

**PARCELPAL LOGISITICS INC.**  
*(Formerly, ParcelPal Technology Inc.)*

CONDENSED INTERIM FINANCIAL STATEMENTS

(Unaudited - expressed in Canadian Dollars)

For the Six Months Ended June 30, 2021 and 2020

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

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of the management.

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

**ParcelPal Logistics Inc.**  
**(Formerly ParcelPal Technology Inc.)**  
Condensed Interim Statements of Financial Position  
(Unaudited - expressed in Canadian Dollars)

	Notes	June 30, 2021 \$	December 31, 2020 \$
<b>ASSETS</b>			
Current assets			
Cash		433,568	255,668
Accounts receivable	3	250,525	363,653
Prepaid expenses		172,474	34,344
Loan receivable	4	-	1,874
		<u>856,567</u>	<u>655,539</u>
Vehicles and Right-of-use assets	5	346,979	343,699
<b>Total assets</b>		<u>1,203,546</u>	<u>999,238</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	7	661,824	1,053,012
Convertible Note	10	1,227,022	766,070
Derivative liability	10	35,152	794,631
Sales tax payable		372,604	300,903
Short-term loan payable		-	28,051
Lease obligations - current	9	175,846	92,736
		<u>2,472,448</u>	<u>3,035,403</u>
Lease obligations	9	94,979	120,167
<b>Total liabilities</b>		<u>2,567,427</u>	<u>3,155,570</u>
<b>SHAREHOLDERS' (DEFICIT) EQUITY</b>			
Share capital	6	13,791,519	11,408,737
Contributed surplus		3,620,300	3,363,593
Deficit		(18,775,700)	(16,928,662)
<b>Total shareholders' (deficit) equity</b>		<u>(1,363,881)</u>	<u>(2,156,332)</u>
<b>Total liabilities and shareholders' equity</b>		<u>1,203,546</u>	<u>999,238</u>

Nature of operations and going concern (Note 1)

Commitments (Note 10)

Subsequent events (Note 12)

**Approved by the Board of Directors**

\_\_\_\_\_  
"Rich Wheelless" Director

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"Brian Storseth" Director

**ParcelPal Logistics Inc.**  
**(Formerly ParcelPal Technology Inc.)**  
Condensed Interim Statements of Loss and Comprehensive Loss  
For the Three and Six Months Ended June 30, 2021 and 2020  
(Unaudited - expressed in Canadian Dollars)

	Notes	Three months ended June 30,		Six Months Ended June 30,	
		2021 \$	2020 \$	2021 \$	2020 \$
<b>SALES</b>	3	1,321,554	1,445,587	2,510,472	2,545,913
<b>COST OF SALES</b>	11	(1,153,583)	(1,395,710)	(2,338,877)	(2,483,377)
<b>GROSS PROFIT</b>		167,971	49,877	171,595	62,536
<b>EXPENSES</b>					
Consulting fees	7	30,100	231,737	55,711	407,077
Marketing and promotion		101,217	28,313	101,217	41,195
Management and director fees	7	61,504	54,000	252,659	54,000
Office and miscellaneous		197,425	242,774	355,062	572,438
Professional fees		108,582	47,164	166,171	71,216
Regulatory and filing fees		17,106	10,044	42,703	30,096
Salaries		161,118	125,007	290,794	422,000
Share-based compensation	6	40,820	115,000	263,672	157,687
Travel and accommodation		27,605	8,054	43,179	11,056
		(745,477)	(862,093)	(1,571,168)	(1,766,765)
Loss before other items		(577,506)	(812,216)	(1,399,573)	(1,704,229)
<b>Other items:</b>					
Derivative liability		(349,899)	-	54,793	-
Foreign exchange		(6,228)	1,379	(12,483)	1,379
Interest expense	9, 10	233,343	10,956	395,752	16,698
Write-off of asset		-	-	9,403	-
Loss and comprehensive loss for the period		(454,722)	(824,551)	(1,847,038)	(1,722,306)
Basic and diluted loss per share		(0.00)	(0.01)	(0.02)	(0.02)
Weighted average number of shares outstanding – basic and diluted		115,650,199	89,762,620	112,959,653	88,955,043

**ParcelPal Logistics Inc.****(Formerly ParcelPal Technology Inc.)**

Condensed Interim Statements of Changes in Shareholders' Equity

For the Six Months Ended June 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

	Number of shares	Amount \$	Contributed Surplus \$	Subscriptions received in advance \$	Deficit \$	Total \$
<b>Balance, December 31, 2019</b>	<b>86,944,353</b>	<b>9,367,691</b>	<b>3,020,617</b>	<b>100,240</b>	<b>(12,054,580)</b>	<b>433,968</b>
Shares issued pursuant to:						
Option exercises	1,000,000	162,218	(72,218)	(90,000)	-	-
Convertible note	900,000	90,000	(117,500)	-	-	(27,500)
Debt settlement	416,667	50,000	-	-	-	50,000
In lieu of consulting fees	2,875,556	245,500	-	-	-	245,500
Share based compensation	-	-	157,687	-	-	157,687
Net and comprehensive loss for the period	-	-	-	-	(1,722,306)	(1,722,306)
<b>Balance, June 30, 2020</b>	<b>92,136,576</b>	<b>9,915,409</b>	<b>2,988,586</b>	<b>10,240</b>	<b>(13,776,886)</b>	<b>(862,651)</b>
Shares issued pursuant to:						
Option exercises	1,000,000	147,909	(57,909)	-	-	90,000
Warrant exercises	200,000	30,000	-	-	-	30,000
Convertible note	5,254,897	666,919	117,500	-	-	784,419
Debt settlement	2,370,000	384,000	-	-	-	384,000
In lieu of consulting fees	1,992,500	264,500	-	-	-	264,500
Write-off subscriptions receivable	-	-	-	(10,240)	-	(10,240)
Share-based compensation	-	-	315,416	-	-	315,416
Net and comprehensive loss for the period	-	-	-	-	(3,151,776)	(3,151,776)
<b>Balance, December 31, 2020</b>	<b>102,953,973</b>	<b>11,408,737</b>	<b>3,363,593</b>	<b>-</b>	<b>(16,928,662)</b>	<b>(2,156,332)</b>
Shares issued pursuant to:						
Convertible note	14,394,572	2,176,600	-	-	-	2,176,600
In lieu of consulting fees	833,333	91,667	-	-	-	91,667
Warrant exercises	657,000	98,550	-	-	-	98,550
Option exercises	100,000	15,965	(6,965)	-	-	9,000
Share-based compensation	-	-	263,672	-	-	263,672
Net loss for the period	-	-	-	-	(1,847,038)	(1,847,038)
<b>Balance, June 30, 2021</b>	<b>118,938,878</b>	<b>13,791,519</b>	<b>3,620,300</b>	<b>-</b>	<b>(18,775,700)</b>	<b>(1,363,881)</b>

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

**ParcelPal Logistics Inc.**  
**(Formerly ParcelPal Technology Inc.)**  
Condensed Interim Statements of Cash Flows  
For the Six Months Ended June 30, 2021 and 2020  
(Unaudited - expressed in Canadian Dollars)

	<b>2021</b>	<b>2020</b>
	\$	\$
<b>Operating activities</b>		
Loss for the period	(1,847,038)	(1,722,306)
Add non-cash items:		
Amortization	153,670	192,041
Share-based compensation	263,672	157,687
Accrued interest	381,622	-
Shares issued in lieu of consulting fees	91,667	245,500
Unrealized foreign exchange gain	(18,025)	-
Impairment of asset	9,404	-
Fair value of derivative	54,793	-
Changes in non-cash working capital items		
Sales tax payable	73,512	75,286
Prepaid expenses	(138,130)	1,928
Accounts receivable	113,128	276,669
Accounts payable and accrued liabilities	(391,187)	60,516
<b>Net cash flows used in operating activities</b>	<b>(1,252,913)</b>	<b>(712,679)</b>
<b>Investing activity</b>		
Disposal of vehicle	15,314	-
<b>Net cash flows provided by investing activity</b>	<b>15,314</b>	<b>-</b>
<b>Financing activities</b>		
Convertible note	1,459,684	759,517
Exercise of options	9,000	-
Exercise of warrants	98,550	-
Lease payments	(123,684)	(177,034)
Advances of loans receivable	(28,051)	(3,392)
Subscriptions received	-	58,650
<b>Net cash flows provided by financing activities</b>	<b>1,415,499</b>	<b>637,741</b>
<b>Change in cash during the period</b>	<b>177,900</b>	<b>(74,938)</b>
<b>Cash – beginning of the period</b>	<b>255,668</b>	<b>295,593</b>
<b>Cash – end of the period</b>	<b>433,568</b>	<b>220,655</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	-	-
Interest paid	14,110	16,698

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

ParcelPal Logistics Inc. (*formerly ParcelPal Technology Inc.*) (“the Company” or “ParcelPal”) is a Vancouver, British Columbia based company that specializes in last-mile delivery service and logistics solutions, providing businesses with a smart, reliable and affordable delivery service powered by the Company’s licensed technology platform. The Company was incorporated in Alberta on March 10, 1997. On June 22, 2006, the Company moved its incorporation jurisdiction to British Columbia. The Company’s shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol “PKG”, on the OTCQB (over-the-counter) Market in the United States under the symbol PTNYF and on the Frankfurt Stock Exchange under the symbol “PTO”.

These condensed interim financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of the business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to meet its long-term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from delivery services revenue.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods, including the possible impact on future financing opportunities.

## **2. BASIS OF PRESENTATION**

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by IASB.

The Company uses the same accounting policies and methods of computation as in financial statements for the year ended December 31, 2020. These condensed interim financial statements were approved by the board of directors for use on August 30, 2021.

### **Restatement of previously reported financial statements**

The Company has determined that its initial application of IFRS 16 Leases was incorrect and resulted in a material misstatement. The Company previously discounted lease payments using the interest rate implicit in

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the lease to determine the lease liabilities and right-of-use assets. In determining the present value of the lease payments the Company also included non-refundable sales tax as part of the lease payments and residual value guarantees. The Company has determined this was not the appropriate method to determine the present value of the lease payments and has therefore revalued its lease liabilities and right-of-use assets using the Company's discount rate at the time of the lease and has excluded sales tax from the present value calculation and residual value guarantees based on an expected value of the right-of-use assets. The Company has used an incremental borrowing rate with a range of 6.88% to 9.75% and an average rate of 8.29% to calculate the present value of the lease payments. The change in measurement has resulted in changes to the right-of-use asset balances at initial measurement, the lease liability balances at initial measurement and depreciation and interest amounts over the fiscal periods being restated.

In addition to the re-measurement of the lease liabilities and right-of-use assets the Company determined that the amortization expense related to the vehicle leases should be included as cost of sales and not as an operating expense.

The following table summarizes the effect of the adjustment described above on the Company's condensed interim statements of loss and comprehensive loss:

**For the six months ended June 30, 2020**

	<b>Previously reported \$</b>	<b>Adjustment \$</b>	<b>Restated \$</b>
Cost of Sales	(2,291,336)	(192,041)	(2,483,377)
Gross margin	254,577	(192,041)	62,536
Amortization	150,516	(150,516)	-
Interest	16,972	(274)	16,698
Office and miscellaneous	559,591	12,848	572,439
Operating expenses	1,922,784	(137,942)	1,784,842
Net Loss	(1,668,207)	(54,099)	(1,722,306)



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**For the three months ended June 30, 2020**

	Previously reported \$	Adjustment \$	Restated \$
Cost of Sales	(1,296,531)	(99,178)	(1,395,709)
Gross margin	149,055	(99,178)	49,877
Amortization	84,541	(84,541)	-
Interest	9,478	1,478	10,956
Office and miscellaneous	236,372	6,402	242,774
Operating expenses	951,089	(76,661)	874,428
Net Loss	(802,034)	(22,517)	(824,551)

The following table summarizes the effect of the adjustment described above on the Company's statement of cash flows:

**For the six months ended June 30, 2020**

	Previously reported \$	Adjustment \$	Restated \$
Loss for the year	(1,668,207)	(54,099)	(1,722,306)
Amortization	150,516	41,525	192,041
Net cash flows used in operating activities	(700,105)	(12,574)	(712,679)
Payment of lease obligation	(189,608)	12,574	(177,034)
Net cash flows provided by financing activities	625,167	12,574	637,741

**3. ACCOUNTS RECEIVABLE**

	June 30, 2021 \$	December 31, 2020 \$
Accounts receivable	250,525	363,653

As at June 30, 2021, 97% (December 31, 2020 – 95%) of the Company's accounts receivable are current, and accordingly no provision for doubtful accounts, was made.

One customer accounted for 35% of accounts receivable at June 30, 2021 (2020 – 91% of accounts receivable) and 94% (2020 – 97%) of total revenues during the six months ended June 30, 2021.

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**4. LOAN RECEIVABLE**

On July 29, 2018, the Company entered into a loan agreement with a company related to a director, whereby the Company advanced \$60,000 to the vendor. On March 20, 2019, the Company advanced an additional \$21,000 to the vendor. The loan is unsecured, bears interest at 10% per annum and is due on demand. During the year ended December 31, 2019, \$89,374 of the loan was repaid and during the six months ended June 30, 2021, the Company wrote-off the remaining \$1,874 as uncollectible.

**5. RIGHT-OF-USE ASSETS**

Right-of-use assets consists of leased vehicles carried at cost less accumulated depreciation. The Company's vehicles as at June 30, 2021 and December 31, 2020 are as follows:

	Vehicles \$	ROU Assets \$	Total \$
<b>Cost</b>			
<b>Balance, December 31, 2019</b>	-	<b>894,046</b>	<b>894,046</b>
Additions	166,501	358,423	524,924
Disposal	-	(881,676)	(881,676)
<b>Balance, December 31, 2020</b>	<b>166,501</b>	<b>370,793</b>	<b>537,294</b>
Additions	-	179,795	179,795
Disposal	(26,108)	(150,772)	(176,880)
<b>Balance, June 30, 2021</b>	<b>140,393</b>	<b>399,816</b>	<b>540,209</b>
<b>Accumulated amortization</b>			
Balance, December 31, 2019	-	683,789	683,789
Amortization	16,559	372,300	388,859
Disposal	-	(879,053)	(879,053)
<b>Balance, December 31, 2020</b>	<b>16,559</b>	<b>177,036</b>	<b>193,595</b>
Amortization	35,098	118,572	153,670
Disposal	(3,264)	(150,771)	(154,035)
<b>Balance, June 30, 2021</b>	<b>48,393</b>	<b>144,837</b>	<b>193,230</b>
<b>Net Book Value</b>			
<b>Balance, December 31, 2020</b>	<b>149,942</b>	<b>193,757</b>	<b>343,699</b>
<b>Balance, June 30, 2021</b>	<b>92,000</b>	<b>254,979</b>	<b>346,979</b>

During the six months ended June 30, 2021, the Company included \$153,670 (2020 - \$92,863) of amortization in cost of sales.

On October 1, 2020, the Company purchased vehicles for \$132,466 to increase its delivery capacity. The Company paid \$77,999 in cash and financed the remaining \$54,467 via short term loans. The loans are non-interest bearing and due on January 31, 2021.

On December 31, 2020, upon expiration of certain vehicle leases the Company purchased the previously leased vehicles for \$34,035.

During the six months ended June 30, 2021, the Company disposed of two vehicles and received \$15,314 and recorded a write-off of asset of \$7,530.

**ParcelPal Logistics Inc.****(Formerly ParcelPal Technology Inc.)**

Notes to the Condensed Interim Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

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**6. SHARE CAPITAL****Common Shares****Authorized:**

The authorized capital of the Company consists of an unlimited number of common shares without par value.

**Issued:**

During the six months ended June 30, 2021:

- a) On January 7, 2021, the Company issued 1,975,822 common shares pursuant to the settlement of US\$118,549 convertible debt, the shares were fair valued at \$316,133.
- b) On January 13, 2021, the Company issued 2,756,250 common shares pursuant to the settlement of US\$220,500 convertible debt, the shares were fair valued at \$468,563.
- c) On January 15, 2021, Company issued 175,000 incentive shares pursuant to the issuance of a convertible note of US\$175,000.
- d) On February 2, 2021, the Company issued 2,756,250 common shares pursuant to the settlement of US\$165,375 convertible debt, the shares were fair valued at \$385,875.
- e) On February 17, 2021, the Company issued 1,378,125 common shares pursuant to the settlement of US\$82,688 convertible debt, the shares were fair valued at \$323,859.
- f) On March 15, 2021, the Company issued 300,000 incentive shares pursuant to the issuance of a convertible note of US\$367,500.
- g) On May 20, 2021, the Company issued 5,053,125 common shares pursuant to the settlement of US\$303,188 convertible debt, the shares were fair valued at \$682,172.
- h) On June 2, 2021, the Company issued 833,333 common shares in lieu of fees to a consultant of the Company. The share were fair valued at \$91,667.
- i) The Company issued 657,000 shares pursuant to the exercise of 657,000 warrants for gross proceeds of \$98,500.
- j) The Company issued 100,000 shares pursuant to the exercise of 100,000 stock options for gross proceeds of \$9,000.

**Stock Options**

The Company has adopted an incentive stock option plan, which enables the Board of Directors of the Company from time to time, at its discretion, and in accordance with the CSE requirements to, grant to directors, officers, employees and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 20% of the Company's issued and outstanding common shares. Each stock option permits the holder to purchase one share at the stated exercise price. The options vest at the discretion of the Board of Directors.

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Notes to the Condensed Interim Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

The following is a summary of the Company's stock option activity:

	Number of Options #	Weighted Average Exercise Price \$
<b>Balance, December 31, 2019</b>	<b>10,374,000</b>	<b>0.22</b>
Granted	6,725,000	0.09
Exercised	(2,000,000)	0.09
Expired	(200,000)	0.17
Forfeited	(5,099,000)	0.20
<b>Balance, December 31, 2020</b>	<b>9,800,000</b>	<b>0.15</b>
Granted	2,500,000	0.14
Exercised	(100,000)	0.09
Cancelled	(450,000)	0.19
<b>Balance, June 30, 2021</b>	<b>11,750,000</b>	<b>0.15</b>

Pursuant to the exercise of stock options the Company reallocated \$6,965 (2020 - \$72,218) of contributed surplus to share capital.

During the six months ended June 30, 2021, the Company recorded share-based payments expense of \$263,672 (2020 - \$157,687) pursuant to the vesting of previously granted options and the granting of 2,500,000 stock options to the directors of the Company. The Company fair values options using the Black-Scholes option pricing model using the following assumptions:

	June 30, 2021	December 31, 2020
Weighted average fair value of options granted	\$ 0.11	\$ 0.06
Risk-free interest rate	0.44 – 0.90%	0.44 – 1.51%
Estimated life	5 years	1 – 5 years
Expected volatility	102% - 107%	106% - 119%
Expected dividend yield	0.00%	0.00%

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As at June 30, 2021 the following options were outstanding and exercisable:

<b>Expiry Date</b>	<b>Exercise price \$</b>	<b>Remaining life (years)</b>	<b>Options outstanding</b>
November 17, 2022	0.16	1.38	150,000
November 28, 2022	0.18	1.41	550,000
January 21, 2023	0.32	1.56	450,000
May 1, 2023	0.24	1.84	500,000
June 28, 2023	0.20	1.99	25,000
August 15, 2023	0.21	2.13	400,000
August 31, 2023	0.27	2.17	200,000
November 22, 2023	0.26	2.40	150,000
December 13, 2023	0.25	2.45	750,000
May 2, 2024	0.27	2.84	150,000
May 17, 2024	0.245	2.91	200,000
June 17, 2024	0.245	2.97	300,000
May 6, 2025	0.09	3.92	2,675,000
June 1, 2025	0.14	3.85	250,000
July 22, 2025	0.09	4.06	400,000
November 12, 2025	0.075	4.37	2,100,000
January 22, 2026	0.145	4.57	2,000,000
June 2, 2026	0.12	4.93	500,000
		<b>3.55</b>	<b>11,750,000</b>

**Warrants**

The following is a summary of the Company's warrant activity:

	<b>Number of Options #</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance, December 31, 2019</b>	<b>12,112,313</b>	<b>0.23</b>
Exercised	(200,000)	0.15
Expired	(10,027,836)	0.29
<b>Balance, December 31, 2020</b>	<b>1,884,477</b>	<b>0.15</b>
Exercised	(657,000)	0.15
<b>Balance, June 30, 2021</b>	<b>1,227,477</b>	<b>0.15</b>

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As of June 30, 2021, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number Outstanding	Exercise Price \$
November 22, 2021	1,227,477	0.15
	1,227,477	0.15

## 7. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel is as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Consulting fees	-	-	-	67,840
Management fees	61,504	54,000	252,659	54,000
Salaries and wages	19,688		39,375	
Software development	-	-	-	28,272
Share-based compensation	8,164	96,000	231,016	96,000
	89,355	150,000	523,050	246,112

Included in accounts payable as at June 30, 2021 is \$42,775 (December 31, 2020 - \$85,669) owing to directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

## 8. FINANCIAL INSTRUMENTS

### Classification of financial instruments

The Company's financial instruments consist of cash, accounts receivable, loans receivable, accounts payable and accrued liabilities and lease obligations. The Company classifies cash, accounts receivable and loans receivable as financial assets at amortized cost. Accounts payable and lease obligations are classified as financial liabilities at amortized cost.

The Company examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign currency risk, interest rate risk, credit risk and liquidity risk. When material, these risks are reviewed and monitored by the Board of Directors.

There have been no changes in any risk management policies during the six months ended June 30, 2021.

### Fair value

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
  - Level 3 – Inputs that are not based on observable market data.

The carrying value of the Company's financial assets and liabilities measured at amortized cost approximate their fair value due to their short term to maturity.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

The type of risk exposure and the way in which such exposure is managed is provided as follows:

***Credit risk***

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's accounts receivable includes \$86,545 due from one major customer. The customer is of low credit risk and none of the balance is past due. The Company's cash is held in large Canadian financial institutions and is not exposed to significant credit risk.

***Interest risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to limited interest rate risk.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the directors are actively involved in the review, planning, and approval of significant expenditures and commitments. During the six months ended June 30, 2021, the Company entered into an agreement pursuant to which it received access to a US \$5,000,000 equity line of credit for a period of three years. As at June 30, 2021 the Company has not accessed the equity line of credit.

***Foreign exchange risk***

The Company's functional currency is the Canadian Dollar and major transactions are transacted in Canadian Dollars and US Dollars. The Company maintains a US Dollar bank account in Canada to support the cash needs of its operations. Management believes that the foreign exchange risk related to currency conversion is minimal and therefore does not hedge its foreign exchange risk.

***Capital Management***

The Company defines capital that it manages as its shareholders' equity. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of a social collaborative charting, news and communication platform for traders. 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.

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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 to the Company's approach to capital management during the six months ended June 30, 2021.

**9. LEASE OBLIGATIONS**

During the year ended December 31, 2020, the Company entered into additional vehicle lease agreements ranging in term from 12-48 months in term. The Company present valued the lease payments using its incremental borrowing rate of 11.31% and recorded a lease obligation of \$358,423. During the six months ended June 30, 2021, the Company renewed several lease agreements and recorded an additional obligation of \$179,795.

The Company's lease obligations at June 30, 2021 and December 31, 2020 and the changes for the periods then ended are as follows:

	\$
<b>Balance, December 31, 2019</b>	<b>202,798</b>
Lease additions	358,423
Lease termination	(2,623)
Interest expense	28,671
Payments	(374,366)
<b>Balance, December 31, 2020</b>	<b>212,903</b>
Lease additions	179,795
Lease credit	(4,385)
Interest expense	14,110
Payments	(131,598)
<b>Balance, June 30, 2021</b>	<b>270,825</b>

The Company's future minimum lease payments under the lease obligations as at June 30, 2021 and December 31, 2020 are as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Less than 1 year	193,467	104,745
1-5 years	103,680	134,784
5 + years	-	-
Total minimum lease payments	297,147	239,529
Less: Imputed Interest	(26,322)	(26,626)
Total lease obligations	270,825	212,903
Current portion of lease obligations	(175,846)	(92,736)
Non-current portion of lease obligations	94,979	120,167

**10. CONVERTIBLE PROMISSORY NOTE**

During the year ended December 31, 2020, and the six months ended June 30, 2021, the Company entered into multiple US dollar denominated convertible note agreements, with each convertible note containing a guaranteed interest rate between 5% and 10%, a 5% original issue discount on the principal of the convertible note, incentive



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common shares of the Company and the right to convert at a fixed price of US \$0.06 to US \$0.08 per share. As the convertible note and embedded conversion feature are denominated in US dollars and the Company has a Canadian dollar functional currency, they are within the scope of IAS 32 – *Financial Instruments: Presentation*, the value of the conversion feature is subject to changes in value based on the prevailing market price, resulting in a derivative liability. On initial recognition, the Company used the residual value method to allocate the principal amount of the convertible note between the derivative liability and host debt components. The derivative liability was valued first using the Black Scholes option pricing model and the residual was allocated to the host debt component. As the fair value of the debt, when discounted using the Company’s discount rate of 11.31% was greater than the total consideration received, the incentive shares were allocated a value of \$nil.

The derivative liability is remeasured at fair value through profit or loss at each reporting period using the Black-Scholes pricing model using the following assumptions:

	June 30, 2021	December 31, 2020
Risk-free interest rate	0.12%	0.10 – 0.34%
Estimated life	0.5 - 0.75 years	.5-.75 years
Expected volatility	97%-140%	60% - 101%
Expected dividend yield	0.00%	0.00%

The convertible notes issued are as follows:

On April 14, 2020, the Company issued a convertible note for US\$367,500 with a guaranteed interest rate of 10% and an original issue discount of US\$17,500. The convertible note was received in two tranches, the first US\$262,500 (CAD - \$350,092) on April 17, 2020 (“First Tranche”) and the remaining US\$105,000 (CAD - \$139,893) on May 7, 2020 (“Second Tranche”). The convertible note had a maturity date of 225 days from the date the cash was received and could be converted into common shares of the Company at a conversion price of US\$0.06 per common share. As consideration for the convertible note the Company issued 600,000 common shares valued at \$nil.

On initial measurement the Company fair valued the conversion option of the First Tranche at \$85,981 and allocated the residual value of \$264,111 to the loan. The Company amortized the loan to maturity using an effective interest rate of 37.12%. During the year ended December 31, 2020, the First Tranche was converted into 4,929,897 common shares valued at \$756,919.

The conversion option on the Second Tranche was fair valued at \$39,528 with the residual value of \$100,365 allocated to the loan. The loan was amortized to maturity using an effective interest rate of 49.31%. The loan matured on December 18, 2020, and during the six months ended June 30, 2021, the Second Tranche was converted into 1,975,822 common shares valued at \$316,132.

On June 29, 2020, the Company issued a second convertible note for US\$210,000 (CAD - \$273,526) with a guaranteed interest rate of 5% and an original issue discount of US\$10,000. The note matures on February 9, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.08 per common share. As consideration for the convertible note the Company issued 300,000 common shares fair valued at \$nil. The conversion option was fair valued at \$60,816 with the residual value of \$212,710 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 33.98%. The loan was converted on January 13, 2021, into 2,756,250 common shares valued at \$468,563.

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On September 29, 2020, the Company issued a convertible note for US\$157,500 (CAD - \$201,178) with a guaranteed interest rate of 5% and an original issue discount of US\$7,500. The note matures on March 28, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.06 per common share. As consideration for the convertible note the Company issued 150,000 common shares fair valued at \$nil. The conversion option was fair valued at \$47,535 with the residual value of \$153,643 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 37.44%. On February 2, 2021, the loan was converted into 2,756,250 common shares valued at \$385,875.

On October 16, 2020, the Company issued a convertible note for US\$78,750 (CAD - \$99,239) with a guaranteed interest rate of 5% and an original issue discount of US\$3,750. The note matures on April 14, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.06 per common share. As consideration for the convertible note the Company issued 75,000 common shares fair valued at \$nil. The conversion option was fair valued at \$29,544 with the residual value of \$69,695 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 48.62%. On February 17, 2021, the loan was converted into 1,378,125 common shares valued at \$325,859.

On December 21, 2020, the Company issued a convertible note for US\$105,000 (CAD - \$128,770) with a guaranteed interest rate of 5% and an original issue discount of US\$5,000. The note matures on June 19, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.06 per common share. As consideration for the convertible note the Company issued 100,000 common shares fair valued at \$nil. The conversion option was fair valued at \$38,631 with the residual value of \$90,139 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 49.31%. On May 20, 2021, the loan was converted into 1,837,500 common shares valued at \$248,063.

On January 15, 2021, the Company issued a convertible note for US\$183,750 (CAD - \$222,651) with a guaranteed interest rate of 5% and an original issue discount of US\$8,750. The note matures on July 14, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.06 per common share. As consideration for the convertible note the Company issued 175,000 common shares fair valued at \$nil. The conversion option was fair valued at \$66,795 with the residual value of \$155,856 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 52.26%. On May 20, 2021, the loan was converted into 3,215,625 common shares valued at \$434,109.

On March 12, 2021, the Company issued a convertible note for US\$367,500 (CAD - \$436,699) with a guaranteed interest rate of 5% and an original issue discount of US\$17,500. The note matures on September 8, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.13 per common share. As consideration for the convertible note the Company issued 300,000 common shares fair valued at \$nil. The conversion option was fair valued at \$157,212 with the residual value of \$279,487 allocated to the loan. The loan is amortized to maturity using an effective interest rate of 67.96%.

On April 13, 2021, the Company issued a convertible note for US\$341,250 (CAD - \$427,873) with a guaranteed interest rate of 5% and an original issue discount of US\$16,250. The note matures on October 10, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.13 per common share. The conversion option was fair valued at \$10,817 and the loan was valued at \$396,681. The loan is amortized to maturity using an effective interest rate of 4.88%.

On May 27, 2021, the Company issued a convertible note for US\$341,250 (CAD - \$412,479) with a guaranteed interest rate of 5% and an original issue discount of US\$16,250. The note matures on November 23, 2021 and can be converted into common shares of the Company at a conversion price of US\$0.13 per common share. The

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conversion option was fair valued at \$18,356 and the loan was valued at \$374,481. The loan is amortized to maturity using an effective interest rate of 5.98%.

The fair value of the derivative liability at June 30, 2021 was \$35,152 (2020 - \$794,631). During the six months ended June 30, 2021, the Company recorded a loss on fair value of derivative liability of \$206,025 (2020 - \$nil) related to conversion and a gain of \$151,232 (2020 - \$nil) in unrealized loss from remeasurement of the outstanding derivative liabilities.

The changes in the fair value of the derivative and loan balances were as follows:

	Convertible Debt \$	Derivative Liability \$
<b>Balance, December 31, 2019</b>	-	-
Additions	890,663	302,035
Interest expense	77,640	-
Accretion	246,291	-
Change in fair value of derivative liability	-	866,238
Conversion of convertible debt	(384,820)	(373,642)
Foreign exchange on loan	(63,704)	-
<b>Balance, December 31, 2020</b>	<b>766,070</b>	<b>794,631</b>
Additions	1,206,505	253,179
Interest expense	58,454	-
Accretion	323,168	-
Change in fair value of derivative liability	-	54,793
Conversion of convertible debt	(1,109,149)	(1,067,451)
Foreign exchange on loan	(18,026)	-
<b>Balance, June 30, 2021</b>	<b>1,227,022</b>	<b>35,152</b>

**11. COST OF SALES**

For the three and six months ended June 30, 2021 and 2020, cost of sales consists of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Amortization	76,259	57,653	153,670	150,516
Driver expenses	-	34,867	-	34,867
Fuel	29,968	71,678	111,957	156,548
Salaries and wages	1,047,356	1,231,512	2,073,250	2,141,446
	<b>1,153,583</b>	<b>1,395,710</b>	<b>2,338,877</b>	<b>2,483,377</b>

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**12. SUBSEQUENT EVENTS**

Subsequent to June 30, 2021:

- 1) The Company signed a letter of an intent to acquire a United States delivery service company (the “Acquiree”). The total purchase price is expected to be USD\$3,100,000, payable in cash, with the remainder payable in common shares of ParcelPal based on the closing price of the common shares following the closing of the transaction. Under the terms of the proposed transaction, ParcelPal will acquire 95% of the outstanding shares of Acquiree.