PARCELPAL LOGISTICS INC.

(Formerly, ParcelPal Technology Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2021 and 2020

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of ParcelPal Logistics Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ParcelPal Logistics Inc. (the "Company") as of December 31, 2021, the related statement of operations, stockholders' equity (deficit), and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s BF Borgers CPA PC
BF Borgers CPA PC

We have served as the Company's auditor since 2021
Lakewood, CO
May 2, 2022

ParcelPal Logistics Inc.
(Formerly ParcelPal Technology Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2021 $	December 31, 2020 $
ASSETS			
Current assets			
Cash		551,961	255,668
Accounts receivable	4	202,050	363,653
Prepaid expenses		149,834	34,344
Loan receivable	5	-	1,874
		903,845	655,539
Customer contract		3,933,128	-
Vehicles and Right-of-use assets	6	652,353	343,699
Total assets		5,489,326	999,238
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	833,262	1,053,012
Purchase obligation		660,972	-
Convertible Note	12	2,429,227	766,070
Derivative liability	12	206,726	794,631
Sales tax payable		521,616	300,903
Short-term loan payable		66,588	28,051
Lease obligations - current	11	158,409	92,736
		4,876,800	3,035,403
Lease obligations	11	404,921	120,167
Total liabilities		5,281,721	3,155,570
SHAREHOLDERS' (DEFICIT) EQUITY			
Share capital	7	17,622,777	11,408,737
Contributed surplus		3,620,300	3,363,593
Accumulated other comprehensive income		(4,202)	-
Deficit		(21,031,270)	(16,928,662)
Total shareholders' (deficit) equity		207,605	(2,156,332)
Total liabilities and shareholders' equity		5,489,326	999,238

Nature of operations and going concern (Note 1)
Commitments (Note 11)
Subsequent events (Note 15)

Approved by the Board of Directors

"Rich Wheeless" Director   "Brian Storseth" Director

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

ParcelPal Logistics Inc.
(Formerly ParcelPal Technology Inc.)
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31,
(Expressed in Canadian Dollars)

	Notes	2021 $	2020 $	2019 $
SALES	4	7,521,952	6,317,329	4,782,865
COST OF SALES	13	(6,253,436)	(5,947,895)	(4,336,556)
GROSS PROFIT		1,268,516	369,434	446,309
EXPENSES				
Amortization		-	-	19,100
Bad debt expense	4	59,307	-	-
Consulting fees	8	117,054	656,405	860,248
Foreign exchange		31,454	(61,236)	12,243
Marketing and promotion		78,804	29,146	1,586,284
Management and director fees	8	1,808,250	305,158	190,800
Office and miscellaneous		964,282	1,155,805	994,124
Professional fees		389,817	655,378	124,550
Regulatory and filing fees		106,758	78,945	48,924
Salaries		546,852	533,193	358,074
Share-based compensation	7	263,672	473,103	776,962
Travel and accommodation		119,692	31,692	62,459
		(4,485,942)	(3,857,589)	(5,033,768)
Loss before other items		(3,217,426)	(3,488,155)	(4,587,459)
Other items:				
Debt Settlement		-	191,773	857
Derivative liability		144,952	866,238	-
Interest expense	11, 12	754,827	323,931	29,958
Interest income		-	-	(7,762)
Write-off of asset		(14,597)	3,985	-
		(885,182)	(1,385,927)	(23,053)
Net loss for the year		**(4,102,608)**	**(4,874,082)**	**(4,610,512)**
Foreign currency translation adjustment		(4,202)	-	-
Comprehensive loss for the year		**(4,106,810)**	**(4,874,082)**	**(4,610,512)**
Basic and diluted loss per share		(0.03)	(0.05)	(0.06)
Weighted average number of shares outstanding – basic and diluted		152,119,211	91,147,886	80,778,869

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ParcelPal Logistics Inc.
(Formerly ParcelPal Technology Inc.)
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021, 2020 and 2019
(Expressed in Canadian Dollars)

	Number of shares	Amount $	Contributed Surplus $	Subscriptions receivable $	Subscriptions received in advance $	Deficit $	AOCI $	Total $
Balance, December 31, 2018	**76,434,953**	**7,693,401**	**2,462,746**	**(345,140)**	**-**	**(7,444,068)**	**-**	**2,366,939**
Shares issued pursuant to:								
Private placements	4,071,353	344,031	2,034	-	-	-	-	346,065
Warrant exercises	2,958,600	355,287	(15,417)	-	-	-	-	339,870
Option exercises	1,275,000	461,957	(205,708)	-	-	-	-	256,249
Debt settlement	614,447	168,857	-	-	-	-	-	168,857
In lieu of consulting fees	1,590,000	364,600	-	-	-	-	-	364,600
Issue costs	-	(20,442)	-	-	-	-	-	(20,442)
Subscriptions received	-	-	-	345,140	100,240	-	-	445,380
Share-based compensation	-	-	776,962	-	-	-	-	776,962
Net and comprehensive loss for the year	-	-	-	-	-	-	-	(4,610,512)
Balance, December 31, 2019	**86,944,353**	**9,367,691**	**3,020,617**	**-**	**100,240**	**(12,054,580)**	**-**	**433,968**
Option exercises	2,000,000	310,127	(130,127)	-	(90,000)	-	-	90,000
Warrant exercises	200,000	30,000	-	-	-	-	-	30,000
Convertible note	6,154,897	756,919	-	-	-	-	-	756,919
Debt settlement	2,786,667	434,000	-	-	-	-	-	434,000
In lieu of consulting fees	4,868,056	510,000	-	-	-	-	-	510,000
Write-off subscriptions receivable	-	-	-	-	(10,240)	-	-	(10,240)
Share based compensation	-	-	473,103	-	-	-	-	473,103
Net and comprehensive loss for the year	-	-	-	-	-	(4,874,082)	-	(4,874,082)
Balance, December 31, 2020	**102,953,973**	**11,408,737**	**3,363,593**	**-**	**-**	**(16,928,662)**	**-**	**(2,156,332)**

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

ParcelPal Logistics Inc.
(Formerly ParcelPal Technology Inc.)
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021, 2020 and 2019
(Expressed in Canadian Dollars)

	Number of shares	Amount $	Contributed Surplus $	Subscriptions receivable $	Subscriptions received in advance $	Deficit $	AOCI $	Total $
Balance, December 31, 2020	**102,953,973**	**11,408,737**	**3,363,593**	**-**	**-**	**(16,928,662)**	**-**	**(2,156,332)**
Shares issued pursuant to:								
Convertible note	24,516,649	2,966,838	-	-	-	-	-	2,966,838
In lieu of consulting fees	13,833,333	1,521,667	-	-	-	-	-	1,521,667
Acquisition of Web-to-door	13,777,778	1,611,020	-	-	-	-	-	1,611,020
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 and comprehensive loss for the year	-	-	-	-	-	(4,102,608)	(4,202)	(4,106,810)
Balance, December 31, 2021	**155,838,733**	**17,622,777**	**3,620,300**	**-**	**-**	**(21,031,270)**	**(4,202)**	**207,605**

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

ParcelPal Logistics Inc.
(Formerly ParcelPal Technology Inc.)
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021, 2020 and 2019
(Expressed in Canadian Dollars)

	2021 $	2020 $	2019 $
Operating activities			
Loss for the year	(4,102,608)	(4,874,082)	(4,610,512)
Add non-cash items:			
Amortization	346,532	388,859	368,768
Share-based compensation	263,672	473,103	776,962
Accrued interest	753,555	323,931	(7,700)
Loss on debt settlement	-	191,773	857
Shares issued in lieu of consulting fees	1,521,667	510,000	364,600
Unrealized foreign exchange gain	27,761	(63,704)	-
Impairment of asset	1,874	3,985	-
Fair value of derivative	144,952	866,238	-
Changes in non-cash working capital items			
Sales tax payable	222,524	198,306	(18,736)
Prepaid expenses	(141,432)	(31,325)	2,373
Accounts receivable	161,603	381,349	(139,660)
Accounts payable and accrued liabilities	(276,888)	704,438	572,999
Net cash flows used in operating activities	(1,076,788)	(927,129)	(2,690,049)
Investing activity			
Acquisition of Trucking	(1,697,813)	-	-
Advances of loans receivable	-	-	(21,000)
Cash acquired on business combination	149,386	-	-
Sale of vehicles	42,798	-	-
Purchase of vehicles	(61,836)	(112,034)	-
Repayment of loans receivable	-	-	89,374
Net cash flows provided by investing activity	(1,567,465)	(112,034)	68,374
Financing activities			
Proceeds from private placements	-	-	273,190
Share issue costs	-	-	(20,442)
Loan repayments	(27,769)	(26,416)	-
Convertible note	3,115,822	1,192,699	-
Exercise of options	9,000	90,000	256,249
Exercise of warrants	98,550	30,000	339,870
Lease payments	(287,532)	(345,695)	(306,562)
Subscriptions receivable	-	-	194,737
Subscriptions received	-	58,650	100,240
Net cash flows provided by financing activities	2,908,071	999,238	837,282
Foreign exchange on cash	32,475	-	-
Change in cash during the	296,293	(39,925)	(1,784,393)
Cash – beginning of the year	255,668	295,593	2,079,986
Cash – end of the year	551,961	255,668	295,593
Supplemental cash flow information:			
Income taxes paid	-	-	
Interest paid	25,598	28,671	29,958

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

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 operates in major Canadian cities including Vancouver, Calgary, and Toronto, and now in the western region of the United States. 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".

On September 15, 2021, the Company purchased 95% of the outstanding shares of Web to Door Trucking Corp. ("Trucking"), a United States delivery service company incorporated in Nevada. The acquisition of Trucking is being accounted for as a business combination under IFRS 3 as operations of Trucking meet the definition of a business (the "Trucking Acquisition") (Note 3).

These consolidated 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 consolidated 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

Statement of Compliance
These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Issues Committee ("IFRIC"). These financial statements were approved by the Board of Directors and authorized for issue on May 2, 2022.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for items measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars, unless otherwise noted.

Financial Instruments

Recognition and Classification

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument.

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of its financial assets and liabilities under IFRS 9:

	Classification IFRS 9
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized Cost
Convertible note	Amortized Cost
Derivative liability	FVTPL
Short term loan	Amortized Cost

Measurement

Financial assets at FVTOCI
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive loss.

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise. Where management has opted to recognize a financial

liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets.

Convertible Debentures
Convertible debentures are compound financial instruments whose components may be allocated between a financial liability component and an equity instrument component. The identification of such components embedded within a convertible debenture requires significant judgement given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option is fixed, the financial liability, represents the discounted obligation to repay the cash component and is initially measured at fair value and subsequently measured at amortized cost. The residual amount is recognized in equity. Where the conversion option is variable, the derivative liability is measured first and carried at fair value and the residual balance represents the financial liability measured at amortized cost. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

Leases
At the inception of a contract, the Company assesses whether a contract is or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or remove the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.
Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest rate method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to not recognize right-of-use assets and lease liabilities for short-term lease of assets that have a lease term of 12 months or less and leases of low-value assets, such as IT equipment. The Company recognizes the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

Revenue from Contracts with Customers
The Company's revenue is generated from a work contract established with one major customer and from other individual customers on demand. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs to sell can be reliably measured. Revenues is recognized when services are rendered or delivery of goods is completed.

Performance Obligations
Based on the criteria outlined in IFRS 15, the Company's primary performance obligation relating to its sales contracts with customers is the delivery of the product or products by an agreed upon time.

Transaction Price
Based on the criteria outlined in IFRS 15, the Company determined that the transaction price is based upon scheduled and on demand or same day rates. As the Company has one primary performance obligation, that is making the required deliveries on time, the entire transaction price is allocated to the completion of deliveries.

Once the Company's performance obligation of completing the required deliveries on time, the Company's obligation is met and the Company recognizes revenue.

Foreign currency translation

The functional currency of the Company is determined using the currency of the primary economic environment in which the Company operates. The functional and presentation currency, as determined by management, of the Company is the Canadian dollar and the functional currency of Trucking is USD.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statements of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in comprehensive loss, the exchange component is also recognized in comprehensive loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's USD operations are translated into CAD at the exchange rate at the reporting date. The income and expenses are translated using average rate. Foreign currency differences that arise on translation for consolidation purposes are recognized in other comprehensive loss.

Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net loss for the year and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants outstanding. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price during the year. Because the Company incurred net losses, the effect of dilutive instruments would be anti-dilutive and therefore diluted loss per share equals basic loss per share.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in comprehensive loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period. Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Equipment
Leased vehicles are recorded at cost and amortized over the estimated term of the lease or the expected life of the asset if the Company has included payments to acquire the asset at the end of the lease. Equipment that is withdrawn from use or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

Purchased vehicles are recorded at cost and amortized over the estimated useful life of 2 years for previously used vehicles.

Intangibles
The Company records internally-generated intangible assets at cost less accumulated amortization and accumulated impairment losses.

Intangible assets in use are amortized on a straight-line basis over their estimated useful life of 3 years. Intangible assets under development and not ready for use are not amortized.

Research and development
Research costs are expensed when incurred. Internally-generated software costs, including personnel costs of the Company’s development group, are capitalized as intangible assets when the Company can demonstrate that the technological feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The Company did not have any development costs that met the capitalization criteria for the year ended December 31, 2021.

Share-based payments
The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is

determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black–Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Valuation of equity units issues in private placements
The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of common shares issued in private placements was determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to attached warrants. Any fair value attributed to warrants issued in private placements is recorded to reserves.

Impairment of assets
The Company performs impairment tests on its long-lived assets, including intangible assets, when new events or circumstances occur, or when new information becomes available relating to their recoverability. When the recoverable amount of each separately identifiable asset or cash generating unit ("CGU") is less than its carrying value, the asset or CGU's assets are written down to their recoverable amount with the impairment loss charged against profit or loss. A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of the depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

The CGU's recoverable amount is evaluated using the higher of the fair value less costs to sell or value in use. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques to determine fair value when it is not possible to determine fair value from active markets or a written offer to purchase. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its 95% owned subsidiary Web-to-door Trucking (2020 – Nil). Web-to-door Trucking is incorporated in and based out of Nevada, USA.

Business combination
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, Financial Instruments: Recognition and Measurement or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Significant estimates and assumptions
The preparation of financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the financial statements and in the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, estimating allowances for doubtful accounts receivable, the recoverability of loans receivable, estimating useful lives of equipment, the recoverability and measurement of deferred tax assets, and estimating the fair value for share-based payment transactions.

The acquisition of Web-to-Door Trucking was accounted for as a business combination at fair value in accordance with IFRS 3, *Business Combinations.* The acquired assets and assumed liabilities were adjusted to their fair values assigned through completion of a preliminary purchase price allocation. The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed. The Company uses valuation techniques which are generally based on forecasted future net cash flows discounted to present value, and also relies on work performed by third-party valuation specialists. These valuations are closely linked to the assumptions used by management on the future performance of the related assets.

(Expressed in Canadian Dollars)

3. TRUCKING ACQUISITION

On September 15, 2021, the Company acquired 95% of the issued and outstanding shares of Trucking for a purchase price of USD $3,100,000, consisting of 60% cash and 40% payable in restricted shares of ParcelPal's common stock. The cash portion of the purchase price will be paid in three tranches, beginning on the closing date of the transaction. The 5% minority shareholding is not eligible for any share of the Company's profits or net loss, there is no allocation of value to non-controlling interest.

Concurrently with the acquisition, the Company completed a non-brokered private placement (the "Offering"), pursuant to which it issued an unsecured multi-tranche convertible note with a face value of up to US$2,300,000 (the "Consideration") to an arm's length investor (the "Note"). Each of the first three funded tranches will carry a 5% Original Issue Discount (or "OID") (Note 11).

Each tranche to be funded as follows:

- USD $700,000 on closing (paid)
- USD $640,000 will be advanced 45 days from the closing date
- USD $520,000 will be advanced 90 days from the closing date
- USD $325,000 will be advanced upon mutual agreement by the Company and noteholder at 120 days from the closing date, together with the prorated 5% OID

The transaction was accounted for as a business combination, as the operations of Trucking meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed.

The fair value of the consideration transferred has been determined on a preliminary basis. The consideration has been allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. The Company has allocated goodwill to customer contracts on a preliminary basis but will require additional information to allocate the fair values to the net assets acquired. The determination of the fair value of the net assets acquired will be revised by the Company as additional information is received. The Company has estimated the allocation of the purchase price as follows:

Purchase price consideration	**US $**
Consideration – cash	1,860,000
Consideration – shares	1,240,000
Fair value of consideration	**3,100,000**
Cash	117,321
Prepaid expenses	20,440
Loans payable	(52,042)
Accounts payable and accrued liabilities	(59,657)
Customer contract	3,073,938
Total net assets acquired and liabilities assumed	**3,100,000**

Upon completing the acquisition of Trucking on September 15, 2021, the operating results for Trucking have been recognized in the consolidated statements of loss and comprehensive loss. During the period ended December 31, 2021, the Company recorded revenues of $1,394,558 and net loss of $89,479 related to Trucking.

(Expressed in Canadian Dollars)

4. ACCOUNTS RECEIVABLE

	December 31, 2021 $	December 31, 2020 $
Accounts receivable	**202,050**	**363,653**

As at December 31, 2021, 60% (December 31, 2020 – 95%) of the Company's accounts receivable are current, and the Company recorded $59,307 (2020 - $nil) of bad debt expense related to certain customer accounts.

One customer accounted for 55% of accounts receivable at December 31, 2021 (2020 – 73% of accounts receivable) and 97% (2020 – 95%) of total revenues during the year ended December 31, 2021.

5. 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 year ended December 31, 2021, the Company wrote-off the remaining $1,874 as uncollectible.

(Expressed in Canadian Dollars)

6. RIGHT-OF-USE ASSETS

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

	Vehicles $	ROU Assets $	Total $
Cost			
Balance, December 31, 2019	**-**	**894,046**	**894,046**
Additions	166,501	358,423	524,924
Disposal	-	(881,676)	(881,676)
Balance, December 31, 2020	**166,501**	**370,793**	**537,294**
Additions	58,352	619,678	678,030
Disposal	(26,108)	(150,772)	(176,880)
Balance, December 31, 2021	**198,745**	**839,699**	**1,038,444**
Accumulated amortization			
Balance, December 31, 2019	-	683,789	683,789
Amortization	16,559	372,300	388,859
Disposal	-	(879,053)	(879,053)
Balance, December 31, 2020	**16,559**	**177,036**	**193,595**
Amortization	79,922	266,610	346,532
Disposal	(3,264)	(150,772)	(154,036)
Balance, December 31, 2021	**93,217**	**292,874**	**386,091**
Net Book Value			
Balance, December 31, 2020	**149,942**	**193,757**	**343,699**
Balance, December 31, 2021	**105,528**	**546,825**	**652,353**

During the year ended December 31, 2021, the Company included $346,532 (2020 - $388,859) 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 were non-interest bearing and repaid during the year ended December 31, 2021.

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

During the year ended December 31, 2021, the Company disposed of two vehicles and received $15,314 and recorded a write-off of asset of $7,530.

7. 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 year ended December 31, 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) On September 15, 2021, the Company issued 13,777,778 common shares as part of the Trucking Acquisition, the shares were fair valued at $1,611,020. The Company also issued 500,000 incentive shares pursuant to the issuance of a convertible note.
j) On September 22, 2021, the Company issued 2,670,925 common shares pursuant to the settlement of US $184,000 convertible debt, the shares were fair valued at $280,447.
k) On September 30, 2021, the Company issued 13,000,000 common shares in lieu of fees to directors and officers of the Company, the shares were fair valued at $1,430,000.
l) On November 15, 2021, the Company issued 1,922,707 common shares pursuant to the settlement of US$100,000 convertible debt, the shares were fair valued at $182,657.
m) On December 7, 2021, the Company issued 2,528,448 common shares pursuant to the settlement of US$100,000 convertible debt, the shares were fair valued at $189,634.
n) On December 29, 2021, the Company issued 2,500,000 common shares pursuant to the settlement of US$100,000 convertible debt, the shares were fair valued at $137,500.
o) The Company issued 657,000 shares pursuant to the exercise of 657,000 warrants for gross proceeds of $98,550.
p) The Company issued 100,000 shares pursuant to the exercise of 100,000 stock options for gross proceeds of $9,000.

During the year ended December 31, 2020:

a. On January 14, 2020, the Company issued 600,000 common shares in lieu of fees for consulting services. The shares were fair valued at $72,000.
b. On February 11, 2020, the Company issued 416,667 commons shares to settle debt of $50,000. The shares were fair valued at $50,000 and no gain or loss on debt settlement was recorded.
c. On March 23, 2020, the Company issued 205,556 common shares in lieu of fees to a consultant of the Company. The shares were fair valued at $18,500.
d. On May 29, 2020, the Company issued 600,000 common shares as consideration for a convertible note issued by the Company, the shares were fair valued at $nil.
e. On June 9, 2020, the Company issued 270,000 shares pursuant to a debt settlement, the shares were fair valued at $27,000.

f. On June 11, 2020, the Company issued 1,200,000 common shares to settle and terminate a business advisory agreement, the shares were fair valued at $150,000.
g. On June 24, 2020, the Company issued 600,000 common shares in lieu of fees for consulting services. The shares were fair valued at $66,000.
h. On June 29, 2020, the Company issued 300,000 common shares as consideration for a convertible note issued by the Company, the shares were fair valued at $nil.
i. On July 3, 2020, the Company issued 1,000,000 common shares fair valued at $95,000 for management fees.
j. On July 15, 2020, the Company issued 500,000 common shares fair valued at $47,500 for management fees.
k. On August 27, 2020, the Company issued 583,333 common shares to settle $35,000 USD of convertible debt, the shares were valued at $64,167 (note 11).
l. On September 15, 2020, the Company issued 500,000 common shares fair valued at $40,000 for management fees.
m. On September 29, 2020, the Company issued 150,000 common shares valued at $nil pursuant to the issuance of an additional convertible note.
n. On October 16, 2020, the Company issued 75,000 common shares valued at $nil pursuant to the issuances of an additional convertible note.
o. On November 6, 2020, the Company issued 262,500 common shares in lieu of fees, the shares were fair valued at $21,000.
p. On December 14, 2020, the Company issued 833,333 common shares to settle $50,000 USD of convertible debt. The shares were valued at $133,333.
q. On December 17, 2020, the Company issued 1,666,667 common shares to settle $100,000 USD of convertible debt. The shares were valued at $291,667.
r. On December 18, 2020, the Company issued 2,100,000 common shares to settle $199,752 USD of debt. The shares were fair valued at $357,000 and the Company recorded a loss on debt settlement of $103,773.
s. On December 21, 2020, the Company issued 100,000 common shares as consideration for a convertible note issued by the Company, the shares were fair valued at $nil.
t. On December 23, 2020, the Company issued 1,846,564 common shares to settle $110,794 USD of convertible debt. The shares were valued at $267,752.

(Expressed in Canadian Dollars)

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.

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

	Number of Options #	Weighted Average Exercise Price $
Balance, December 31, 2019	**10,374,000**	**0.22**
Granted	6,725,000	0.09
Exercised	(2,000,000)	0.09
Expired	(200,000)	0.17
Forfeited	(5,099,000)	0.20
Balance, December 31, 2020	**9,800,000**	**0.15**
Granted	2,500,000	0.14
Exercised	(100,000)	0.09
Cancelled	(1,025,000)	0.16
Balance, December 31, 2021	**11,175,000**	**0.15**

Pursuant to the exercise of stock options the Company reallocated $6,965 (2020 - $130,127) of contributed surplus to share capital.

On May 6, 2020, the Company granted 2,875,000 options to officers, directors and consultants of the Company. The options had an exercise price of $0.09, vested immediately and expire on May 6, 2025. The Company fair valued the options using the Black-Scholes option pricing model at $208,995.

On June 1, 2020, the Company granted 250,000 options to an employee of the Company, the options have an exercise price of $0.14 and expire on January 30, 2023. The options vested immediately and were fair valued at $14,251.

On July 22, 2020, the Company granted 500,000 options to consultants of the Company, the options have an exercise price of $0.09 and expire on July 22, 2025. The options vested immediately and were fair valued at $34,827 using the Black-Scholes option pricing model.

On November 12, 2020, the Company granted 1,000,000 options to consultants of the Company, the options have an exercise price of $0.09 and expire on November 12, 2025. The options vested immediately and were fair valued at $57,909 using the Black-Scholes option pricing model.

On November 12, 2020, the Company granted 2,000,000 options to directors, officers and consultants of the Company, the options have an exercise price of $0.075 and expire on November 12, 2025. The options vested immediately and were fair valued at $121,608 using the Black-Scholes option pricing model.

(Expressed in Canadian Dollars)

During the year ended December 31, 2021, the Company recorded share-based payments expense of $263,672 (2020 - $473,103; 2019 - $776,962) 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:

	December 31, 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%

As at December 31, 2021 the following options were outstanding and exercisable:

Expiry Date	Exercise price $	Remaining life (years)	Options outstanding
November 17, 2022	0.16	0.88	150,000
November 28, 2022	0.18	0.91	550,000
January 21, 2023	0.32	1.06	450,000
May 1, 2023	0.24	1.33	500,000
August 15, 2023	0.21	1.62	300,000
August 31, 2023	0.27	1.67	200,000
November 22, 2023	0.26	1.89	100,000
December 13, 2023	0.25	1.95	750,000
May 2, 2024	0.27	2.34	150,000
May 17, 2024	0.245	2.41	200,000
June 17, 2024	0.245	2.46	300,000
May 6, 2025	0.09	3.35	2,475,000
June 1, 2025	0.14	3.42	250,000
July 22, 2025	0.09	3.56	400,000
November 12, 2025	0.075	3.87	2,100,000
January 22, 2026	0.145	4.06	2,000,000
June 2, 2026	0.12	4.42	500,000
			11,175,000

(Expressed in Canadian Dollars)

Warrants

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

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

8. 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:

	2021 $	2020 $	2019 $
Consulting fees	-	372,066	322,656
Management fees	1,808,250	305,158	163,800
Salaries and wages	78,751	-	-
Share-based compensation	231,016	295,786	-
	2,118,692	973,010	486,456

Included in accounts payable as at December 31, 2021 is $112,128 (December 31, 2020 - $85,669) owing to directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

(Expressed in Canadian Dollars)

9. INCOME TAXES

The income tax provision differs from expected amounts calculated by applying Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	December 31, 2021 $	**December 31, 2020 $**	**December 31, 2019 $**
Net loss for the year	(4,102,608)	(4,874,082)	(4,610,512)
Statutory income tax rate	27%	27%	27%
Expected income tax recovery	(1,107,704)	(1,316,002)	(1,244,838)
Permanent differences	74,003	120,014	205,553
Change in unrecognized deferred assets	1,033,701	1,195,988	1,039,285
Income tax recovery	-	-	-

Temporary differences that give rise to the following deferred tax assets and liabilities are:

	December 31, 2021 $	**December 31, 2020 $**	**December 31, 2019 $**
Deferred tax assets			
Non-capital tax loss carry forwards	4,311,488	3,440,372	2,260,154
Other	-	64,347	109,482
Share issuance costs	13,648	43,527	43,527
	4,325,136	3,548,246	2,413,163
Valuation allowance	(4,325,136)	(3,548,246)	(2,413,163)
	-	-	

As at December 31, 2021, the Company has approximately $15,968,000 of non-capital losses in Canada that may be used to offset future taxable income, expiring between 2026 and 2040.

10. 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 year ended December 31, 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;
- 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 $144,710 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. In December 2020, 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 December 31, 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.

(Expressed in Canadian Dollars)

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 year ended December 31, 2021.

11. 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 year ended December 31, 2021, the Company renewed several lease agreements and recorded an additional obligation of $179,795.

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

	$
Balance, December 31, 2019	**202,798**
Lease additions	358,423
Lease termination	(2,623)
Interest expense	28,671
Payments	(374,366)
Balance, December 31, 2020	**212,903**
Lease additions	619,678
Lease credit	(4,385)
Interest expense	22,666
Payments	(287,532)
Balance, December 31, 2021	**563,330**

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

	December 31, 2021 **$**	**December 31, 2020** **$**
Less than 1 year	166,878	104,745
1-5 years	467,025	134,784
5 + years	-	-
Total minimum lease payments	633,903	239,529
Less: Imputed Interest	(70,573)	(26,626)
Total lease obligations	563,330	212,903
Current portion of lease obligations	(158,409)	(92,736)
Non-current portion of lease obligations	404,921	120,167

During the year ended December 31, 202, the Company also incurred $ 110,266 (2020 - $$58,042) in short-term vehicle lease expense that is not included above.

12. CONVERTIBLE PROMISSORY NOTE

During the year ended December 31, 2021 and 2020, 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 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:

	December 31, 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 year ended December 31, 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.

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 September 22, 2021, the Company issued 2,670,925 common shares to settle US $184,000 of the outstanding balance. The shares were fair valued at $280,447. On November 15, 2021, the Company issued 1,922,707 common shares to settle US $100,000 of the outstanding balance, the shares were fair valued at $182,657. On December 7, 2021, the Company issued

2,111,252 common shares to settle US $83,500, the shares were fair valued at $158,344 and this issuance settled the principal balance in full.

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 December 7, 2021 and December 29, 2021, the Company issued 417,196 and 2,500,000 common shares to settle US $116,500 of the loan, the shares were fair valued at $31,290 and $137,500 respectively. At December 31, 2021, the outstanding balance of the loan is US $257,740 (CAD - $326,763)

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 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%.

On closing of the Trucking Acquisition, the Company issued a convertible note with face value of up to US$2,300,000 receivable in four tranches. Each of the first three funded tranches will carry a 5% Original Issue Discount (or "OID"). As consideration of the convertible note, the Company shall issue 500,000 common shares to the noteholder for each of the first three funded tranches. As at December 31, 2021, the first tranche of US $735,000 and the second tranche of US $672,000 had been funded and 500,000 common shares were issued to the noteholder, valued at $nil.

The first tranche had a guaranteed interest rate of 8% and an original issue discount for US $35,000. The note matures on March 14, 2022 and can be converted into common shares of the Company at a conversion price of US $0.09 per common share. The conversion option was fair valued at $110,301 and the loan was fair valued at $776,844. The loan is amortized to maturity using an effective interest rate of 20.087%.

The second tranche had a guaranteed interest rate of 8% and an original issue discount for US $32,000. The note matures on May 23, 2022 and can be converted into common shares of the Company at a conversion price of US $0.09 per common share. The conversion option was fair valued at $140,643 and the loan was fair valued at $670,204. The loan is amortized to maturity using an effective interest rate of 25.55%

The fair value of the derivative liability at December 31, 2021 was $206,726 (2020 - $794,631). During the year ended December 31, 2021 the Company realized a loss on fair value of derivative liability of $164,168 (2020 - $287,661) related to conversion and a $51,781 (2020 - $587,577 unrealized loss) in unrealized gain from remeasurement of the outstanding derivative liabilities.

(Expressed in Canadian Dollars)

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

	Convertible Debt $	Derivative Liability $
Balance, December 31, 2019	**-**	**-**
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)	-
Balance, December 31, 2020	**766,070**	**794,631**
Additions	2,653,829	503,848
Interest expense	198,092	-
Accretion	552,151	-
Change in fair value of derivative liability	-	112,387
Conversion of convertible debt	(1,766,066)	(1,204,140)
Foreign exchange on loan	25,151	-
Balance, December 31, 2021	**2,429,227**	**206,726**

13. COST OF SALES

For the year ended December 31, 2021, 2020 and 2019, cost of sales consists of the following:

	2021 $	2020 $	2019 $
Amortization	346,532	388,859	349,668
Driver expenses	9,808	121,352	211,204
Fuel	112,091	396,343	422,726
Short term vehicle rentals	110,266	58,042	-
Salaries and wages	5,674,740	4,983,299	3,352,958
	6,253,436	**5,947,895**	**4,336,556**

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended December 31, 2021, the Company issued 13,833,333 common shares valued at $1,521,667 for consulting and management services.

During the year ended December 31, 2021, the Company issued 13,777,778 common shares valued at $1,611,020 pursuant to the acquisition of Trucking.

During the year ended December 31, 2020, the Company issued 2,786,667 shares valued at $434,000 to settle accounts payable of $330,227 and issued 4,868,056 shares, valued at $422,000, for consulting services.

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2021:

1) The Company signed a letter of an intent to acquire another United States delivery service company (the "Acquiree"). The total purchase price (the "Purchase Price") is expected to be one time actual revenue of the Acquiree's first 12 months of operations (expected to be USD$1,400,000), based on an earn-out schedule to be set forth in the definitive agreement, which will be payable in cash (60%) and in shares of ParcelPal's common stock (40%), the stock portion of which shall be priced at-market based on the closing price of the common stock following the closing of the transaction. Under the terms of the proposed transaction, this will be an asset sale and ParcelPal will acquire 100% of the Acquiree's outstanding assets and revenues generated from this delivery service location, which is located in the western region of the United States.