439	500,852
	761,738	605,982
<b>Shareholders' Equity</b>		
Share capital	5,886,871	5,886,871
Other equity reserve	1,706,548	1,706,548
Deficit	(8,200,706)	(7,921,127)
	(607,287)	(327,708)
	\$ 154,451	\$ 278,274

Nature and Continuance of Operations (note 1)

Subsequent Event (note 11)

Approved on behalf of the Board of Directors:

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

....."John Newman"..... Director

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

Periods ended	Three months ended May 31, 2020	Three months ended May 31, 2019	Nine months ended May 31, 2020	Nine months ended May 31, 2019
<b>Revenue</b>	\$ 30,537	\$ 56,050	\$ 72,132	\$ 101,704
<b>Expenses</b>				
Consulting fees	9,275	30,775	51,275	77,631
Amortization	24,097	31,815	72,291	95,445
Salary, wages and benefits	25,730	-	25,730	-
General and administrative	5,198	11,262	15,155	18,228
Management fees (note 6)	60,000	60,000	169,900	180,000
Marketing	-	711	-	821
Professional fees	5,125	5,125	18,045	20,800
Transfer agent & filing fees	5,702	764	14,367	10,789
Travel	0	627	309	708
	135,127	141,079	367,072	404,422
<b>Results from Operations</b>	(104,590)	(85,029)	(294,940)	(302,718)
Other income (note 10)	15,361	-	15,361	-
<b>Net loss and comprehensive loss</b>	\$ (89,229)	\$ (85,029)	\$ (279,579)	\$ (302,718)
<b>Basic loss per share</b>	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<b>Weighted average number of shares outstanding – basic and diluted</b>	73,708,147	73,708,147	73,708,147	73,708,147

**DARELLE ONLINE SOLUTIONS INC.**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**  
(Expressed in Canadian dollars)

<u>Share Capital</u>					
	Number	Amount	Other equity reserve	Deficit	Total
<b>Balance, August 31, 2019</b>	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,921,127)	\$ (327,708)
Loss for the period	-	-	-	(279,579)	(279,579)
<b>Balance, May 31, 2020</b>	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (8,200,706)	\$ (607,287)
<b>Balance, August 31, 2018</b>	73,708,147	5,886,871	1,706,548	(7,392,061)	201,358
Loss for the year	-	-	-	(529,066)	(529,066)
<b>Balance, August 31, 2019</b>	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,921,127)	\$ (327,708)

**DARELLE ONLINE SOLUTIONS INC.**  
**Condensed Interim Consolidated Statement of Cash Flows**  
**(Unaudited)**  
(Expressed in Canadian dollars)

<b>Period ended</b>	<b>Nine Months Ended May 31, 2020</b>	<b>Nine Months Ended May 31, 2019</b>
<b>Operating Activities</b>		
Net loss for the period	\$ (279,579)	(302,718)
<b>Add back:</b>		
Amortization	72,291	95,445
<b>Changes in non-cash operating working capital items:</b>		
Accounts payable and accrued liabilities	155,756	227,007
Funds held in trust	-	(4,375)
Accounts receivable and other receivables	747	(3,659)
	(50,785)	11,700
<b>Inflow (outflow) of Cash</b>	(50,785)	11,700
<b>Cash at Beginning of period</b>	61,484	11,432
<b>Cash at End of period</b>	\$ 10,699	\$ 23,132

**DARELLE ONLINE SOLUTIONS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the three and nine month periods ended May 31, 2020 and 2019**  
**(Unaudited)**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Darelle Online Solutions Inc. (the “Company”) is a company listed on the TSX Venture Exchange with a registered office located at 4907 Fillinger Crescent, Nanaimo, British Columbia, Canada, V9V 1H9.

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.

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors on July 24, 2020.

The unaudited condensed interim 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/or upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. As at May 31, 2020, the Company had not achieved profitable operations and has a cumulative deficit of \$8,200,706. This is a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Statement of compliance*

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and do not include all information required for full annual consolidated financial statements. The same accounting policies were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended August 31, 2019 except as noted below. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended August 31, 2019.

These Interim Financial Statements have been prepared using accounting policies consistent with those used in the Company’s 2019 annual financial statements.

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**3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	May 31, 2020	August 31, 2019
Trade accounts payable and accrued liabilities	\$ 99,299	\$ 105,130
Due to related parties (note 6)	662,439	500,852
	<b>\$ 761,738</b>	<b>\$ 605,982</b>

**4. STOCK OPTIONS**

As at May 31, 2020, 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	1,550,000	February 8, 2021	1,550,000	0.67
\$ 0.05	3,375,000	January 14, 2023	3,375,000	2.58
	4,925,000		4,925,000	

The weighted-average remaining contractual life of options outstanding at May 31, 2020 was 1.98 years. During the period ended May 31, 2020, the Company did not grant any options.

**5. INTANGIBLE ASSETS**

<b>Development costs</b>	
Balance as at August 31, 2018	489,330
Impairment	(167,113)
Amortization	(127,260)
Balance as at August 31, 2019	194,957
Amortization	(72,291)
Balance as at May 31, 2020	122,666
<b>Carrying amount</b>	
<b>At May 31, 2020</b>	<b>122,666</b>

Intangible assets include software acquired in conjunction with the acquisition of Darelle Media Inc. and internally generated development costs. In conjunction with the acquisition the Company acquired intangible assets of \$300,582 which have a useful remaining life of 29 months. During the year ended August 31, 2019, the Company impaired its intangible assets of \$116,113. At May 31, 2020, the Company concluded that there was no impairment required for the remaining intangible assets (2019 - \$Nil).

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**(Unaudited)**

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**6. RELATED PARTY TRANSACTIONS**

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

- During the period ended May 31, 2020, the Company incurred and recorded \$169,900 (May 31, 2019 - \$180,000) 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 the wholly owned subsidiary will receive a monthly consulting fee of \$10,000. At May 31, 2020, \$662,439 (August 31, 2019 – \$500,852) was included in accounts payable and accrued liabilities to these companies for consulting fees rendered.

<b>Key Management Personnel</b>	<b>May 31, 2020</b>	<b>May 31, 2019</b>
Consulting fees	\$169,900	\$ 180,000
	<b>\$169,900</b>	<b>\$ 180,000</b>

**7. FINANCIAL INSTRUMENTS**

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

	<b>May 31, 2020</b>	<b>August 31, 2019</b>
<b>Financial assets</b>		
Cash	\$ 10,699	\$ 61,484
Accounts receivable and other receivable	21,086	21,833
	<b>\$ 31,785</b>	<b>\$ 83,317</b>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	\$ 99,299	\$ 105,130
Due to related party	662,439	500,852
	<b>\$ 761,738</b>	<b>\$ 605,982</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 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 carrying value of the items at the reporting date.

The Company mitigates its exposure to credit risk by maintaining its bank accounts with major

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**7. FINANCIAL INSTRUMENTS (continued)**

Canadian financial institutions with strong investment-grade ratings by a primary ratings agency.

Accounts receivable is comprised of the following:

	<b>May 31, 2020</b>	<b>August 31, 2019</b>
Trade receivables	\$ 14,376	\$ 21,261
Allowance for doubtful debts	-	-
Net trade receivables	14,376	21,261
Other receivables	6,710	572
	<b>\$ 21,086</b>	<b>\$ 21,833</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>May 31, 2020</b>	<b>August 31, 2019</b>
31 – 60 days	\$ -	\$ 1,575
61 – 90 days	4,305	-
Greater than 90 days	8,233	1,024
Balance past due	12,538	2,599
Current balance	1,838	18,662
Trade accounts receivable	<b>\$ 14,376</b>	<b>\$ 21,261</b>

**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.

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**7. FINANCIAL INSTRUMENTS (continued)**

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	\$ 94,299	-	5,000		\$ 99,299
Due to related party	662,439	-	-	-	662,439
<b>Balance May 31, 2020</b>	<b>\$ 756,738</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 761,738</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	\$ 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>

**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 May 31, 2020, and August 31, 2019, 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.

**8. 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

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**8. CAPITAL MANAGEMENT** (continued)

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 period ended May 31, 2020. The Company is not subject to externally imposed capital requirements.

**9. 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 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. These payments have been made. 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. Under the terms of the LOI, the Transaction was to be consummated on or before December 31, 2019.

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**(Unaudited)**

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**10. FEDERAL WAGE SUBSIDY**

During the period the Company applied for funding of \$15,361 (2019 - \$Nil) under the Canada Emergency Wage Subsidy (CEWS) program. The Government of Canada announced that the CEWS program could be extended until December 2020. The Company continues to review its revenue relative to historic levels on a period-over-period basis to determine if the Company can apply and receive future funding under the CEWS program.

**11. SUBSEQUENT EVENT**

Subsequent to December 31, 2019, the Company signed a number of extensions to the LOI with North Star and on June 24, 2020, the Company signed an agreement extending the terms of the LOI until September 30, 2020.