# DARELLE ONLINE SOLUTIONS INC.

## CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the years ended August 31, 2022 and 2021

# Independent Auditor's Report

To the Shareholders of Darelle Online Solutions Inc.:

## Opinion

We have audited the financial statements of Darelle Online Solutions Inc. (the "Company"), which comprise the statements of financial position as at August 31, 2022 and August 31, 2021, and the statements of profit and other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2022 and August 31, 2021, and its financial performance and its 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 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 financial statements, which indicates that the Company, as at August 31, 2022, had not achieved profitable operations and has a cumulative deficit of $8,628,370 and a working capital deficit of $996,218. 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Adriel Fernandes.

Vancouver, British Columbia

November 25, 2022

MNP LLP

Chartered Professional Accountants

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

| As at | | August 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | 81,659 | $ | 92,733 |
| Accounts and other receivables (note 5) | | 45,869 | | 104,430 |
| Prepaid expenses | | - | | 2,520 |
| | $ | 127,528 | $ | 199,683 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 69,897 | $ | 70,749 |
| Due to related party (note 4) | | 1,053,849 | | 945,488 |
| | | 1,123,746 | | 1,016,237 |
| **Non-current** | | | | |
| Loan payable (note 9) | | 38,733 | | 34,737 |
| | | 1,162,479 | | 1,050,974 |
| **Share Capital and Deficit** | | | | |
| Share capital | | 5,886,871 | | 5,886,871 |
| Other equity reserve | | 1,706,548 | | 1,706,548 |
| Deficit | | (8,628,370) | | (8,444,710) |
| | | (1,034,951) | | (851,291) |
| | **$** | 127,528 | $ | 199,683 |

Nature and Continuance of Operations (note 1)

Approved on behalf of the Board of Directors:

…….”Dean Bethune”……Director ……”John Newman”……Director



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

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

| Years ended | | August 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| **Revenue** | $ | 145,197 | $ | 258,295 |
| **Expenses** | | | | |
| Accretion (note 9) | | 3,996 | | 3,154 |
| Salary, wages, and benefits | | 100,834 | | 132,484 |
| General and administrative | | 34,484 | | 34,037 |
| Management fees (note 4) | | 150,000 | | 216,400 |
| Marketing | | 1,750 | | - |
| Professional fees | | 23,905 | | 25,777 |
| Transfer agent & filing fees | | 14,476 | | 12,506 |
| Travel | | 1,314 | | 161 |
| | | 330,759 | | 424,519 |
| **Results from operations** | | (185,562) | | (166,224) |
| Other income (note 9) | | - | | 28,417 |
| Federal wage subsidy (note 8) | | 1,902 | | 9,935 |
| **Other income (expenses)** | | 1,902 | | 38,352 |
| **Net and Comprehensive loss** | **$** | **(183,660)** | **$** | **(127,872)** |
| **Basic and diluted loss per share** | **$** | **(0.00)** | **$** | **(0.00)** |
| **Weighted average number of shares outstanding – basic and diluted** | | **73,708,147** | | **73,708,147** |



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

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

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Number** | **Amount** | **Other equity reserve** | **Deficit** | **Total** |
| Balance, August 31, 2020 | 73,708,147 | $ 5,886,871 | $ 1,706,548 | $ (8,316,838) | $ (723,419) |
| Loss for the year | - | - | - | (127,872) | (127,872) |
| Balance, August 31, 2021 | 73,708,147 | $ 5,886,871 | $ 1,706,548 | $ (8,444,710) | $ (851,291) |
| Loss for the year | - | - | - | (183,660) | (183,660) |
| Balance, August 31, 2022 | 73,708,147 | $ 5,886,871 | $ 1,706,548 | $ (8,628,370) | $ (1,034,951) |



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

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

| Years ended | August 31, 2022 | August 31, 2021 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | $ (183,660) | $ (127,872) |
| **Add back:** | | |
| Accretion (note 9) | 3,996 | 3,154 |
| Other income (note 9) | - | (28,417) |
| **Changes in non-cash operating working capital items:** | | |
| Accounts payable, accrued liabilities and due to related party | 107,509 | 207,938 |
| Accounts and other receivables | 58,561 | (69,872) |
| Prepaid expenses | 2,520 | (2,520) |
| | (11,074) | (17,589) |
| **Financing Activities** | | |
| Proceeds from a loan | - | 60,000 |
| | - | 60,000 |
| **Inflow (outflow) of cash** | (11,074) | 42,411 |
| **Cash at beginning of year** | 92,733 | 50,322 |
| **Cash at end of year** | **$** 81,659 | $ 92,733 |

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

## 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 4610 Sheridan Ridge Road, 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 financial statements ("Financial Statements") were reviewed and approved by the Board of Directors and authorized for issued on November 25, 2022.

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, 2022, the Company had not achieved profitable operations and has a cumulative deficit of $8,628,370 (2021 - $8,444,710) and a working capital deficit of $996,218 (2021 - $816,554). 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, 2022. There is a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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.

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruptions to business globally in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. The impact of these factors on the Company is not yet determinable; however, the Company's financial position, results of operations and cash flows in future periods may be materially affected.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company's reporting year ended August 31, 2022.

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.

Revenue is measure based upon the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a product or service to a customer.

The Company follows a five-step model in the Standard to recognize revenues:

1. Identify the contract with customer.
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to performance obligations in the contract
5. Recognize revenue when the Company satisfies a performance obligation

(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 and have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

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

(d) Cash

Cash includes cash on hand deposited at financial institutions.

(e) 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.

(f) 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.

(g) 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

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

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.

(h) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated financial statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequent at fair value through profit or loss (“FVTPL”); ii) those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest (“SPPI”) criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets and liabilities in this category are recorded at fair value with changes recognized in consolidated statements of comprehensive loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in consolidated statements of comprehensive loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

IFRS 9 includes an expected credit loss model for all financial assets measured at amortized cost. Expected credit losses are the present value of cash shortfalls over the remaining expected life of the financial asset using either 12-month expected credit losses or lifetime expected credit loss.

An impairment loss in respect of a financial asset measured at amortized costs is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the consolidated statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statements of comprehensive loss.

**Summary of the Company's classification and measurements of financial assets and liabilities**

| | **IFRS 9** |
|---|---|
| | Classification/Measurement |
| **Financial Assets** | |
| Cash | Amortized cost |
| Accounts receivable and other receivables | Amortized cost |
| | |
| **Financial Liabilities** | |
| Accounts payable and accrued liabilities | Amortized cost |
| Due to related parties | Amortized cost |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Government assistance

Amounts received or receivable resulting from government assistance programs, including grants under the Canada Emergency Wage Subsidy program ("CEWS") and the Canada Emergency Benefit Account ("CEBA"), are recognized where there is reasonable assurance that the amount of government assistance will be received, and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized in income on a systematic basis as a reduction to the costs that it is intended to compensate. When the amount relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

CEBA provides an interest-free loan ("CEBA Loan") of $40,000 to eligible businesses. Pursuant to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, the benefit of a government loan at below - market rate is treated as a government grant and measured in accordance with IFRS 9, Financial Instruments. The benefit of below - market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. This benefit is then accreted over the life of the loan.

(j) Significant accounting estimates and critical 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.

*Significant 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.

## 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 fillings 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.

(k) Accounting standards issued but not yet effectives

There are no IFRS or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 3. SHARE CAPITAL

Authorized - Unlimited number of common shares without par value

Stock options

On November 5, 2021, 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, 2022:

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| Balance outstanding – August 31, 2020 | 3,750,000 | $0.05 |
| Expired | (825,000) | |
| Balance outstanding – August 31, 2021 | 2,925,000 | $0.05 |
| Forfeited | (375,000) | |
| **Balance outstanding – August 31, 2022** | **2,550,000** | **$0.05** |

## 3. SHARE CAPITAL (continued)

As of August 31, 2022, 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 | 2,550,000 | January 14, 2023 | 2,550,000 | 0.33 |
| | 2,550,000 | | 2,550,000 | |

During the fiscal years ending August 31, 2022 and 2021, the Company did not grant any options.

## 4. 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. During the year ended August 31, 2022, the Company incurred and recorded $150,000 (2021 - $216,400) 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. On August 31, 2022, $1,053,849 (2021 – $945,488) was due and payable to these companies for consulting fees rendered.

**Key management compensation**

| Key Management Personnel | August 31, 2022 | August 31, 2021 |
|---|---|---|
| Consulting fees | $150,000 | $216,400 |

## 5. FINANCIAL INSTRUMENTS

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

| | August 31, 2022 | August 31, 2021 |
|---|---|---|
| **Financial assets** | | |
| Cash | $ 81,659 | $ 92,733 |
| Accounts receivable and other receivable | 45,869 | 104,430 |
| | **127,528** | **197,163** |
| **Financial liabilities** | | |
| Accounts payable and accrued liabilities | $ 69,897 | $ 70,749 |
| Due to related party | 1,053,849 | 945,488 |
| Loans | 38,733 | 34,737 |
| | **$ 1,162,479** | **$ 1,050,974** |

## 5. FINANCIAL INSTRUMENTS (continued)

IFRS 13, *Fair value* measurement, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities,
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Inputs that are not based on observable market data.

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their varying amount due to their short-term nature. The carrying values of the CEBA loans have been fair valued at inception and will be accreted up to their face value over their expected term.

Financial assets valued at amortized cost are cash, accounts receivable and deposits. The Company has no financial assets valued at FVTPL or FVTOCI.

The Company's financial liabilities measured at amortized costs are accounts payables and accrued liabilities, due to related parties, and the CEBA loans.

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:

| | **August 31, 2022** | **August 31, 2021** |
|---|---|---|
| Trade receivables | $ 42,296 | $ 99,052 |
| Allowance for doubtful debts | - | - |
| Net trade receivables | 42,296 | 99,052 |
| Other receivables | 3,573 | 5,378 |
| | **$ 45,869** | **$ 104,430** |

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

## 5. FINANCIAL INSTRUMENTS (continued)

An analysis of the age of receivables is as follows:

| | August 31, 2022 | August 31, 2021 |
|---|---|---|
| 31 – 60 days | $ - | $ - |
| 61 – 90 days | - | - |
| Greater than 90 days | 17,933 | 15,426 |
| Balance past due | 17,933 | 15,426 |
| Current balance | 24,363 | 83,626 |
| Trade accounts receivable | **$ 42,296** | **$ 99,052** |

**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:

| | <1 year | 1 to 3 years | 4 to 5 years | >5 years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 64,897 | - | 5,000 | - | $ 69,897 |
| Due to related party | 1,053,849 | - | - | - | 1,053,849 |
| **Balance August 31, 2022** | **$ 1,118,746** | **-** | **5,000** | **-** | **$ 1,123,746** |

| | <1 year | 1 to 3 years | 4 to 5 years | >5 years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 65,749 | - | 5,000 | - | $ 70,749 |
| Due to related party | 945,488 | - | - | - | 945,488 |
| **Balance August 31, 2021** | **$ 1,011,237** | **-** | **5,000** | **-** | **$ 1,016,237** |

## 6. 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, 2022. The Company is not subject to externally imposed capital requirements.

## 7. 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 comprehensive loss for the years ended August 31, 2022 and 2021.

| **August 31,** | **2022** | **2021** |
|---|---|---|
| Income (loss) before income taxes | $ (183,660) | $ (127,872) |
| Statutory rate | 27.00% | 27.00% |
| Income tax (recovery) expense at statutory rates | (49,588) | (34,525) |
| Non-deductible items | 39 | 1,711 |
| Deferred tax asset not recognized | 49,549 | 32,814 |
| | $ - | $ - |

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) on August 31, 2022 and 2021 are comprised of the following:

| | **2022** | **2021** |
|---|---|---|
| Non-capital losses carryforwards | $ - | $ 1,421 |
| Loan payable | - | (1,421) |
| **Net deferred tax assets (liabilities)** | $ - | $ - |

## 7. INCOME TAXES (continued)

The unrecognized deductible temporary differences as at August 31, 2022 and 2021 are comprised of the following:

| | 2022 | 2021 |
|---|---|---|
| **Unrecognized deductible temporary differences** | | |
| Intangible assets | $ 398,382 | $ 398,382 |
| Capital losses available for carryforward | 574,997 | 574,997 |
| Non-capital losses available for future periods | 6,415,695 | 6,232,178 |
| **Total unrecognized deductible temporary differences** | $ 7,389,074 | $ 7,205,557 |

The Company has non-capital loss carryforwards of approximately $6,415,695 (2021 - $6,232,178) 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:

| | Non-capital losses |
|---|---|
| 2025 | 31,134 |
| 2026 | 765,894 |
| 2027 | 168,007 |
| 2028 | 687,952 |
| 2029 | 647,773 |
| 2030 | 258,782 |
| 2031 | 251,089 |
| 2032 | 363,630 |
| 2033 | 151,988 |
| 2034 | 399,137 |
| 2035 | 999,230 |
| 2036 | 343,223 |
| 2037 | 379,595 |
| 2038 | 330,222 |
| 2039 | 131,237 |
| 2040 | 200,484 |
| 2041 | 126,797 |
| 2042 | 179,521 |
| | $ 6,415,695 |

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

## 8. FEDERAL WAGE SUBSIDY

During the fiscal year ended August 31, 2022 the Company applied for funding of $1,902 (2021 - $9,935) under the Canada Emergency Wage Subsidy (CEWS) program.

## 9. LOAN PAYABLE

Due to the global COVID-19 outbreak, the federal government of Canada introduced the Canada Emergency Benefit Account ("CEBA"). CEBA provides an interest-free loan ("CEBA Loan") of $40,000 to eligible businesses. The CEBA loan program was subsequently expanded to $60,000. The CEBA Loan has an initial term that expires on December 31, 2023, throughout which, the CEBA Loan remains interest free. Repayment of $40,000 by December 31, 2023, results in a $20,000 loan forgiveness. If the balance is not paid prior to December 31, 2023, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025.

Since the Company is expected to repay the loan before December 31, 2023, the $20,000 for the forgiveness of the loan was recognized as other income in the consolidated statements of comprehensive loss.

The remaining loan has an initial carrying value at $31,583 using a discount rate of 10.94%, which was the estimated rate for a similar loan without the interest free component. The CEBA Loans shall be accreted to the $40,000 face value over the term of the loan. The difference of $8,417 between the face value and the carrying value is recorded as government grant income.

During the year ended August 31, 2022, the Company recorded $3,996 (2021 - $3,154) of accretion expense on the CEBA loans payable.