

DARELLE ONLINE SOLUTIONS INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

As at May 31, 2022 and for the nine month periods ended May 31, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Darelle Online Solutions Inc. (the “Company”) as at May 31, 2022, and for the nine month periods ended May 31, 2022 and 2021 (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, 2021 which are available under the Company’s profile on SEDAR at www.sedar.com . The Financial Statements are prepared in accordance with International Financial Reporting Standards (“IRFS”).

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

As at	May 31, 2022		August 31, 2021	
Assets				
Current				
Cash	\$	116,479	\$	92,733
Accounts and other receivables (note 3)		27,544		104,430
Prepaid expenses		-		2,520
	\$	144,023	\$	199,683
Liabilities				
Current				
Accounts payable and accrued liabilities	\$	72,079	\$	70,749
Due to related party (note 6)		1,033,849		945,488
		1,105,928		1,016,237
Non-current				
Loan payable (note 9)		37,693		34,737
		1,143,621		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		(8,593,017)		(8,444,710)
		(999,598)		(851,291)
	\$	144,023	\$	199,683

Nature and Continuance of Operations (note 1)

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, 2022	Three months ended May 31, 2021	Nine months ended May 31, 2022	Nine months ended May 31, 2021
Revenue	\$ 51,863	\$ 62,370	\$ 106,596	\$ 160,816
Expenses				
Accretion	1,012	-	2,956	-
Salary, wages, and benefits	25,849	25,235	75,082	107,058
General and administrative	6,245	7,963	29,090	25,777
Management fees (note 6)	30,000	55,600	120,000	164,200
Professional fees	6,536	8,525	19,841	20,472
Transfer agent & filing fees	106	2,011	8,023	10,194
Travel	1,570	-	1,814	161
	71,318	99,324	256,805	327,862
Results from operations				
Other income (expenses)				
Federal wage subsidy (note 8)	-	-	1,902	6,720
Net loss and comprehensive loss	\$ (19,455)	\$ (36,954)	\$ (148,307)	\$ (160,326)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding – basic and diluted	73,708,147	73,708,147	73,708,147	73,708,147

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, 2021	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (8,444,710)	\$ (851,291)
Loss for the period	-	-	-	(148,307)	(148,307)
Balance, May 31, 2022	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (8,593,017)	\$ (999,598)
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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)

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

Years ended	Nine Months Ended May 31, 2021	Nine Months Ended May 31, 2021
Operating Activities		
Net loss for the year	\$ (148,307)	\$ (160,326)
Add back:		
Accretion	2,956	-
Changes in non-cash operating working capital items:		
Accounts payable and accrued liabilities	1,330	(20,621)
Due to related parties	88,361	167,910
Accounts and other receivables	76,886	(42,754)
Prepaid expenses	2,520	(2,698)
	23,746	(58,489)
Financing Activities		
Proceeds from a loan	-	60,000
	-	60,000
Inflow (outflow) of cash	23,746	1,511
Cash at beginning of year	92,733	50,322
Cash at end of year	\$ 116,479	\$ 51,833

The accompanying notes are an integral part of these unaudited condensed interim financial statements

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

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 unaudited condensed interim financial statements (“Financial Statements”) were reviewed and approved by the Board of Directors and authorized for issued on July 12, 2022.

The unaudited condensed interim 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 May 31, 2022, the Company had not achieved profitable operations and has a cumulative deficit of \$8,593,017 (August 31, 2021 - \$8,444,710) and a working capital deficit of \$961,905 (August 31, 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 unaudited condensed interim 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 are not yet determinable; however, the Company’s financial position, results of operations and cash flows in future periods may be materially affected.

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

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, 2021 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, 2021.

Newly adopted accounting standards

Changes and amendments to the following accounting standards applicable for the Company will be effective in future years and are not expected to have a significant impact:

- IAS 1 – Presentation of Financial Statements
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 – Income Taxes
- IAS 16 – Property, Plant and Equipment
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company’s financial instruments consist of cash, trade receivable, accounts payable and accrued liabilities, due to related party, and loan payable. The carrying values of the financial instruments approximate fair value due to the short-term nature of these instruments. Fair value of financial assets and liabilities, information related to risk management positions and discussion of risks associated with financial assets are presented as follows:

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

	May 31, 2022	August 31, 2021
Financial assets		
Cash	\$ 116,479	\$ 92,733
Accounts receivable and other receivable	27,544	104,430
	\$ 144,023	197,163
Financial liabilities		
Accounts payable and accrued liabilities	\$ 72,079	\$ 70,749
Due to related party	1,033,849	945,488
Loans	37,693	34,737
	\$ 1,143,621	\$ 1,050,974

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

IFRS 13 establishes a fair value hierarchy that effects the significance of inputs used in making fair value measurements as follows:

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

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying value 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 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 carrying 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 and other receivables are comprised of the following:

	May 31, 2022	August 31, 2021
Trade receivables	\$ 23,971	\$ 99,052
Allowance for doubtful debts	-	-
Net trade receivables	23,971	99,052
Other receivables	3,573	5,378
	\$ 27,544	\$ 104,430

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

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

An analysis of the age of receivables is as follows:

	May 31, 2022	August 31, 2021
31 – 60 days	\$ -	\$ -
61 – 90 days	-	-
Greater than 90 days	13,273	15,426
Balance past due	13,273	15,426
Current balance	10,698	83,626
Trade accounts receivable	\$ 23,971	\$ 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 difficulty in meeting its financial obligations.

The Company 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	\$ 67,079	-	\$ 5,000	-	\$ 72,079
Due to related party	1,033,849	-	-	-	1,033,849
Loan	37,693	-	-	-	37,693
Balance May 31, 2022	\$ 1,138,621	-	\$ 5,000	-	\$ 1,143,621

	<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	\$ 1,011,235	-	\$ 5,000	-	\$ 1,016,237

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

4. SHARE CAPITAL

Authorized - Unlimited number of common shares without par value

Stock options

On November 5, 2021, shareholders voted to reapprove a stock option plan. Under the 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 May 31, 2022:

	Number of options	Weighted average exercise price
Balance outstanding – May 31, 2022 and August 31, 2021	2,925,000	\$0.05

As of May 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	2,925,000	January 14, 2023	2,925,000	0.58
	2,925,000		2,925,000	

The weighted-average remaining contractual life of options outstanding at May 31, 2022 was 0.58 years.

During the period ending May 31, 2022 and the year ended August 31, 2021 the Company did not grant any options.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2022	August 31, 2021
Trade accounts payable and accrued liabilities	\$ 72,079	\$ 70,749
Due to related parties	1,033,849	945,488
	\$ 1,105,928	\$ 1,016,237

6. RELATED PARTY TRANSACTIONS

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

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

6. RELATED PARTY TRANSACTIONS (Continued)

During the period ended May 31, 2022, the Company incurred and recorded \$120,000 (2021 - \$164,200) 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 May 31, 2022, \$1,033,849 (August 31, 2021 – \$945,488) was due and payable to these companies for consulting fees rendered.

Key management compensation

Key Management Personnel	Nine Month Period Ended May 31, 2022	Nine Month Period Ended May 31, 2021
Consulting fees	\$120,000	\$164,200

7. 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 period ended May 31, 2022. The Company is not subject to externally imposed capital requirements.

8. FEDERAL WAGE SUBSIDY

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

Darelle Online Solutions Inc.
Notes to Interim Condensed Consolidated Financial Statements
For the Nine-Month Periods Ended May 31, 2022 and 2021

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, 2022, throughout which, the CEBA Loan remains interest free. Repayment of \$40,000 by December 31, 2022, results in a \$20,000 loan forgiveness. If the balance is not paid prior to December 31, 2022, 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, 2022, the \$20,000 for the forgiveness of the loan was recognized as other income in the consolidated statements of comprehensive loss for the year ended August 31, 2021.

The remaining loan has an initial carrying value at \$37,693 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 period ended May 31, 2022, the Company recorded \$2,956 (August 31, 2021 - \$3,154) of accretion expense on the CEBA loans payable.