Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
As at and for the three and six months ended December 31, 2021
(Expressed in U.S. dollars)

NOTICE TO READER

These interim condensed consolidated financial statements of Kuuhubb Inc. as at and for the three and six months ended December 31, 2021 have been prepared by management of Kuuhubb Inc. The auditors of Kuuhubb Inc. have not audited or reviewed these interim condensed consolidated financial statements.

March 1, 2021

Contents

Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2021 and June 30, 2021
(Expressed in U.S. dollars) (Unaudited)

	Notes	December 31, 2021 $	June 30, 2021 $
Assets			
Current Assets			
Cash		**227,092**	23,871
Accounts receivable (net of $Nil allowance)	13	**326,492**	479,138
Prepaid expenses	3	**401,562**	355,775
Other receivables	3	**45,997**	176,030
Total Current Assets		**1,001,144**	1,034,814
Non-Current Assets			
Property and equipment	4	**71,791**	84,610
Total Non-current Assets		**71,791**	84,610
Total Assets		**1,072,935**	1,119,424
Liabilities and Shareholders' Deficit			
Current Liabilities			
Accounts payable and accrued liabilities	5, 7(c)	**2,612,473**	2,441,558
Deferred revenue	6	**305,751**	399,722
Due to related parties	7(b)	**-**	90,145
Loans	8, 9	**4,278,038**	4,465,696
Deferred gain	9	**73,022**	74,246
Taxes payable		**265,900**	287,166
Non-convertible debenture - 2021	10(b)	**584,608**	-
Non-convertible debenture - 2020	10(a)	**1,386,886**	-
Convertible debenture - 2018	11(a)	**2,408,051**	2,390,653
Convertible debenture - 2021	11(c)	**234,038**	-
Total Current Liabilities		**12,148,768**	10,149,186
Non-current Liabilities			
Loans	9	**683,533**	677,598
Deferred gain	9	**134,970**	195,809
Non-convertible debenture - 2020	10(a)	**-**	1,216,925
Convertible debenture - 2020	11(b)	**2,459,137**	2,408,471
Total Non-current Liabilities		**3,277,639**	4,498,803
Total Liabilities		**15,426,407**	14,647,989

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

Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2021 and June 30, 2021
(Expressed in U.S. dollars) (Unaudited)

	Notes	December 31, 2021 $	June 30, 2021 $
Shareholders' Deficit			
Share capital	12	**29,444,252**	29,444,252
Contributed surplus		**6,321,527**	6,186,097
Accumulated other comprehensive loss		**(4,683,173)**	(5,359,889)
Deficit		**(45,436,078)**	(43,799,025)
Total Shareholders' Deficit		**(14,353,472)**	(13,528,565)
Total Liabilities and Shareholders' Deficit		**1,072,935**	1,119,424
Continuation of Business and Going Concern	1		
Commitments and Contigencies	16		
Restructure of Kuu Hubb Oy	17		
Common shares			
Authorized (Note 12(a))		**Unlimited**	Unlimited
Issued and outstanding		**66,658,043**	66,658,043

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

Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended December 31, 2021 and 2020
(Expressed in U.S. dollars) (Unaudited)

	Notes	Three months ended December 31, 2021	Three months ended December 31, 2020	Six months ended December 31, 2021	Six months ended December 31, 2020
Revenue		$ **963,865**	$ 1,350,306	$ **1,965,799**	$ 2,835,654
Cost of sales		**263,488**	585,003	**648,264**	1,278,096
Gross margin		**700,377**	765,303	**1,317,535**	1,557,558
Operating expenses					
Consulting and professional fees		**250,726**	271,359	**388,333**	475,591
Office and general		**725,755**	1,007,473	**1,547,003**	1,919,192
Sales and marketing		**224,721**	331,499	**370,997**	832,295
Depreciation and amortization	4	**6,013**	9,361	**10,958**	15,195
Share-based compensation	13	**29,905**	117,268	**80,531**	270,804
Interest, accretion expenses and deferred gains	15	**215,171**	263,424	**552,509**	526,794
Fair value change of loans receivable from Valiance UG	3	**-**	(104,666)	**-**	(84,766)
Fair value change of derivative liability	11	**-**	(3,332)	**-**	(23,802)
Foreign exchange (gain)/loss		**(86,912)**	(35,993)	**4,257**	72,493
Total operating expenses		**(1,365,379)**	(1,856,393)	**(2,954,588)**	(4,003,796)
Loss before income taxes		**(665,002)**	(1,091,090)	**(1,637,053)**	(2,446,238)
Current tax expense		**-**	-	**-**	-
Deferred tax expense (recovery)		**-**	-	**-**	-
Net loss		**(665,002)**	(1,091,090)	**(1,637,053)**	(2,446,238)
Translation gain (loss)		**161,850**	(637,685)	**676,716**	(974,269)
Comprehensive loss		$ **(503,152)**	$ (1,728,775)	$ **(960,337)**	$ (3,420,507)
Basic and diluted loss per share	12(c)	$ **(0.010)**	$ (0.020)	$ **(0.025)**	$ (0.044)
Weighted average number of common shares outstanding		**66,658,043**	55,752,709	**66,658,043**	55,752,709

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

Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three and six months ended December 31, 2021 and 2020
(Expressed in U.S. dollars) (Unaudited)

		Common Shares					
		Number of Shares	Amount	Contributed Surplus	Accmulated other comprehensive loss	Deficit	Total Shareholders' deficit
	Notes	(Note 12)	$	$	$	$	$
Balance at June 30, 2020		55,752,709	28,418,521	5,734,534	(4,834,899)	(38,786,507)	(9,468,351)
Net loss		-	-	-	-	(2,446,238)	(2,446,238)
Translation gain/loss		-	-	-	(974,269)	-	(974,269)
Warrants		-	-	233,887	-	-	233,887
Share-based payments		-	-	270,804	-	-	270,804
Balance at December 31, 2020		55,752,709	28,418,521	6,239,225	(5,809,168)	(41,232,745)	(12,384,167)
Net loss		-	-	-	-	(2,566,280)	(2,566,280)
Translation gain/loss		-	-	-	449,279	-	449,279
Issuance of shares (net of costs)		8,705,334	618,602	-	-	-	618,602
Warrants exercised		2,200,000	407,129	(233,887)	-	-	173,242
Share-based payments		-	-	180,759	-	-	180,759
Balance at June 30, 2021		66,658,043	29,444,252	6,186,097	(5,359,889)	(43,799,025)	(13,528,565)
Net loss		-	-	-	-	(1,637,053)	(1,637,053)
Translation gain/loss		-	-	-	676,716	-	676,716
Warrants	12(b)	-	-	54,899	-	-	54,899
Share-based payments	13	-	-	80,531	-	-	80,531
Balance at December 31, 2021		66,658,043	29,444,252	6,321,527	(4,683,173)	(45,436,078)	(14,353,472)

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

Kuuhubb Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended December 31, 2021 and 2020
(Expressed in U.S. dollars) (Unaudited)

	Six months ended December 31, 2021	Six months ended December 31, 2020
	$	$
Cash flows from operating activities		
Net loss	**(1,637,053)**	(2,446,238)
Non-cash item		
Depreciation and amortization	**10,958**	15,195
Share-based compensation	**80,531**	270,804
Fair value change of derivative liability	**-**	(23,802)
Fair value change of loan receivables from Valiance UG	**-**	(84,766)
Accretion, interest and deferred gains	**551,231**	532,699
Foreign exchange loss	**4,257**	-
Changes in non-cash working capital, net		
Accounts receivable	**152,646**	360,280
Prepaid expense	**(45,787)**	(30,831)
Other receivables	**130,033**	(206,568)
Accounts payable and accrued liabilities	**170,915**	836,824
Taxes payable	**-**	-
Deferred revenues	**(93,971)**	(64,644)
Net cash used in operating activities	**(676,241)**	(841,047)
Cash flows from financing activities		
Proceeds from non-convertible debenture	**591,109**	1,278,978
Proceeds from convertible debenture	**234,038**	-
Loan repayment	**(38,028)**	(1,077,127)
Net cash provided by financing activities	**787,119**	201,851
Effect of change in foreign exchange rate	**92,343**	132,723
Net increase/(decrease) in cash during the period	**203,221**	(506,473)
Cash, beginning of the period	**23,871**	819,972
Cash, end of the period	**227,092**	313,499

Supplementary cash flow information:

	Six months ended December 31, 2021	Six months ended December 31, 2020
	$	$
Cash interests paid	**1,875**	78,519

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

1. CONTINUATION OF BUSINESS AND GOING CONCERN

The principal business of Kuuhubb Inc. ("Kuuhubb" or the "Company") is to acquire, develop and distribute a portfolio of products in the digital entertainment space that focuses mainly on lifestyle and mobile game applications for the female audience. Kuuhubb's objective is to create sustainable shareholder value through acquisition of proven, yet under-appreciated assets with long-term global potential.

These interim condensed consolidated financial statements as at and for the three months ended September 30, 2021, and the consolidated statements of financial position as at June 30, 2021 and the interim condensed consolidated statement of loss and comprehensive loss for the three months ended September 30, 2021 include the accounts of the Company and of its wholly-owned subsidiary Kuuhubb Oy, incorporated in Finland. Kuuhubb Oy has five wholly-owned subsidiaries, Kemojo Kuuhubb Studios Inc. ("Kemojo"), Recolor Oy ("Recolor"), Neybers AB ("Neybers"), Kuuhubb Publishing BV and Recolor India Private Limited. Kuuhubb Oy is a Finnish recreational application company that operates the mobile game application called MyHospital. Kemojo is incorporated under the Business Corporations Act (British Columbia). Recolor is a Finnish lifestyle application company that created the digital coloring book application called Recolor. Neybers is an interior design game created by a Swedish start-up based in Stockholm and fits well with Kuuhubb's strategy of building a portfolio of female oriented niche lifestyle community and design applications. Kuuhubb Publishing BV is a Dutch mobile game/app publishing company that is tasked with all publishing activities for Kuuhubb Oy's portfolio of titles. During the year ended June 30, 2021, the Company dissolved Kuuhubb Publishing BV. Recolor India Private Limited will carry on the business activities of the Incolour application, a variance of the Recolor app tailored towards the Indian market. Kuuhubb AG was incorporated in Switzerland for future acquisition and management of companies that are mainly active in the video game industry.

The Company is a publicly traded company whose outstanding common shares are listed for trading on the TSX Venture Exchange. The registered office of the Company is located at 25 Adelaide Street East Suite 1417 Toronto, ON M5C 3A1, Canada. The head office of the Company's subsidiary, Kuuhubb Oy, is located at Kalevankatu 12, 00100 Helsinki, Finland.

During the three and six months ended December 31, 2021, the Company incurred net losses of $665,002 and $1,637,053, respectively (three and six months ended December 31, 2020 – net losses of $1,091,090 and $2,446,238). During the six months ended December 31, 2021 and 2020, the Company incurred negative cash flows from operating activities of $676,241 and $841,047, respectively. As at December 31, 2021, the Company had negative working capital of $11,147,624 and a deficit of $45,436,078 (as at June 30, 2021: negative working capital of $9,114,372 and a deficit of $43,799,025).

Due to the negative operating results, the Company has undertaken several costs reduction activities, is in the process of developing and launching new apps and actively seeking additional financing. However, the Company's ability to continue operations in the normal course of business is dependent on several factors, including its ability to generate revenues and positive cash flows from operations, and secure additional funding. These factors represent material uncertainties which cast significant doubt on the Company's the ability to continue as a going concern.

In early 2020, there was a global outbreak of COVID-19, which continues to rapidly evolve. In general, the COVID-19 has accelerated the adoption of online activities, including mobile gaming like our business, the extent to which the COVID-19 coronavirus may impact the Company's operations will be dependent on future developments. In recent months, many countries have lessened the restrictions in connection with COVID-19. However, the ultimate impacts from these lessened restrictions and long-term effects are still highly uncertain and cannot be predicted with confidence.

These interim condensed consolidated financial statements do not include any additional adjustments to the recoverability and classification of certain recorded asset amounts, classification of certain liabilities and changes to the interim condensed consolidated statements of loss and comprehensive loss that might be necessary if the Company was unable to continue as a going concern. Such adjustments could be material.

(Expressed in U.S. Dollars) (Unaudited)

2. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed consolidated financial statements as at and for the three and six months ended December 31, 2021 have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The disclosure contained in these interim condensed consolidated financial statements does not include all the requirements in IAS 1 Presentation of Financial Statements ("IAS 1"). Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended June 30, 2021, which include information necessary to understand the Company's business and financial statement presentation.

b) Basis of Consolidation

Subsidiaries

Subsidiaries consist of companies over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances and transactions.

The table below lists the Company's subsidiaries that are consolidated in these financial statements:

Transactions eliminated on consolidation
All intercompany group transactions, balances, income and expenses are eliminated in full on consolidation.

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest
Kuuhubb Oy	Finland	100%
Kemojo Kuuhubb Studios Inc.	Canada	100%
Neybers AB	Sweden	100%
Recolor Oy	Finland	100%
Recolor India Private Limited	India	100%
Kuuhubb AG	Swizerland	100%

c) Basis of measurement

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of these interim condensed consolidated financial statements in conformity with IFRS as issued by the IASB requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These interim condensed consolidated financial statements have been prepared in their functional currency on a historical cost basis except for long-term liabilities, loans receivable, and derivatives, which are measured at amortized cost or fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

2. BASIS OF PREPARATION (CONTINUED)

d) Classification of Recolor Oy out of held for sale and discontinued operations

The Company was not able to complete the divestiture of Company-owned assets such as shares of Recolor Oy in the past during fiscal 2021 after best efforts by the management. In addition, the recent restructure of the Company's main operating subsidiary also hinders the Company's ability to continue to pursue the divestiture. Therefore, the associated assets and liabilities and the net income within Recolor Oy, previously presented as held for sale and attributable as discontinued operations in the interim condensed consolidated financial statements, have been classified back to normal continuing operations. Certain comparative figures have been reclassified to reflect the change.

e) Summary of Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as presented in Note 3 of the annual consolidated financial statements of the Company as at and for the year ended June 30, 2021, except for those newly adopted accounting standards noted below.

f) Functional and Presentation Currency

The functional currency of Kuuhubb Inc. is the Canadian dollar ("C").

Except for Kemojo, whose functional currency is Canadian dollar ("C"), Kuuhubb AG, whose functional currency is the Swiss Franc ("CHF") and Neybers AB, whose functional currency is the Swedish Krona ("SEK"), all other subsidiaries of the Company use the European Union's Euro ("€") as their functional currency.

These consolidated financial statements are presented in U.S. Dollars ("$").

The exchange rates used were as follows:

	As at & for period ended December 31, 2021	As at June 30, 2021	As at & for period ended December 31, 2020
CAD / USD exchange rate			
Closing at the reporting date	0.7888	0.8068	N/A
Three month average rate	0.7937	N/A	0.7676
Six month average rate	0.7937	N/A	0.7593
EUR / USD exchange rate			
Closing at the reporting date	1.1352	1.1859	N/A
Three month average rate	1.1436	N/A	1.1926
Six month average rate	1.1612	N/A	1.1813
CHF / USD exchange rate			
Closing at the reporting date	1.0962	1.0810	N/A
Three month average rate	1.0849	N/A	1.1066
Six month average rate	1.0870	N/A	1.0973

g) 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

(Expressed in U.S. Dollars) (Unaudited)

3. PREPAID EXPENSES, OTHER RECEIVABLES AND LOANS RECEIVABLE FROM VALIANCE UG

Prepaid expenses

As at December 31, 2021, Recolor Oy had prepaid expenses of $340,549 (€300,000), (June 30, 2021 - $355,775 (€300,000)) to Codecacao d.o.o. ("Codecacao"). The prepayment was issued to Codecacao to secure continuous development and support for the Recolor App.

One of the co-founders of Codecacao is also a former member of the Company's key management personnel.

Other receivables

As at December 31, 2021, the Company has other receivables which consist of VAT receivables and short-term deposits in the amount of $84,157, (June 30, 2021 - $176,030).

Loans receivable from Valiance UG

Kuuhubb Oy had loans receivable of $650,269 (€572,843), (June 30, 2021 - $784,911 (€661,861)) from Valiance UG ("Valiance"). In prior year, the fair value of the full amount is determined to be $Nil by calculating the expected cash repayments of the note considering the financial performance of Valiance, payment history as well as default provisions. The amount was written off.

One of the co-founders of Valiance is also a former member of the Company's key management personnel.

4. PROPERTY AND EQUIPMENT

The Company's property and equipment movement during the period, which are depreciated under 25% declining method, are summarized as follows:

	Furniture & fixtures	Office & communication equipment	Total
	$	$	$
Cost			
Balance at June 30, 2021	95,109	138,677	233,786
Additions	-	-	-
Disposals	-	-	-
Foreign exchange translation gain/(loss)	(4,069)	(4,775)	(8,844)
Balance at December 31, 2021	91,040	133,902	224,943
Accumulated Depreciation			
Balance at June 30, 2021	68,862	80,314	149,176
Depreciation	4,741	6,217	10,958
Foreign exchange translation gain/(loss)	(2,554)	(4,428)	(6,982)
Balance at December 31, 2021	71,049	82,103	153,152
Net Book Value			
Net book value at June 30, 2021	**26,247**	**58,363**	**84,610**
Net book value at December 31, 2021	**19,991**	**51,800**	**71,791**

(Expressed in U.S. Dollars) (Unaudited)

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding relating to the operations of the Company:

As at	December 31, 2021	June 30, 2021
	$	$
Accounts payable	**1,026,292**	1,314,528
Accrued liabilities and other	**1,586,181**	1,127,030
	2,612,473	2,441,558

The following is an aged analysis of accounts payable and accrued liabilities:

As at	December 31, 2021	June 30, 2021
	$	$
Less than 1 month	**33,488**	69,213
1 to 3 months	**63,348**	131,005
Greater than 3 months	**2,515,638**	2,241,340
	2,612,473	2,441,558

6. DEFERRED REVENUE

The Company's deferred revenue by offerings are as follows:

	Year ended December 31, 2021	Year ended June 30, 2021
	$	$
Recolor - Subscription Revenue	**305,751**	396,722
My Hospital - Virtual Currency Revenue	**3,000**	3,000
	308,751	399,722

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) Key Management Remuneration

The Company's related parties include key management such as officers (CEO, CFO, and COO) and directors. The remuneration and fees incurred (Note 7(b)) for these related parties, as defined above, during the three months ended December 31, 2021 and 2020 was as follows:

	3 months ended December 31, 2021	3 months ended December 31, 2020	6 months ended December 31, 2021	6 months ended December 31, 2020
Consulting	$ **129,765**	$ 129,449	$ **259,507**	$ 258,899
Director fees	**23,813**	27,335	**57,144**	63,781
Salaries	-	35,439	-	123,740
	$ **153,579**	$ 192,223	$ **316,652**	$ 446,420

7. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

b) Other Related Parties

As at December 31, 2021, an amount of $Nil (June 30, 2021 - $90,145) was owing to former directors of a Company's subsidiary representing advances and consulting fees. The amount has no repayment terms and is unsecured and non-interest bearing. The Amount was written off due to no collection request from the former director.

c) Accounts Payable and Accrued Liabilities

As at December 31, 2021, amounts of $658,593 (C$812,378 and €15,000) (June 30, 2021 - $472,931 (C$564,133 and €15,000)) accumulated from fees incurred under Note 7(a) but unpaid voluntarily by the directors and officers are recorded under accounts payable and accrued liabilities.

d) Prepaid Expenses and Other Receivables

As at December 31, 2021, amounts of $39,450 (€5,695 and CHF 30,090) (June 30, 2021 - $6,754 (€5,695)) relate to advanced salaries and expense allowances to certain officers of the Company.

8. SETTLEMENT AGREEMENT

During fiscal 2019, Kuuhubb Oy had certain disputes over the acquisition of My Hospital app. As such, Kuuhubb Oy did not make any instalment payments for the purchase price of My Hospital application.

In August 2020, an arbitration result was rendered by the Arbitration Institute of the Finland Chamber of Commerce. Pursuant to the arbitration result, Kuuhubb shall pay to CPG €1,600,000 composed of the scheduled payments plus interest of 10% per annum thereon, in addition to court costs and fees, including the costs of the arbitrator. Kuuhubb shall also pay to CPG legal costs of €297,984.

Pursuant to the CPG Settlement Agreement now reached between the parties, Kuuhubb shall pay to CPG €750,000 on October 6, 2020 (paid), €250,000 on November 15, 2020 (deferred by a 30 day grace period), and €1,059,707 December 15, 2020. In addition, CPG has agreed to give to Kuuhubb a discount of €450,000 on the remaining twelve €100,000 monthly instalments payable by Kuuhubb to CPG under the terms of the Acquisition, for an aggregate net payment of €550,000, payable on May 31, 2021 (the "Remaining Purchase Price"). In the event Kuuhubb does not pay the Remaining Purchase Price by June 30, 2021, Kuuhubb shall pay to CPG an additional €300,000.

During fiscal 2020, total future payments owing to CPG through the settlement agreement is $2,930,913 (€2,609,707). Through the settlement agreement, the Company settled $2,811,850 (€2,503,693) of loans payable to CPG. As at June 30, 2020, management has accrued the expected future cash outflows from this settlement agreement as a loan payable to CPG. Please see Note 10(a) for further details. In 2020, the differences between the liabilities settled and the consideration given is $117,189 (€106,014) and has been recognized in the Company's consolidated statements of loss and comprehensive loss as a loss on settlement.

In 2021, net difference of $290,295 (€243,254) and in the 2nd quarter of 2022 another $48,668 was recorded due to the default of the repayment plan in 2021. As at December 31 and June 30, 2021, the total owing to CPG is €1,991,164 (June 30, 2021 - $1,949,251) (See Note 9(a) for US Dollar amounts).

(Expressed in U.S. Dollars) (Unaudited)

9. LOANS AND DEFERRED GAINS

The following loans are included in the consolidated statement of financial position As at December 31, 2021:

	Kuuhubb Oy Loans			Neybers AB	Recolor Oy	Total
	My Hospital Acqusition (a)	Business Finland (b)	CT3 (c)	Almi (d)	Tekes (e)	
	$	$	$	$	$	$
Balance, June 30, 2021	2,248,900	659,206	2,016,928	40,869	37,785	5,003,687
Additions	-	-	-	-	-	-
Interest accrued	48,668	4,670	-	1,875	-	55,213
Accretion expense	-	31,063	-	-	-	31,063
Repayments and transfer	-	-	-	(8,976)	(38,028)	(47,004)
Translation gain/loss	(37,274)	(11,406)	(32,452)	(499)	243	(81,387)
	11,394	24,327	(32,452)	(7,600)	(37,785)	(42,116)
Balance, December 31, 2021	2,260,294	683,533	1,984,476	33,268	-	4,961,571
Less: Current portion	(2,260,294)	-	(1,984,476)	(33,268)	-	(4,278,038)
Non-current portion	-	683,533	-	-	-	683,533

	Kuuhubb Oy Loans			Neybers AB	Recolor Oy	Total
	My Hospital Acqusition (a)	Business Finland (b)	CT3 (c)	Almi (d)	Tekes (e)	
	$	$	$	$	$	$
Balance, June 30, 2021	-	262,724	-	-	-	262,724
Recognized during the year	-	(31,063)	-	-	-	(31,063)
Translation gain/loss	-	(23,669)	-	-	-	(23,669)
	-	(54,732)	-	-	-	(54,732)
Balance, December 31, 2021	-	207,992	-	-	-	207,992
Less: Current portion	-	(73,022)	-	-	-	(73,022)
Non-current portion	-	134,970	-	-	-	134,970
Total accretion, interest and deferred gain recognized (Note 15)	48,668	4,670	-	1,875	-	55,213

a) In May 2018, Kuuhubb Oy acquired the full global rights and revenue to the My Hospital Application for €2.6 million (the "Purchase Price"). The Purchase Price will be repaid with 26 monthly installments of €100,000 commencing April 2019. The purchase price payable and the rights acquired were recorded at the estimated fair value of $2,107,620 (€1,717,195) using an effective interest rate of 23% at the time of acquisition.

Starting in April 2019, Kuuhubb Oy withheld the €100,000 monthly installment payments due to an ongoing legal dispute over the intellectual property rights of the My Hospital Application. On October 5, 2020, the Company finalized a settlement agreement with CPG, under which the Company promises to repay $2,930,913 (€2,609,707), in four installments between October 6, 2020 to May 31, 2020. Additional accrual of $290,295 was recorded due to the default of the repayment plan in 2021.

During the year ended June 30, 2021, an accretion of $114,911 (€96,290) was recorded to accrete the value of the loan. Furthermore in 2021, additional $290,295 (€243,254) and in the 2nd quarter of 2022 another $48,668 was recorded due to the default of the repayment plan in 2021 to reflect the obligation for additional cash outflows associated with the CPG Settlement Agreement (Note 8).

The Company has defaulted on the repayment and is negotiating with the creditor as part of the ongoing restructures efforts (Note 17).

9. LOANS AND DEFERRED GAINS (CONTINUED)

b) In February 2019, Kuuhubb Oy drew $329,575 (€289,000) from Business Finland, a Finnish governmental agency, to support the Company's new game development projects. The loan is expected to have a seven-year maturity period (February 2026) with an interest rate of 1%. The loan was recorded at the estimated fair value of $116,114 (€101,921) using an effective interest rate of 21.92% per annum at the time of issuance with the difference of $213,461 (€187,079) from the face value recorded as a deferred gain. The deferred gain is amortized annually into the Company's consolidated statements of loss and comprehensive loss at the same rate accretion expense is to be recognized on the outstanding loan balance.

   In September 2019, Kuuhubb Oy drew an additional $273,380 (€247,310) from Business Finland, a Finnish governmental agency, to support the Company's new game development projects. The loan is expected to have the same maturity as the first instalment paid in February 2019 (February 2026), with an interest rate of 1%. The loan was recorded at the estimated fair value of $146,369 (€132,411) using an effective interest rate of 14.52% per annum at the time of issuance with the difference of $127,011 (€114,899) from the face value recorded as a deferred gain. The deferred gain is amortized annually into the Company's consolidated statements of loss and comprehensive loss at the same rate accretion expense is to be recognized on the outstanding loan balance.

   In September 2020, Kuuhubb Oy drew an additional $290,458 (€247,310) from Business Finland, a Finnish governmental agency, to support the Company's new game development projects. The loan is expected to have the same maturity as the first instalment paid in February 2019 (February 2026), with an interest rate of 1%.

   In accordance with the Loan agreement, the Company is expected to meet certain qualitative covenants throughout the year. Due to the restructure (Note 17), the loans may be restructured as well.

c) On July 4, 2019, Kuuhubb Oy entered into a loan agreement with CT3 Issuer Limited ("CT3") to borrow $1,193,859 (€1,080,000). The loan is unsecured, bears interest at 7.50% per annum, and matures on June 28, 2021. The interest is payable quarterly commencing September 30, 2020. $34,489 (€31,200) in financing fees were incurred as a direct cost in the closing of the financing. This balance has been capitalized and netted against the proceeds received from the issuance of the loan.

   On October 23, 2019, Kuuhubb Oy drew another $668,776 (€605,000) from CT3. The loan also matures on June 28, 2021 and bears an interest rate of 7.5% per annum, payable at the end of each calendar quarter, starting on December 31, 2019. $15,476 (€14,000) in financing fees were incurred as a direct cost in the closing of the financing. This balance has been capitalized and netted against the proceeds received from the issuance of the loan.

   Both loans were recorded at the total estimated fair value of $1,663,228 (€1,504,619) using an effective interest rate of 14.22% per annum at the time of issuance with the difference of $149,442 (€135,191) from the face value recorded as a deferred gain. The deferred gain is amortized annually into the Company's consolidated statements of loss and comprehensive loss at the same rate accretion expense is to be recognized on the outstanding loan balance.

   The Company has defaulted on the repayment and is negotiating with the creditor as part of the ongoing restructures efforts (Note 17).

d) Neybers AB has an unsecured long-term loan of $63,471 (€54,163) from ALMI Företagspartner (Almi) at an interest rate of 8.75% per annum. The loan was recorded at its estimated fair value using an effective interest rate of 23% per annum at the time of issuance.

e) In 2017, Recolor Oy entered into a loan agreement with the Finnish Funding Agency for Innovation (Tekes) to borrow $263,687 (€231,000). The loan is unsecured, bears interest at 1% per annum, and matures in 2021. The loan was recorded at the estimated fair value of $180,969 (€154,257) using an effective interest rate of 23% per annum at the time of issuance. The loan was settled during the period.

10. NON-CONVERTIBLE DEBENTURES

(a) Non-convertible Debt - 2020

In September 2020, Kuuhubb Inc. closed a non-convertible debenture financing (the “Offering”) for aggregate gross proceeds of $1,300,000 on a non-brokered basis. The Offering is composed of secured debentures (the “Secured Debenture”), each of which has a face value of US$29,500, a Maturity Date twenty-four months from the date of closing, and bears interest at a rate of 12% per annum.

Subscribers to the Offering received a bonus of 50,000 common share purchase warrants (“Warrants”) of the Company per Secured Debenture for an aggregate total of 2,200,000 Warrants. Each Warrant shall entitle the holder to purchase one common share (“Warrant Share”) for a period of twenty-four months after closing at a price of C$0.10 per Warrant Share. In addition if (i) the Secured Debenture is redeemed or retracted in accordance with the terms therein; or (ii) the trading price of the Shares on the TSX Venture Exchange (“TSXV”) closes at a minimum of C$0.30 per Share for a period of ten (10) consecutive trading days, the Company may, upon the written consent of the holder of the Warrant, accelerate the expiry date of the Warrants to the date which is (a) thirty (30) days following the date upon which notice of the accelerated expiry date is provided to the holders of the Warrants, or (b) such other date as may be mutually agreed upon between the Company and the holders of the Warrants.

The debt portion of the Secured Debenture was recorded at the estimated fair value of $1,048,209 using an effective interest rate of 24.54% per annum at the time of issuance with the residual values of $112,769 recorded as contributed surplus for the warrants issued.

At December 31, 2021, the Debenture balance was accreted to $1,386,886 (June 30, 2021 - $1,216,925), with an accretion and interest expense for the three and six months ended December 31, 2021 of $86,673 and $157,272 (three and six months ended December 31, 2020 - $64,844), respectively, using an effective interest rate of 24.54%.

The Company defaulted on the latest repayment for this loan. However, the holder of the loan has deferred the repayment demand and continues the negotiation with the Company as part of the on-going restructure efforts (Note 17).

(b) Non-convertible Debt – 2021

Kuuhubb Inc. closed a private place on July 19, 2021 with two existing shareholders of the Company. The Company issued $591,109 (€500,000) debentures with 90-day maturity at annual 12% interest and 2,500,000 warrants with C$0.10 exercise price and two-year maturity.

The debt contained certain voluntary and mandatory conversion features where the loan may be converted to 25% of a newly incorporated Puzzle Studio Oy, a wholly owned subsidiary of Kuuhubb Oy incorporated in July 2021, upon maturity or certain bankruptcy events.

The debt portion of the Secured Debenture was recorded at the estimated fair value of $536,210 using an effective interest rate of approximately 50% per annum at the time of issuance with the residual values of $54,899 recorded as contributed surplus for the warrants issued.

At December 31, 2021, the Debenture balance was accreted to $584,608, with an accretion and interest expense for the three and six months ended December 31, 2021 of $12,204 and $73,194, using an effective interest rate of approximately 50%.

The Company defaulted on the repayment for this loan. The parties are in negotiation for the repayment and the final result may be predicated on the on-going restructure efforts (Note 17).

11. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

(a) 2018 Debenture

In November 2018, Kuuhubb Inc. completed a $2,292,785 (€2,000,000) private placement financing (the "Financing") through the issuance of an unsecured convertible debenture (the "2018 Debenture") in the principal amount of €2,000,000. The 2018 Debenture matures on November 7, 2021 and bears an annual interest rate of 5.5% (with the interest payable every six months). The 2018 Debenture is convertible at the option of the holder at any time prior to the earlier of (a) the maturity date, and (b) the date that is five business days following the delivery of the notice of redemption to the holder, into common shares of Kuuhubb Inc. at a price of C$1.10 per share, provided that the holder converts the lesser of €1,000,000 or the remaining outstanding principal balance at the time of conversion.

The Company also has the option to convert the 2018 Debenture after the two-year anniversary of the issuance date, provided that the volume weighted average price of such shares exceeds C$1.10 per share for a period of 30 consecutive days.

$137,567 (€120,000) in financing fees were incurred as a direct cost in the closing of the Financing. This balance has been capitalized and netted against the proceeds received from the issuance of the 2018 Debenture.

Since the number of shares to be issued may vary due to foreign exchange fluctuations, the financial instrument did not meet the "Fixed for Fixed" criteria under IAS 32 – Financial Instruments: Presentation ("IAS 32"). As such, the conversion option was classified as a derivative liability and accounted for at fair value through profit and loss ("FVTPL") and is revalued at each reporting date.

The conversion feature of the 2018 Debenture was valued at $691,368 (C$904,402) on the date of issuance using the Black-Scholes model and the assumptions as follows:

(i) Risk-free interest rate: 2.36% which is based on the Bank of Canada benchmark bonds yield 3-year rate in effect at the time of issuance with maturity dates at the estimated term of the Debenture
(ii) Expected volatility: 150%, which is based on the historical stock prices of peer companies
(iii) Expected life: 3 years
(iv) Expected dividends: $Nil

The remaining $1,463,850 (€1,277,587) has been allocated to the debt portion of the 2018 Debenture, which will be accreted to the full principal amount over the expected term of the 2018 Debenture.

The conversion feature of the 2018 Debenture was valued at $Nil (C$Nil) as at December 31 and June 30, 2021 using the Black-Scholes model and the assumptions as follows:

(i) Risk-free interest rate: 0.28% which is based on the Bank of Canada benchmark bonds yield 0 and 0.15 year rate in effect at the measurement date with maturity dates at the estimated term of the 2018 Debenture
(ii) Expected volatility: 93%, which is based on the historical stock prices of peer companies
(iii) Expected life: 0 and 0.15 years
(iv) Expected dividends: $Nil

The change in the value of the conversion feature for the three and six months ended December 31, 2021 is $Nil (C$Nil) (three and six months ended December 31, 2020 - $3,332 (C$4,092) and $23,802 and is recorded in the Company's interim condensed consolidated statement of loss and comprehensive loss. At December 31, 2021, the Debenture balance was accreted to $2,408,051 (€2,121,393) (June 30, 2021 - $2,390,653 (€2,015,817)). For the three and six months ended December 31, 2021, an accretion and interest expense of $Nil and $124,021, respectively (three and six months ended December 31, 2020 - $117,064 (C$154,174) and $222,332 (C$292,813)) was recorded using an effective interest rate of 11.38%.

The Company defaulted on the latest repayment for this loan. However, the holder of the loan has deferred the repayment demand and continues the negotiation with the Company as part of the on-going restructure efforts (Note 17).

11. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (CONTINUED)

(b) 2020 Debenture

In February 2020, Kuuhubb Oy closed a $2,219,985 (€2,000,000) private placement financing (the "Financing") through the issuance of an unsecured convertible debenture (the "2020 Debenture") in the principal amount of €2,000,000. The 2020 Debenture matures on February 3, 2023 and bears an annual interest rate of 10% (with the interest payable every calendar quarter). The 2020 Debenture is convertible at the option of the holder at any time prior to the earlier of (a) the maturity date, and (b) the date that is five business days following the delivery of the notice of redemption to the holder, into common shares of Kuuhubb Inc. at a price of C$0.80 per share, provided that the holder converts the lesser of €1,000,000 or the remaining outstanding principal balance at the time of conversion. For conversion purposes, the foreign exchange rate from € to C$ is fixed at 1.4504.

Since the number of shares to be issued is fixed due to the fixed foreign exchange rate stated in the Financing agreement, the financial instrument meets the "Fixed for Fixed" criteria under IAS 32 – Financial Instruments: Presentation ("IAS 32"). As such, the conversion option was classified as an equity instrument at the issuance date.

Kuuhubb Oy also has the option to convert the 2020 Debenture if at any time the closing price of Kuuhubb Inc. is C$1.50 per share. This conversion option of Kuuhubb Oy is classified as equity.

The debt portion of the 2020 Debenture was recorded at the estimated fair value of $2,018,090 (€1,793,570) using an effective interest rate of 14.22% per annum at the time of issuance with the residual values of $161,446 (€145,483) recorded as contributed surplus and $40,449 (€60,947) recorded as deferred tax liabilities.

At December 31, 2021, the 2020 Debenture balance was accreted to $2,459,137 (€2,166,331) (June 30, 2021 - $2,408,471 (€2,030,895)), with an accretion and interest expense of $62,073 (€68,023) and $141,531 (€135,436) for the three and six months ended December 31, 2021, respectively (three and six months ended December 31, 2020 - $75,787 (€64,156) and $154,660 (€130,923)).

The Company defaulted on the latest repayment for this loan. However, the holder of the loan has deferred the payment and continues negotiation with the Company as part of the on-going restructure efforts (Note 17).

(c) 2021 Debenture

Kuuhubb AG closed a private placement in December 2021 with an existing shareholder of the Company. The Company issued $234,038 (€200,000) debentures with maturity on February 28, 2022 (in negotiation to extend to February 2024) and annual interest rate of 12%. The loan is unsecured and has a mandatory conversion feature where upon conversion the debt holder would become approximately 9% shareholder of Kuuhubb AG upon maturity.

The conversion feature is deemed to be $Nil as the conversion may still be subject to certain conditions, events and approvals.

In January and February 2022, as part of the same private placement, the Company received additional €30,000 and €100,000 from existing shareholders for the same terms.

(Expressed in U.S. Dollars) (Unaudited)

12. SHARE CAPITAL

a) Authorized and issued

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

No changes in outstanding common shares between July 1, 2021 to December 31, 2021.

b) Common share purchase warrants

The Company issued a non-convertible debenture during the period. 2,500,000 Warrants were issued in connection with the debenture (Note 10). The debt portion of the debenture was recorded at the estimated fair value of $536,899 using an effective interest rate of approximately 50% per annum at the time of issuance with the residual values of $54,899 recorded as contributed surplus.

The following table summarizes the movements of the Company’s common share purchase warrants outstanding for the six months ended December 31, 2021:

Opening Balance	During the Year		Closing Balance	Date of Issuance	Expiration Date	Remaining contractual life and weighted average contractual life (years)	Exercise Price and weighted average exercise price (C$)
	Granted	Excercised					
-	2,500,000.00	-	2,500,000	19-Jul-21	19-Jul-23	1.55	0.10

c) Earnings (loss) per share

Earnings (loss) per share was calculated on the basis of the weighted average number of common shares of the Company outstanding for the three and six months ended December 31, 2021, amounting to 66,658,043 (three and six months ended December 31, 2020: 55,752,709 common shares).

13. SHARE-BASED PAYMENTS

The Company has an Incentive Stock Option Plan (the “Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The Plan provides that the number of common shares that may be issued from time to time pursuant to the exercise of stock options granted under the Plan must not exceed 7,500,000 common shares. The terms of the Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the TSX Venture Exchange on the day preceding the grant, at terms of up to ten years.

The following table summarizes the movements of the Company’s stock options for the six months ended December 31, 2021:

Opening Balance	During the Period				Closing Balance	Exercise Price and weighted average exercise price (Cdn$)	Remaining contractual life and weighted average contractual life (years)	Vested & Exercisable	Unvested
	Granted	Exercised	Forfeited/ Cancelled	Expired					
1,500,000	-	-	-	-	1,500,000	0.60	0.44	1,500,000	-
450,000	-	-	-	-	450,000	1.60	0.73	450,000	-
2,375,000	-	-	-	-	2,375,000	0.59	2.51	1,715,278	659,722
350,000	-	-	-	-	350,000	0.62	3.04	194,444	155,556
1,675,000	-	-	-	-	1,675,000	0.08	1.04	767,708	907,292
6,350,000	-	-	-	-	6,350,000	0.53	1.54	4,627,431	1,722,569

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Fair value of financial assets and liabilities

The Company's non-derivative financial instruments include cash, accounts receivables, other receivables, accounts payables and accrued liabilities, dues to related parties, due to Finhubb, promissory note, loans and convertible debenture. Non-derivative financial instruments are recognized initially at fair value. As at December 31, 2021 and June 30, 2021, the carrying value of cash is recorded at fair value. Accounts receivable, other receivables, accounts payable and accrued liabilities, due to related parties, due to Finhubb and promissory note approximate their fair value due to their short-term nature.

Long-term financial instruments of the Company carried on the consolidated financial statements are carried at amortized cost.

Derivative liability and loans receivable from Valiance UG are carried at fair value. There are no significant differences between the carrying amount of derivative financial instruments and their estimated fair values as at December 31, 2021 and June 30, 2021.

Fair value hierarchy

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and Level 2 during the reporting periods. Cash is measured as a Level 1 risk. Derivative liability and loans receivable from Valiance UG are measured as a level 3 risk. The derivative liability and the loans receivable from Valiance UG are $Nill as at December 31 and June 30, 2021.

b) Risk Management Policies

The Company is sensitive to changes in foreign currency fluctuations. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contacts, it does not generally enter into such arrangements.

c) Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from its platform partner such as Apple App Store and Google Play Store. However, these counterparties are economically stable organizations with whom the Company transacts with on a regular basis, further reducing the overall credit risk.

The Company reviews its receivable accounts regularly and writes down these accounts to their expected realizable values, by making an expected credit loss ("ECL"), as soon as the account is determined not to be fully collectible. The allowance is charged to the consolidated statements of loss and comprehensive loss. Shortfalls in collections are applied against this provision. ECL determined by a counterparty-by-counterparty evaluation of collectability at each statement of changes in financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern issues. Normal credit terms for amounts due from customers call for payment within 30 to 45 days.

(Expressed in U.S. Dollars) (Unaudited)

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

c) Credit Risk

The Company's aged accounts receivables are as follows:

As at	**December 31, 2021**	June 30, 2021
	$	$
Less than 1 month	**326,492**	479,138
1 to 3 months	**-**	-
Greater than 3 months	**-**	-
	326,492	479,138

None of the Company's accounts receivables are impaired at December 31, 2021. The maximum credit risk exposure associated with the accounts receivables is the carrying value of $326,492 (June 30, 2021 - $479,138).

The Company also has other receivables reported at $45,997 (June 30, 2021 - $176,030) (Note 3). The maximum credit risk exposures associated with other receivables are $45,997 (June 30, 2021 - $176,030).

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure that there is sufficient cash to meet its liabilities when they are due and manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet any capital commitments in a cost-effective manner. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company's liquidity requirements are met through a variety of sources, including debt financings and equity capital markets.

The following amounts are the contractual maturities of financial liabilities as at December 31, 2021:

	Total	1 year	2 - 5 years
	$	$	$
Accounts payable and accrued liabilities	2,612,473	2,612,473	-
Loans	5,169,563	4,351,061	818,502
Non-convertible debenture	1,971,494	1,971,494	-
Convertible debenture	5,101,226	2,642,089	2,459,137
	14,854,756	11,577,117	3,277,639

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e) Market Risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including foreign-exchange rates and interest rates.

- Interest Rate Risk

Interest rate risk is the potential impact on any Company earnings due to changes in bank lending rates and short-term deposit rates. The Company has some exposure to interest rate risk due to its outstanding interest-bearing loans discussed in Note 10 and 11. However, the interest rates are fixed and therefore the Company does not have significant interest rate risk. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

- Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the United States dollar, Canadian dollar, Swedish Krona, European Union Euro or other foreign currencies will affect the Company's operations and financial results. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. The majority of revenues are transacted in US dollars and Euros and majority of expenditures are transacted in Canadian dollars and Euros and US dollars. The Company maintains the majority of its cash in Euros, but it does hold balances in US dollars and Canadian dollars as well. Significant foreign exchange gains or losses are reflected as a separate component of the consolidated statement of loss and comprehensive loss. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The following table indicates the impact of foreign currency exchange risk on net working capital as at December 31, 2021. The table below also provides a sensitivity analysis of a 10 percent strengthening of the foreign currency against functional currencies as identified which would have increased (decreased) the Company's net loss by the amounts shown in the table below. A 10 percent weakening of the foreign currency against the functional currencies would have had the equal but opposite effect as at December 31, 2021.

	$
Cash	25,209
Receivables	266,130
Payables and other	(364,792)
Loans	(4,379,545)
Total foreign currency financial assets and liabilities	(4,452,999)
Impact of a 10% strengthening or weakening of foreign exchange rate	(445,300)

f) Capital Management

The Company manages its debts and equity as capital. The Company's main objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to safeguard the Company's ability to obtain financing; and
- to maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets.

There were no significant changes to the Company's approach to capital management during the six months ended December 31, 2021.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

(Expressed in U.S. Dollars) (Unaudited)

15. DEFERRED GAINS, INTEREST AND ACCRETION EXPENSES

For the three and six months ended December 31, 2021 and 2020, the total deferred gains recognized, interest and accretion expenses incurred are as follows:

		Three months ended		Six months ended	
		December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
		$	$	$	$
Interest expense - loans	9	**52,843**	24,854	**55,213**	82,823
Accretion expense - loans	9	**14,325**	69,605	**31,063**	108,452
Deferred gains - loans	9	**(14,325)**	(65,983)	**(31,063)**	(100,410)
Accretion - Non-convertible debenture - 2020	10	**86,673**	64,844	**157,272**	64,844
Accretion - Non-convertible debenture - 2021	10	**12,204**	-	**73,194**	-
Accretion expense - 2018 Debenture	11	**-**	117,064	**124,021**	222,330
Accretion expense - 2020 Debenture	11	**62,073**	75,787	**141,531**	154,660
		213,792	286,171	**551,231**	532,699

16. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are parties to various rent and other agreements. However, none of the agreements are subject to the recognition criteria under IFRS 16.

Codecacao Acquisition

In January 2020, Recolor Oy, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “Agreement”) with Codecacao d.o.o. (“Codecacao”), a company incorporated pursuant to the laws of Croatia. Pursuant to the Agreement, the Company will acquire 100% of the issued and outstanding shares of Codecacao in consideration for 1,000,000 common shares (“Kuuhubb Shares”) in the capital of the Company (the “Share Consideration”), payable in installments over a two-year period, and €150,000 (the “Transaction”). The Share Consideration shall be paid in tranches, with 500,000 Kuuhubb Shares payable after closing, 100,000 Kuuhubb Shares payable six months after closing, 200,000 Kuuhubb Shares payable twelve months after closing, and 200,000 Kuuhubb Shares payable twenty-four months after closing.

On February 24, 2020, the Company received conditional approval for the Codecacao acquisition. Closing is still subject to shareholder approval. However, due to the ongoing restructure (Note 16), the acquisition is put on hold. There are no other obligations upon termination in the Agreement.

Federal Trade Commission (U.S.) Claim

During the year ended June 30, 2020, the Federal Trade Commission (“FTC”) alleged the Company, through its “Recolor” mobile app, has violated certain privacy protection act in the U.S. by gathering certain privacy information with the app.

In July 2021, the Company entered into settlement with FTC. In the settlement, the Company:

- Delete certain personal information;
- Provide refund to certain users within a certain period; and
- Monetary judgements:
    - Pay $100,000 (paid before June 30, 2021);
    - Within one year, if Recolor Oy or substantially all of the assets of Recolor Oy were disposed, the Company will remit all net proceeds; and
    - If failed to provide correct financial information to FTC, the Company is subject to an additional $3 million penalties.

The Company does not expect any further material payments or expenses arising from this process.

17. RESTRUCTURE OF KUU HUBB OY

In September 2021, Kuu Hubb Oy had applied to undertake Finnish restructuring proceedings under the jurisdiction of the District Court of Helsinki, in Finland. The debt restructuring process of Kuu Hubb Oy in accordance with the Finnish Restructuring of Enterprises Act (25.1.1993/47 “REA”) has been initiated by a decision of the District Court of Helsinki on September 7, 2021.

During the last several months, Kuu Hubb Oy has, together with the administrator, formulated a restructuring programme. The general outline and parameters of the programme have been informed to major creditors and the programme was submitted to the District Court of Helsinki on February 28, 2022. The programme will be voted on at a later date approved by the court.