

DARELLE ONLINE SOLUTIONS INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at February 28, 2019 and for the Three and Six-Month Periods
Ended February 28, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Darelle Online Solutions Inc. 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.

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

As at	February 28, 2019	August 31, 2018
Assets		
Current		
Cash	\$ 17,767	\$ 11,432
Accounts receivable and other receivable	10,320	18,591
	28,087	30,023
Intangible assets (note 6)	425,700	489,330
	\$ 453,787	\$ 519,353
Liabilities		
Current		
Accounts payable and accrued liabilities (note 3)	\$ 465,604	\$ 312,243
Funds held in trust (note 7)	4,514	5,752
	470,118	317,995
Shareholders' Equity		
Share capital	5,886,871	5,886,871
Other equity reserve	1,706,548	1,706,548
Deficit	(7,609,750)	(7,392,061)
	(16,331)	201,358
	\$ 453,787	\$ 519,353

Nature and Continuance of Operations (note 1)

Approved on behalf of the Board of Directors:

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

....."Rob Solinger"..... Director

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

(Expressed in Canadian dollars)

Periods ended	Three months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2019	Six months ended February 28, 2018
Revenue	\$ 24,452	\$ 19,922	\$ 45,654	\$ 47,662
Expenses				
Consulting fees	24,695	-	46,856	-
Amortization	31,815	24,900	63,630	49,800
General and administrative	5,385	26,997	6,966	33,235
Management fees (note 9)	60,000	60,000	120,000	120,000
Marketing	-	184	110	1,268
Professional fees	5,825	10,200	15,675	12,225
Stock based compensation	-	50,617	-	50,617
Transfer agent & filing fees	9,536	5,867	10,025	8,759
Travel	47	1,006	81	2,111
	137,303	179,771	263,343	278,016
Net loss and comprehensive loss	\$ (112,851)	\$ (159,849)	\$ (217,689)	\$ (230,354)
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	71,558,647	73,708,147	70,477,208

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

<u>Share Capital</u>					
	Number	Amount	Other equity reserve	Deficit	Total
Balance, August 31, 2018	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,392,061)	\$ 201,358
Loss for the period	-	-	-	(217,689)	(217,689)
Balance, February 28, 2019	73,708,147	\$ 5,886,871	\$ 1,706,548	\$ (7,609,750)	\$ (16,331)
Balance, August 31, 2017	69,408,147	5,716,976	1,530,536	(6,941,584)	305,928
Share Subscriptions	4,300,000	172,000	43,000	-	215,000
Stock based compensation			50,617		50,617
Share issue costs		(2,105)			(2,105)
Loss for the period	-	-	-	(230,354)	(230,354)
Balance, February 28, 2018	73,708,147	\$ 5,886,871	\$ 1,624,153	\$ (7,171,938)	\$ 339,086

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

Period ended	Six Months Ended February 28, 2019	Six Months Ended February 28, 2018
Operating Activities		
Net loss for the period	\$ (217,689)	(230,354)
Add back:		
Stock based compensation	-	50,617
Amortization	63,630	49,800
Changes in non-cash operating working capital items:		
Accounts payable and accrued liabilities	152,962	26,611
Funds held in trust	(1,238)	-
Accounts receivable and other receivables	8,670	(6,143)
	6,335	(109,469)
Financing Activities		
Share issuance (net of issue costs)	-	212,820
	-	212,820
Investing Activities		
Development costs of intangible asset	-	(52,400)
	-	(52,400)
Inflow (outflow) of Cash	6,335	50,951
Cash at Beginning of period	11,432	37,011
Cash at End of period	\$ 17,767	\$ 87,962

DARELLE ONLINE SOLUTIONS INC.
Notes to Condensed Interim Consolidated Financial Statements
For the three and six-month periods ended February 28, 2019 and 2018
(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

The Company provides an online raffle lottery system to charities. The online raffle program enables charitable and nonprofit organizations to create, sell, deliver, and manage their raffle ticket and 50/50 draws completely online.

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors on April 18, 2019.

The unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. As at February 28, 2019, the Company had not achieved profitable operations and has a cumulative deficit of \$7,609,750. This is a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and do not include all information required for full annual consolidated financial statements. The same accounting policies were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended August 31, 2018 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, 2018.

These Interim Financial Statements have been prepared using accounting policies consistent with those used in the Company's 2018 annual financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards

IFRS 9 – Financial Instruments

In 2014, the IASB issued the final version of IFRS 9 to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 retrospectively on September 1, 2018. The adoption of this standard did not have a significant impact to the interim condensed consolidated financial statements. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The Company's financial liabilities include accounts payable and accrued liabilities, and funds in trust and have been classified other financial liabilities for valuation purposes. Other financial liabilities are measured initially at fair value and subsequently at amortized cost using the effective interest method. The fair value of accounts payable and accrued liabilities approximates their carrying amount due to their short-term nature. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPTL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist of cash, accounts and other receivables are classified as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The fair value of cash, accounts receivable approximates their carrying value due to their short-term nature.

IFRS 9 results in a single impairment model being applied to all financial instruments measured at amortized cost or at fair value through other comprehensive income. This expected credit loss impairment model requires more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis. The Company's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

IFRS 15 – Revenue from Contracts with Customers

The Company adopted IFRS 15 – *Revenue from Contracts with Customers* on September 1, 2018 using the modified retrospective approach where the cumulative impact of adoption would be recognized in retained earnings as of September 1, 2018 and comparatives would not be

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

restated. IFRS 15 replaced IAS 18 – *Revenue* in its entirety. The standard contains a single model that applies to contracts with customers and two approaches to recognize revenue: at a point in time or over time. This single model sets out a five-step framework to determine whether, how much and when revenue is recognized.

The Company derives revenue from contracts with charitable and nonprofit organizations who implement the Company's online raffle program. Under IFRS 15's new guidelines, revenues from service agreements with charitable and nonprofit organizations are recognized when the services are completed. The Company applied IFRS 15 retrospectively to all contracts that were not complete on September 1, 2018, the date of initial application to determine if a restatement was required for prior periods presented. The Company performed a comprehensive review of existing contracts, control processes and revenue recognition methodology. In evaluating the impact of the standard on previously reported comparative figures, the Company determined that there was no change required as the existing revenue recognition practices met the requirements of IFRS 15. Consequently, there were no adjustment to the opening balance of retained earnings as at September 1, 2018, no change to the classification and timing of revenue recognition, the measurement of contract costs or the recognition of contract assets (costs in excess of billings) and contract liabilities (deferred revenue).

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	February 28, 2019	August 31, 2018
Trade accounts payable	\$ 64,925	\$ 46,391
Due to related parties (note 8)	225,918	265,852
	\$ 465,205	\$ 312,243

4. STOCK OPTIONS

As at February 28, 2019, 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	950,000	June 23, 2019	950,000	0.25
\$ 0.05	1,000,000	February 10, 2020	1,000,000	0.92
\$ 0.05	1,550,000	February 8, 2021	1,550,000	1.92
\$ 0.05	3,375,000	January 14, 2023	3,375,000	3.83
\$ 0.05	200,000	March 28, 2023	200,000	4.08
	7,075,000		7,075,000	

The weighted-average remaining contractual life of options outstanding at February 28, 2019 was 2.53 years. During the period ended February 28, 2019, the Company did not grant any options.

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5. SHARE PURCHASE WARRANTS

Expiry	Exercise Price (CAD \$)	Number of Warrants
March 2, 2019	0.05	10,000,000
July 19, 2019	0.05	2,235,657
January 14, 2020	0.075	4,300,000
March 19, 2020	0.075	2,570,000
		19,105,657

The weighted-average remaining contractual life of warrants outstanding at February 28, 2019 was .39 years.

6. INTANGIBLE ASSETS

Development costs	
Balance as at August 31, 2017	478,672
Additions	114,829
Amortization	(104,171)
Balance as at August 31, 2018	489,330
Additions	-
Amortization	(63,630)
Balance as at February 28, 2019	425,700
Carrying amount	
At February 28, 2019	425,700

Intangible assets include software acquired and developed internally. In conjunction with the acquisition of Darelle Media Inc., the Company acquired intangible assets of \$300,582 which have a useful remaining life of 44 months. The remaining intangible assets have a remaining useful life of 52 months. During the year ended August 31, 2017, the Company impaired its goodwill of \$227,648. At February 28, 2019, the Company concluded that there was no impairment required for the remaining intangible assets (2018 - \$Nil).

7. FUNDS HELD IN TRUST

The Company periodically receives funds through its online raffle system on behalf of charitable and nonprofit organizations through raffle ticket sales. These funds are held and distributed to organizations on a quarterly basis and/or on completion of the raffle. As at February 28, 2019, the balance of funds was \$4,514 (2018 - \$Nil).

8. RELATED PARTY TRANSACTIONS

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

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8. RELATED PARTY TRANSACTIONS (continued)

- During the period ended February 28, 2019, the Company incurred and recorded \$120,000 (August 31, 2018 - \$240,000) as management fees pursuant to contracts with two companies owned by an officer of the Company and an officer of a wholly owned subsidiary of the Company. Under the terms of the agreements dated February 6, 2015, the officer of the Company and the wholly owned subsidiary will receive a monthly consulting fee of \$10,000. At February 28, 2019, \$385,852 (August 31, 2018 – \$265,852) was included in accounts payable and accrued liabilities to these companies for consulting fees rendered.

Key Management Personnel	February 28, 2019	February 28, 2018
Consulting fees	\$120,000	\$ 120,000
Stock based compensation	-	41,243
	\$120,000	\$ 161,243

9. FINANCIAL INSTRUMENTS

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

	February 28, 2019	August 31, 2018
Financial assets		
Cash	\$ 17,767	\$ 11,432
Accounts receivable and other receivable	10,320	18,591
	\$ 28,087	\$ 30,023
Financial liabilities		
Accounts payable and accrued liabilities	\$ 465,604	\$ 312,243
Funds held in trust	4,514	5,752
	\$ 470,118	\$ 317,995

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and funds held in trust approximate their varying amount due to their short-term nature.

The Company has exposure to credit, foreign exchange, liquidity, and interest rate risk as follows:

Credit risk

Credit risk is the risk of that a counter-party to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its cash and accounts receivable to a maximum of the carrying value of the items at the reporting date.

The Company mitigates its exposure to credit risk by maintaining its bank accounts with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency.

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9. FINANCIAL INSTRUMENTS (continued)

Accounts receivable is comprised of the following:

	February 28, 2019	August 31, 2018
Trade receivables	\$ 10,320	\$ 15,719
Allowance for doubtful debts	-	-
Net trade receivables	10,320	15,719
Other receivables	-	2,872
	\$ 10,320	\$ 18,591

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

An analysis of the age of receivables is as follows:

	February 28, 2019	August 31, 2018
31 – 60 days	\$ 278	\$ -
61 – 90 days	-	1,838
Greater than 90 days	1,943	5,943
Balance past due	2,221	7,781
Current balance	8,099	7,938
Trade accounts receivable	\$ 10,320	\$ 15,719

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 monitors its ability to meet its short-term operating expenditures by raising additional funds through share issuances when required. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generated or related to matters specific to the Company.

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9. FINANCIAL INSTRUMENTS (Continued)

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	\$ 460,604	5,000			\$ 465,604
Funds held in trust	4,514	-	-	-	4,514
Balance February 28, 2019	\$ 465,118	5,000	-	-	\$ 470,118

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
Accounts payable and accrued liabilities	\$ 307,243	5,000			\$ 312,243
Funds held in trust	5,752	-	-	-	5,752
Balance August 31, 2018	\$ 312,995	-	-	-	\$ 317,995

Interest rate risk

When the Company has cash balances, the Company's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of February 28, 2019, and August 31, 2018, the Company had no investment. The other financial assets and liabilities of the Company do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk. Management believes that the Company is not subject to significant interest rate risk.