# Danavation Technologies Corp.
## (Formerly Wolf's Den Capital Corp.)

**AUDITORS' REPORT AND**
**CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2021 and 2020**
(Expressed in Canadian dollars, Unless Noted Otherwise)

# Danavation Technologies Corp.
**(Formerly Wolf's Den Capital Corp.)**
**Consolidated Financial Statements**
**Years ended July 31, 2021 and 2020**
(Expressed in Canadian dollars, Unless Noted Otherwise)

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of
**Danavation Technologies Corp. (formerly Wolf's Den Capital Corp.)**

## Opinion

We have audited the accompanying consolidated financial statements of Danavation Technologies Corp. (formerly Wolf's Den Capital Corp.) and its subsidiaries (together referred as the "Company"), which comprise the consolidated statement of financial position as at July 31, 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at July 31, 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describe the events and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Matters

The consolidated financial statements of the Company for the year ended July 31, 2020 were audited by another auditor who expressed an unqualified opinion on those statements on January 11, 2021.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Spence Walker.

Kreston GTA LLP

Chartered Professional Accountants
Markham, Canada
November 26, 2021

**Danavation Technologies Corp.**
**(Formerly Wolf's Den Capital Corp.)**
**Consolidated Statement of Financial Position**
(Expressed in Canadian dollars, Unless Noted Otherwise)

| | Note | July 31, 2021 | July 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash | | **$ 5,979** | $ 698,641 |
| Accounts Receivable | **5** | **196,049** | 59,313 |
| Inventory | **6** | **107,932** | 22,055 |
| Government remittances receivable | | **263,471** | 223,256 |
| Prepaid expenses and deposits | | **378,252** | 272,559 |
| | | **951,683** | 1,275,824 |
| **Property and Equipment** | **7** | **683,828** | 6,290 |
| **Right-of-use Assets** | **8** | **2,130,182** | 28,389 |
| | | **$ 3,765,963** | $ 1,310,503 |
| **Liabilities** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | **9** | **$ 752,862** | $ 283,579 |
| Deferred revenue | | **9,925** | - |
| Current portion of long-term debt | **10** | **-** | 56,170 |
| Current portion of lease obligation | **11** | **149,701** | 29,923 |
| Amount due to related parties | **13** | **599,968** | 703,668 |
| | | **1,512,456** | 1,073,340 |
| **Long-term portion of lease obligation** | **11** | **1,967,715** | - |
| **Long-term debt** | **10** | **-** | 239,500 |
| | | **3,480,171** | 1,312,840 |
| **Shareholders' Equity** | | | |
| Share capital | **12** | **6,361,256** | 2,026,244 |
| Contribution surplus | **12** | **1,772,962** | - |
| Deficit | | **(7,848,696)** | (2,028,581) |
| | | **285,522** | (2,337) |
| | | **$ 3,765,693** | $ 1,310,503 |

**Nature of Operations and Going Concern** – Note 1
**Subsequent events** – Note 20

*"John Ricci"*
Director

*"Tom Loberto"*
Director

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

## Danavation Technologies Corp.
**(Formerly Wolf's Den Capital Corp.)**
**Consolidated Statement of Operations and Comprehensive Loss**
**Years Ended July 31**
(Expressed in Canadian dollars, Unless Noted Otherwise)

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | $ | $ |
| Sales | | 189,635 | 102,740 |
| Cost of goods sold | | 202,672 | 97,525 |
| **Gross margin** | | (13,037) | 5,215 |
| Administrative expenses | | | |
| Advertising and sales promotion | | 987,296 | 22,105 |
| Bank charges | | 6,786 | 499 |
| Bad debt expenses | | 1,728 | 2,213 |
| Depreciation of property and equipment | 7 | 38,408 | 1,110 |
| Depreciation of right-of-use assets | 8 | 112,913 | 56,778 |
| Consulting fees | | 285,258 | 196,237 |
| Interest on long-term debt | 10 | 17,012 | 27,977 |
| Interest on lease obligation | 11 | 59,750 | 8,199 |
| Office and general | | 498,489 | 70,556 |
| Professional fees | | 179,900 | 147,032 |
| Salaries and benefits | | 1,777,302 | 763,515 |
| Trade show | | 36,667 | 24,315 |
| Travel | | 12,684 | 52,266 |
| Utilities | | 19,092 | 17,816 |
| Vehicle | | 24,955 | 29,494 |
| Stock-based compensation | 12 | 995,739 | - |
| Listing expense | 4 | 753,099 | - |
| | | (5,807,078) | (1,420,112) |
| **Loss before income taxes** | | (5,820,115) | (1,414,897) |
| Income tax expense | 16 | - | - |
| **Net loss and comprehensive loss for the year** | | (5,820,115) | (1,414,897) |
| **Basic and diluted loss per share** | 14 | (0.06) | (0.05) |
| **Weighted average number of shares outstanding** | 14 | 92,671,393 | 29,279,872 |

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

## Danavation Technologies Corp.
**(Formerly Wolf's Den Capital Corp.)**
**Consolidated Statement of Cash Flows**
**Years ended July 31**
(Expressed in Canadian dollars, Unless Noted Otherwise)

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss before income taxes | **(5,820,115)** | (1,414,897) |
| Items not involving cash: | | |
| Depreciation of property and equipment | **112,913** | 1,110 |
| Depreciation of right of use assets | **38,408** | 56,778 |
| Bad debt expenses | **1,728** | 2,213 |
| Interest expenses on lease liabilities | **59,750** | 4,756 |
| Stock-based compensation | **995,739** | - |
| Listing expenses | **753,099** | - |
| | **(3,858,478)** | (1,350,040) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | **71,144** | (50,588) |
| Government remittance receivable | **(40,215)** | (163,268) |
| Inventory | **(85,877)** | (212,276) |
| Prepaid and deposits | **(127,324)** | 120,825 |
| Deferred revenue | **9,925** | - |
| Accounts payable and accrued liabilities | **396,239** | (22,055) |
| | **(3,634,586)** | (1,677,402) |
| **Financing activities** | | |
| Proceed from long-term debt | **-** | 90,000 |
| Repayment of long-term debt | **(295,670)** | (44,330) |
| Issuance of share capital | **3,504,168** | 2,026,224 |
| Proceed from exercise of warrants | **254,518** | - |
| Advance (to) from related parties | **(39,290)** | 293,549 |
| Lease payments | **(140,713)** | (60,000) |
| | **3,283,013** | 2,305,443 |
| **Investing activities** | | |
| Purchase of property and equipment | **(715,956)** | (7,400) |
| Cash acquired from reverse take-over transaction | **374,857** | - |
| | **(341,089)** | (7,400) |
| **(Decrease) increase in cash during the year** | **(692,662)** | 620,641 |
| **Cash, beginning of year** | **698,641** | 78,000 |
| **Cash, end of year** | **5,979** | 698,641 |

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

## Danavation Technologies Corp.
**(Formerly Wolf's Den Capital Corp.)**
**Consolidated Statement of changes in shareholders' equity**
**As at July 31, 2021 and 2020**

| | Number of Shares | Share Capital | Warrant reserve | Share option reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| Balance at July 31, 2019 | 200 | 20 | - | - | (613,684) | (613,664) |
| Shares issued for cash (note 12) | 79,651,462 | 2,026,224 | - | - | - | 2,026,224 |
| Net loss for the year | - | - | - | - | (1,414,897) | (1,414,897) |
| **Balance at July 31, 2020** | **79,651,662** | **2,026,244** | **-** | **-** | **(2,028,581)** | **(2,337)** |
| Effect of deemed acquisition by Danavation Technologies Inc. at fair value of capital consideration (note 4) | 22,531,725 | 3,947,840 | 909,877 | - | - | 4,857,717 |
| Exercise of warrants (note 12) | 1,017,600 | 387,172 | (132,654) | - | - | 254,518 |
| Share-based compensation (note 12) | - | - | - | 995,739 | - | 995,739 |
| Net loss for the year | - | - | - | - | (5,820,115) | (5,820,115) |
| **Balance at July 31, 2021** | **103,200,987** | **6,361,256** | **777,223** | **995,739** | **(7,848,696)** | **285,522** |

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

## 1. Nature of Operations and Going Concern

Danavation Technologies Corp. (formerly Wolf's Den Capital Corp.) was incorporated on June 4, 2007, under the Business Corporations Act of British Columbia. The registered office of the Company is located at 1000 - 595 Burrard Street - P.O. Box 49290 - Vancouver, British Columbia, Canada V7X 1S8. The Company's principal activity relates to the sale of micro e-paper displays and software to retailers to automate labeling, price, product, and promotions in real-time. During the year, the Company changed its name to Danavation Technologies Corp. and changed its year end from December 31 to July 31.

On January 8, 2021, the Company executed a share exchange agreement with Danavation Technologies Inc. Please refer to Note 4 for details on a reverse take-over transaction. The Company's common shares trade on the Canadian Securities Exchange under the symbol "DVN". On January 19, 2021, 8,245,000 of the Company's warrants began trading on the Canadian Securities Exchange, under the ticker symbol "DVN.WT".

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. As at July 31, 2021, the Company has working capital deficiency of $560,773 (July 31, 2020: working capital of $202,484), and has accumulated a deficit of $7,848,696 (July 31, 2020: $2,028,581) since inception. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. There can be no assurances that the Company will continue to obtain the additional financing resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate financing, the Company will be required to curtail operations. All of which indicate the existence of a material uncertainty that may cast substantial doubt on whether the Company would continue as a going concern and realize its assets and settle its liability and commitments in the normal course of business.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

These consolidated financial statements were approved for issuance by the Board of Directors on November 26, 2021.

## 2. Basis of Presentation

### a) Statement of compliance

These consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies set out in Note 3 have been applied consistently by the Company during the years presented.

### b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. All financial information in these consolidated financial statements is presented in Canadian dollars, which is the functional currency of the Company. All amounts are rounded to the nearest dollar.

## 2. Basis of Presentation (continued)

### c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are considered. All inter-company balances and transactions have been eliminated in preparing consolidated financial statements. The following wholly-owned subsidiaries has been consolidated within the consolidated financial statements:

| Entity | Principle activity | Place of business and operations | Equity percentage |
|---|---|---|---|
| Danavation Technologies Inc. | Operating Company | Canada | 100% |
| 0890810 BC Ltd. | Operating Company | Canada | 100% |

The financial statements of the subsidiaries are prepared using consistent accounting policies as the Company. All intercompany transactions and balances are eliminated on consolidation.

### d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statements, along with reported amounts of expenses and net losses during the period. Actual results may differ from these estimates, and as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date that could result in a material adjustment to the carrying value of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Judgements:

(i) The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year. The factors considered by management are disclosed in Note 1.

(ii) The functional and reporting currency of the parent Company and Danavation Technologies Inc. is the Canadian dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The determination of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

## 2. Basis of Presentation (continued)

### d) Use of estimates and judgments (continued)

Estimates:

(i) The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them.

(ii) The estimated useful lives and residual value of property and equipment which are included in the consolidated statement of financial position and the related depreciation included in the consolidated statement of operations and comprehensive loss.

(iii) The discount rates applied to the Company's right-of-use assets and related lease liabilities and related interest expense included in the consolidated statement of operations and comprehensive loss.

(iv) The Company maintains an allowance for doubtful accounts for the loss that would be incurred if a customer was unable to pay amounts due. The Company initially estimates the allowance required at the time of revenue recognition based on historical experience and makes changes to the allowance based on various factors, including changes in the customer's financial condition or payment patterns.

(v) The cost of inventories is written down to the net realizable value ("NRV") when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. When the NRV of an item of inventory is less than the carrying amount, the excess is written off immediately in the profit or loss. The management's review and estimation of the NRV is primarily based on the ageing, conditions and marketability of the inventories. The Company carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow-moving items so as to write off or write down inventories to their NRVs.

## 3. Significant Accounting Policies

### a) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

**3. Significant Accounting Policies (continued)**

**b) Property and equipment**

Property and equipment are recorded at cost. Amortization is provided for on a straight-line basis on the following useful lives:

| Asset | Useful lives |
|---|---|
| Computer equipment | 3 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | Term of lease |

Residual values and economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date. Subsequent expenditure relating to an item of equipment is capitalized when it is probably that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expenses during the period in which they are incurred. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized net within other income in the consolidated statement of operations and comprehensive loss.

**c) Right-of-use Assets**

Right-of-use assets are recorded at the present value of future lease payments, alongside a corresponding lease liability. Lease payments are recognized on a straight-line basis over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, an incremental borrowing rate is used.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method, and by reducing the carrying amount to reflect the lease amount incurred. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**d) Inventory**

Inventories of finished goods and packing materials are valued at the lower of cost and NRV. Cost of inventories are determined on a first in first out method. NRV is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**e) Leases**

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date, in accordance with IFRS 16 *Leases*. The right-of-use asset is initially measured at cost and, subsequently, at cost less any accumulated depreciation and impairment, and adjusted for certain remeasurements of the lease obligation. The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

## 3. Significant Accounting Policies (continued)

### f) Loss per share

Long-term debt instruments are recorded at amortized cost, net of debt issuance costs and net of amortization of these issuance costs. Debt issuance costs are deferred and amortized using the effective interest rate method.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants, and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants, and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For diluted loss per share, the dilutive effect has not been presented separately as it proved to be anti-dilutive.

### j) Foreign currency transactions

Transactions in foreign currencies are translated into Canadian dollars at the exchange rates at the dates of the transactions. Most foreign currency transactions are in United States dollars even though the transactions may originate in other countries. The company has no non-monetary foreign transactions. Foreign currency differences are generally recognized in profit and loss.

### k) Share capital

The proceeds from the exercise of stock options, warrants, and the purchase of shares are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on the fair market value of the shares.

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### l) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

## 3. Significant Accounting Policies (continued)

### m) Share-based payments

The fair value of the options is measured at grant date and each tranche is recognized on a straight line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

### n) Warrants

The proceeds from the issue of units are allocated between common shares and share purchase warrants on a pro-rata basis based on relative fair values. The fair value of common shares is based on the market closing price on the date the units are issued and the fair value of the share purchase warrants is determined using the quoted market price or if the warrants are not traded, the Black-Scholes option pricing model. Equity instruments issued to agents as financing costs are measured at their fair value at the date of grant.

### p) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses and other deductions carried forward to future years.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. The value of deferred income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

### q) Financial instruments and comprehensive income

***Recognition and Classification***

The Company recognized 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 ("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.

## 3. Significant Accounting Policies (continued)

### q) Financial instruments and comprehensive income (continued)

***Measurement***

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 profit or 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 profit or 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 accumulated other comprehensive loss.

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 accumulated 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.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses ("ECL") 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 ECL 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 ECL ("12m ECL").

The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of ECL (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 profit or 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, is recognized in profit or loss.

## 3. Significant Accounting Policies (continued)

### r) Revenue recognition

The company recognizes revenue in accordance with IFRS 15. It generates its revenue streams from the sales of Digital Smart Labels (DSLs) to its customers. The primary revenue streams are:

Hardware – Revenue from the sale of DSLs and other hardware is recognized when control is passed to customer. This exchange is recognized once the product is shipped to the customer. It is at the point of exchange that the company no longer obtains any benefit from the asset.

Installation and configuration – Revenue from the installation of hardware and configuring software to customer's networks is recorded when hardware is installed at the customer's site and the software configuration is operational for the customer.

Software agreements – Software agreements are fixed term usage and maintenance services. Revenue is recognized over the term of the agreement.

## 4. Reverse Take-over Transaction

On January 8, 2021, the Company executed a share exchange agreement (collectively, the "Share Exchange Agreement") with Danavation Technologies Inc. ("Danavation Tech") and certain of its shareholders at such time (the "Danavation Tech Shareholders") pursuant to which Wolf's Den acquired all of the issued and outstanding shares of Danavation Tech in exchange for shares of the Company as detailed below (the "Transaction"). The Transaction was accounted for in accordance with IFRS 2, *Share-Based Payments*, and constituted a reverse takeover of the Company by Danavation Tech and the Danavation Tech Shareholders for the purposes of applicable securities laws.

Pursuant to the Share Exchange Agreement, completed a consolidation of its issued and outstanding common shares (the "Consolidation") on the basis of one post-consolidation common share (the "Shares") for every thirty outstanding common shares in the capital of the Company.

As a condition to the completion of the Transaction, Danavation Tech completed a brokered private placement of 16,490,000 subscription receipts at a price of $0.25 per subscription receipt for gross proceeds of $4,122,500. Upon satisfaction of the release conditions, each subscription receipt was automatically exchanged, without payment of any additional consideration, into: (i) one Danavation Tech Share, each of which was immediately be exchanged for one common share of the Resulting Issuer; and (ii) one-half of one common share purchase warrant, each whole warrant exercisable to acquire a Danavation Tech Share at an exercise price of $0.35 expiring within twenty-four months from the satisfaction of the release conditions, each of which was immediately be exchanged for warrants of the Resulting Issuer exercisable to acquire a Resulting Issuer common share on the same terms. Cash costs, including professional fees and cash broker commissions were $456,336.

The resulting 8,245,000 warrants have been assigned an aggregate fair value of $744,009 using the Black Scholes valuation model, relative value method, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.25% and expected life of 2 years.

In connection with the Danavation Tech Financing, 1,272,000 broker warrants were issued at an exercise price of $0.25 per broker warrant for twenty-four months from completion of the release conditions. The broker warrants were assigned an aggregate fair value of $165,868 using the Black-Scholes valuation model, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.25% and expected life of 2 years.

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 4. Reverse Take-over Transaction (continued)

Each of the above securities were immediately be exchanged for warrants of the Company exercisable to acquire a Share on the same terms.

The Company acquired 100% of the issued and outstanding shares of Danavation Tech, issuing 96,141,662 Shares to the holders of Danavation Tech Shares, including Danavation Tech Shares issued in connection with the Danavation Tech Financing.

Concurrently with the Consolidation, the Company changed its name to Danavation Technologies Corp., and changed its year end from December 31 to July 31.

The transaction is assumed to constitute an asset acquisition as Danavation Technologies Corp. (formerly Wolf's Den Capital Corp.) did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their estimated fair values, which are based on management's estimates.

| | $ |
|---|---|
| Estimated fair value of shares issued | 1,208,345 |
| Net assets acquired | (600,450) |
| Excess attributed to cost of listing | 607,895 |
| Other listing costs | 145,204 |
| **Listing Expense** | **753,099** |

**Net assets acquired (Danavation Technologies Corp. at January 8, 2021):**

| | $ |
|---|---|
| Cash | 374,857 |
| Accounts receivable | 274,018 |
| Prepaids | 24,619 |
| Accounts payable and accruals | (73,044) |
| **Net assets acquired** | **600,450** |

## 5. Accounts Receivable

The Company's accounts receivable is comprised of the following sources:

| | | **July 31, 2021** | | July 31, 2020 |
|---|---|---|---|---|
| Trade receivables (note (i)) | **$** | **131,639** | $ | 59,313 |
| Other receivables (note (ii)) | | **64,410** | | - |
| | **$** | **196,049** | $ | 59,313 |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 5. Accounts Receivable (continued)

**Notes:**

(i) Trade receivables are broken down as follows:

| | | July 31, 2021 | | July 31, 2020 |
|---|---|---|---|---|
| Current trade receivables | **$** | **135,580** | $ | 61,526 |
| Less: allowance for doubtful accounts | | **(3,941)** | | (2,213) |
| | **$** | **131,639** | $ | 59,313 |

(ii) Included in other receivable as at July 31, 2021 was amount receivable from the Company former directors, which classified as amount due from related parties July 31, 2020.

## 6. Inventory

The Company's inventory consists of DSL equipment pending installation and spare equipment for miscellaneous client orders. The Company's inventory is comprised of:

| | | July 31, 2021 | | July 31, 2020 |
|---|---|---|---|---|
| Finished goods | **$** | **107,932** | $ | 22,055 |

## 7. Property and Equipment

As of July 31, 2021 and 2020, property and equipment consisted of the following:

| | Leasehold improvements | Furniture and equipment | Computer | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost** | | | | |
| Balance, July 31, 2019 | - | - | - | - |
| Additions | - | - | 7,400 | 7,400 |
| Balance, July 31, 2020 | - | - | 7,400 | 7,400 |
| Additions | 279,103 | 357,005 | 79,838 | 715,946 |
| **Balance, July 31, 2021** | **279,103** | **357,005** | **87,238** | **723,346** |
| **Accumulated amortization** | | | | |
| Balance, July 31, 2019 | - | - | - | - |
| Depreciation | - | - | 1,110 | 1,110 |
| Balance, July 31, 2020 | - | - | 1,110 | 1,110 |
| Depreciation | 6,944 | 20,990 | 10,474 | 38,408 |
| **Balance, July 31, 2021** | **6,944** | **20,990** | **11,584** | **39,518** |
| Net carrying cost, July 31, 2020 | - | - | 6,290 | 6,290 |
| **Net carrying cost, July 31, 2021** | **272,159** | **336,015** | **75,654** | **683,828** |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 8. Right-of-use Assets

The following table reconciles the change in right-of-use assets for the years ended July 31, 2021 and 2020:

| | $ |
|---|---|
| **Cost** | |
| Balance, July 31, 2019 | - |
| Initial recognition upon adoption of IFRS 16 | 85,167 |
| Balance, July 31, 2020 | 85,167 |
| Additions | 2,214,706 |
| Lease modification | - |
| Lease maturity | (85,167) |
| **Balance, July 31, 2021** | **2,214,706** |
| **Accumulated Depreciation** | |
| Balance, July 31, 2019 | - |
| Depreciation | 56,778 |
| Balance, July 31, 2020 | 56,778 |
| Depreciation | 112,913 |
| Lease modification | - |
| Lease maturity | (85,167) |
| **Balance, July 31, 2021** | **84,524** |
| Net carrying cost, July 31, 2020 | 28,389 |
| **Net carrying cost, July 31, 2021** | **2,130,182** |

During the year ended July 31, 2021, the Company entered into various agreements to lease a building, warehouse and office equipment, for its operations. Lease contracts are entered into for fixed term of 3 to 10 years. The Company has extension options in a number of leases for building and warehouse. These are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. The extension options held are exercisable only by the Company and not by the respective lessors. The Company assessed that it is reasonably certain to exercise all the extension option at the date of initial application. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Company applies the definition of a contract and determines the period for which the contract is enforceable.

## 9. Accounts payable and accrued liabilities

| | | **July 31, 2021** | | July 31, 2020 |
|---|---|---|---|---|
| Trade payables | $ | **230,761** | $ | 61,223 |
| Payroll liabilities payable | | **168,685** | | 65,371 |
| Consultancy fee payable | | **76,000** | | - |
| Other payable | | **-** | | 9,708 |
| Accrued liabilities | | **277,416** | | 147,277 |
| | $ | **752,862** | $ | 283,579 |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 10. Long-term debt

| | | **July 31, 2021** | | July 31, 2020 |
|---|---|---|---|---|
| Loan A Payable (note (i)) | **$** | **-** | $ | 215,400 |
| Loan B Payable (note (ii)) | | **-** | | 80,260 |
| | | **-** | | 295,670 |
| Less: Current portion | | **-** | | (56,170) |
| | **$** | **-** | $ | 239,500 |

**Notes:**

(i) Loan A payable bears interest at the Business Development Bank of Canada's floating base rate plus 4.50%, repayable in monthly installments of $3,470 of principal plus interest, secured by a general security agreement, personal guarantee from the directors of the Company and by a corporate guarantee from Dana Industries Inc., maturing September 1, 2025. During the year ended July 31, 2021, loan A payable was fully repaid.

(ii) Loan B payable bears interest at the Business Development Bank of Canada's floating base rate plus 1%, repayable in monthly installments of $1,500 of principal plus interest, secured by a general security agreement, personal guarantee from the directors of the Company and by a corporate guarantee from Dana Industries Inc., maturing March 10, 2025. During the year ended July 31, 2021, loan B payable was fully repaid.

## 11. Lease Obligation

| | | **Total** |
|---|---|---|
| **Carrying value, July 31, 2019** | **$** | **-** |
| Initial recognition upon adoption of IFRS 16 | | 85,167 |
| Interest accrued | | 4,756 |
| Lease payments | | (60,000) |
| **Carrying value, July 31, 2020** | | **29,923** |
| Additions | | 2,168,456 |
| Interest accrued | | 59,750 |
| Lease payments | | (140,713) |
| **Carrying value, July 31, 2021** | **$** | **2,117,416** |
| Current portion of lease obligation | $ | 149,701 |
| Long-term portion of lease obligation | | 1,967,715 |
| | **$** | **2,117,416** |

Future minimum lease payments related to obligations under real estate lease as of July 31, 2021, are as follows:

| | | |
|---|---|---|
| Current | $ | 285,938 |
| Long-term | | 2,800,313 |
| | | 3,086,251 |
| Less: imputed interest | | (968,835) |
| | **$** | **2,117,416** |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 12. Share Capital

### a) Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares

### b) Issued (common shares)

*Year ended July 31, 2021*

On January 8, 2021, the Company completed a reverse take-over transaction (Note 4) and issued 6,041,725 common shares valued at $1,208,345 based on the price of the concurrent financing. The purchase price was allocated $600,450 to the assets and liabilities assumed (Note 4) with the remaining $607,895 recorded as transaction costs in the consolidated statements of loss.

In connection with the reverse take-over transaction (Note 4), on January 8, 2021, the Company closed a financing of 16,490,000 units at a purchase price of $0.25 per unit for aggregate gross proceeds of $4,122,500. Each unit consists of one common share and one-half common share purchase warrant entitling the holder to acquire one half common share of the Company at an exercise price of $0.35 for a period of 24 months from issuance. In connection with the financing, the Company paid finders of 1,272,000 broker warrants. The broker warrants will be exercisable for a period of two years from the date of issuance at a price of $0.25 per common share (Note 12). The gross proceeds were prorated to common shares and warrants based on their relative fair values.

*Year ended July 31, 2020*

During the year, the Company issued 79,651,462 common shares for cash consideration of $2,082,958. Transaction costs of $56,735 have been recorded net in share capital.

### c) Share-based payments and warrants

Share-based compensations

The following tables summarize stock option transactions during the years ended July 31, 2021 and 2020:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| **Outstanding, beginning of year** | - | - | - | - |
| Granted | 5,045,000 | $ 0.35 | - | - |
| **Outstanding, end of year** | **5,045,000** | **$ 0.35** | - | - |
| **Exercisable, end of year** | **5,045,000** | **$ 0.35** | - | - |

The following table summarizes the stock options outstanding at July 31, 2021:

| Number of Options Outstanding | Number of Options Exercisable | Exercise Price | Expiry Date | Remaining Life (Years) |
|---|---|---|---|---|
| 4,640,000 | 4,640,000 | $ 0.35 | January 14, 2026 | 4.46 |
| 405,000 | 405,000 | $ 0.40 | May 4, 2026 | 4.76 |
| **5,045,000** | **5,045,000** | | | **4.48** |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 12. Share Capital (continued)

### c) Share-based payments and warrants (continued)

Share-based compensations (continued)

During the year ended July 31, 2021, the Company granted a total of 5,095,000 (2020: nil) stock options with an aggregate fair value of the vested options determined to be $1,005,247 (2020: nil). Using the Black-Scholes option pricing model to estimate the fair value of stock options granted as at the date of grant, the Company determined the weighted average fair value of each option to be $0.35 (2020: nil). The fair values of the options were determined using the Black-Scholes option pricing model using the following assumptions:

| Risk-free interest rate | Dividend yield | Volatility factor | Expected option life | Forfeiture rate |
|---|---|---|---|---|
| 0.46% - 0.93% | 0% | 100.00% | 5 years | 0% |

Warrants

The following table summarizes share purchase warrant transactions:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| **Outstanding, beginning of year** | **-** | **-** | **-** | **-** |
| Issued | 9,517,000 | 0.35 | - | - |
| Exercised | (1,017,600) | 0.35 | - | - |
| **Outstanding, end of year** | **8,499,400** | **$ 0.35** | **-** | **-** |

The following table summarizes the share warrants outstanding and exercisable at July 31, 2021:

| Number of Warrants Outstanding | Number of Warrants Exercisable | Exercise Price | Expiry Date | Remaining Life (Years) |
|---|---|---|---|---|
| 8,244,000 | 8,244,000 | $ 0.35 | December 10, 2022 | 1.36 |
| 255,400 | 255,400 | $ 0.25 | December 10, 2022 | 1.36 |
| **8,499,400** | **8,499,400** | | | **1.36** |

During the year ended July 31, 2021, the Company issued a total of 9,517,000 (2020: nil) warrants with an aggregate fair value determined to be $909,877 (2020: nil). Using the Black-Scholes option pricing model to estimate the fair value of warrant as at the date of issuance, the Company determined the weighted average fair value of each warrant to be $0.35 (2020: nil). The fair values of the warrants were determined using the Black-Scholes option pricing model using the following assumptions:

| Risk-free interest rate | Dividend yield | Volatility factor | Expected warrant life | Forfeiture rate |
|---|---|---|---|---|
| 0.25% | 0% | 100.00% | 2 years | 0% |

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 13. Related Party Transactions

The Company had the following amounts due to companies controlled by an officer of the Company

| | **Years ended July 31,** | |
|---|---|---|
| | **2021** | 2020 |
| Dana Industries | **$ 433,013** | $ 703,668 |
| K Iccir Holdings Inc. | **166,955** | - |
| | **$ 599,968** | $ 703,668 |

The amount due to Dana Industries Inc. is unsecured, non-interest bearing, with no specific terms for repayment and is due on demand.

During the year ended July 31, 2021, the Company reimbursed $455,327 (2020: $301,172) to a company controlled by the Company's Chief Executive Officer for wages, rent, travel costs and operational expenditures. Included in due to related parties at July 31, 2021 was $433,013 related to these charges (2020: $703,668). The amounts owing are unsecured, non-interest bearing and are due on demand.

During the year ended July 31, 2021, a company controlled by the Chief Executive Officer advanced $166,955 to the Company for working capital purposes. Included in due to related parties at July 31, 2021, was $166,955 (2020: nil). These advances are unsecured, non-interest bearing and are due on demand.

During the year ended July 31, 2021 the Company expensed $61,904 (2020: $nil) to Marrelli Support Services Inc. ("Marrelli Support") and DSA Corporate Services Inc. (the "DSA"), together known as the "Marrelli Group" for:

(i) Robert D.B. Suttie to act as Chief Financial Officer ("CFO") of the Company
(ii) Corporate filing services
(iii) Robert D.B Suttie, resigned from the CFO position on July 30, 2021.

Both Marrelli Support and DSA are private companies. Robert Suttie is the President of Marrelli Support.

As of July 31, 2021 the Marrelli Group was owed $17,240 (2020: nil) and these amounts were included in accounts payable and accrued liabilities.

During the year ended July 31, 2021 the Company expensed $7,820 (2020: $nil) to Loberto and Associates ("Loberto") for Tom Loberto to perform professional services while having a position as a Director of the Company. As of July 31, 2021 Loberto was owed $3,300 (2020: nil) and these amounts were included in accounts payable and accrued liabilities.

During the year ended July 31, 2021 the Company expensed $251,322 (2020: nil) to Frank Borges and Segrob Holdings Inc. ("Segrob"), for Frank Borges to perform the duties of Management while having a position as a Director of the Company. As of July 31, 2021 Frank Borges and Segrob was owed $251,322 (2020: $nil) and these amounts were included in accounts payable and accrued liabilities.

During the year ended July 31, 2021, the Company expensed $195,114 (2020: nil) to John Ricci to perform the duties of a Chief Executive Officer while having a position as a Director of the Company. As of July 31, 2021 John Ricci was owed $124,524 (2020: $nil) and these amounts were included in accounts payable and accrued liabilities.

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 14. Loss per Share

The calculation of both basic and diluted loss per share is based on the Company's loss attributable to owners of the Company of $5,807,078 (2020: $1,414,897) and the weighted average number of ordinary shares calculated below.

| | **2021** | 2020 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic loss per share | **92,671,393** | 29,279,872 |
| Effect of dilutive potential ordinary share: | | |
| Share options granted by the Company | **-** | - |
| Warrants issued by the Company | **-** | - |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **92,671,393** | 29,279,872 |

The computation of loss per share for the year ended July 31, 2021 and 2020 did not assume the exercise of all share options and warrants of the Company as the exercise prices of those options are higher than the average share market prices of the Company for both years.

## 15. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital under acceptable risks.

The Company capital of $285,522 (2020 - deficiency of $2,337) is composed of debt, and equity attributable to the Company's shareholders. The Company's primary uses of capital are to finance the development of its technology.

The Company's objectives in managing capital are:

- To maintain sufficient working capital to meet current financial obligations and continue as a going concern;
- To maintain investor and creditor confidence; and
- To sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

(Expressed in Canadian dollars, Unless Noted Otherwise)

## 16. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | **(5,807,078)** | (1,414,897) |
| Corporate statutory rate | **26.50%** | 26.50% |
| Expected tax recovery | **(1,538,876)** | (374,948) |
| Non-deductible items | **265,867** | 5,692 |
| Change in unrecognized deferred tax assets | **1,273,009** | 369,256 |
| **Income tax expense** | **-** | - |

Significant components of the recognized deferred tax assets are as follows with the rate for 2021 being 26.5% (2020: 26.5%). This is the rate at which the assets are expected to be realized or reversed.

**Deferred Income Tax**

Deferred tax benefits that may arise as a result of these amounts have been fully offset reflecting the Company's estimate that these amounts are not considered probable, and that sufficient future taxable profit will not allow the deferred tax asset to be recovered at this time.

The significant components of the Company's unrecognized deferred income tax assets and liabilities are as follows:

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Non-capital loss carry-forward | **1,887,067** | 534,162 |
| Undeducted financing fees | **1,885** | 1,885 |
| Undeducted share issuance cost | **8,123** | 14,669 |
| Lease liability | **(3,383)** | 407 |
| Property and equipment | **(17,684)** | (321) |
| | **1,876,008** | 550,802 |
| Less: Deferred taxes assets not recognized | **(1,876,008)** | (550,802) |
| **Net deferred tax assets** | **-** | - |

The Company has available non-capital losses that may be carried forward to apply against future tax years' income for income tax purposes. The Company has accumulated Canadian non-capital tax losses that expire in 2041 of $7,121,008.

## 17. Financial Instruments

### a) Fair value of Financial Instruments

*Fair Value Hierarchy*

Financial instruments recorded at fair value are classified using a hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The three levels of 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 for the asset or liability that are not based on observable market data.

The individual fair values attributed to the different components of a financing transaction, notably marketable securities, derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market. Financial instruments are measured either at fair value or at amortized cost.

### b) Financial risk management objectives and policies

The Group's major financial instruments and details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk and market risk (currency risk and other price risk). The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk
Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The maximum credit exposure at July 31, 2021 is the carrying amount of cash and accounts receivable.

The Company's cash is held primarily through large Canadian financial institutions. The Company assessed 12m ECL for cash balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on cash balances is considered to be insignificant.

For trade receivables, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired due to the receivables aged over 90 days, the Company determines the ECL on these items by internal credit rating status with appropriate grouping with reference to historical credit loss experience. Debtors that are large scale and/or with long business relationship with good repayment history are considered as low risk and a minimal default rate is assigned, while debtors which usually settle one to three months after due dates are considered as watch list and a low default rate is assigned.

## 17. Financial Instruments (continued)

### b) Financial risk management objectives and policies (continued)

The Company's aging of trade receivable was as follows:

| | | **July 31, 2021** | | July 31, 2020 |
|---|---|---|---|---|
| 0 – 30 days | **$** | **17,205** | $ | - |
| 30 – 60 days | | **2,384** | | 10,991 |
| 61 – 90 days | | **-** | | - |
| Over 90 days | | **115,991** | | 50,535 |
| Less: allowance for doubtful accounts | | **(3,941)** | | (2,213) |
| | **$** | **131,639** | $ | 59,313 |

For other receivable which represents receivables from former directors, the directors of the Company make periodic individual assessment on the recoverability based on historical settlement records and past experience. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition. For the year ended July 31, 2021, the Company assessed the ECL for other receivable was insignificant and thus no loss allowance was recognized.

Liquidity risk
In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Company in light of the fact that the Company's current liabilities exceeded its current assets by $560,773 as at July 31, 2021.

The directors of the Company believe that the existing loan facilities will continue to be made available to the Company and will not be withdrawn by the counterparties within the next twelve months from the end of the reporting period. In the opinion of the directors of the Company, the Company has a number of sources of funds available to enable its obligation and commitments to be settled on a timely manner. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Market risk
*Foreign currency risk*
The parent company's functional currency is the Canadian dollar. At July 31, 2021, $20,832 (2020: $nil) of the Company's liabilities are in US funds. A 1% (2020: 1%) change in the Canadian/US dollar exchange rate would result in a $208 net impact (2020: $nil) on the Company's foreign exchange gain or loss. At July 31, 2021 and 2020, the Company is moderately exposed to foreign exchange risk.

*Price risk*
The Company's financial assets and liabilities are not exposed to price risk with respect to commodity prices.

## 18. Segmented Information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management in assessing performance and in determining the allocation of resources. The Company considers the business from a geographic perspective and assesses the performance of the operating segments based on measures such as net property and equipment as well as operational results.

## 18. Segmented Information (continued)

Operating Segment
The Company's operations are limited to a single industry segment, being the selling and installation of DSLs.

Geographic Segments
As at July 31, 2021 and 2020, all the Company's operations and assets are located in Canada.

## 19. Impact of COVID-19

The outbreak of the novel strain of Corona Virus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results, ability to finance, carrying value of assets and condition of the Corporation and its operating subsidiaries in future periods. To date, the Company has not experienced a material impact related to the Covid-19 outbreak on financing, operations or logistics.

## 20. Subsequent Events

On August 17, 2021, the company entered into a private placement financing agreement for $3,850,000 in aggregate gross proceeds of 8% unsecured convertible debentures. The debentures are set to mature in 36 months with interest compounded and paid quarterly. The debentures will be convertible at the holder's option into fully-paid Common Shares at any time prior to the Maturity Date and the business day immediately preceding the date fixed for redemption (as described below) at a conversion price equal to CAD$0.45 per Common Share (the "Conversion Price"). Upon conversion, the holder will receive in cash accrued and unpaid interest on the principal amount that is the subject of the conversion for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion. The Conversion Price shall be subject to standard anti-dilutive provisions. The Company will have the right to force conversion at the Conversion Price if the Common Shares trade at a volume weighted average price of CAD$0.75 or greater for 20 consecutive trading days. Further, beginning 12 months after the Closing (as defined below) the Company shall have the right to pre-pay the Debentures, in whole or in part, at par plus accrued and unpaid interest, subject to a prepayment penalty equal to 5% of the principal amount if redeemed between 12 months and 24 months after Closing and equal to 2% of the principal amount if redeemed later than 24 months after Closing and before the Maturity Date. The company will be using these funds for working capital purposes in executing on its business plan.

As consideration for the services provided for the debentures by iA Private Wealth Inc. (the "Agent") in connection with the Offering, the Company paid to the Agent, on behalf of itself and the syndicate, a cash commission of $189,500.00, being 7.0% of the aggregate gross proceeds from the sale of the Debentures and a reduced cash commission equal to 3.0% of the aggregate gross proceeds from the sale of the Debentures to subscribers on the president's list. Further, the Company issued 421,111 compensation options to the Agent and the syndicate, being 7.0% of the common shares issuable on conversion of the Debentures (3.0% with respect to president's list subscribers).

Danavation Technologies Corp. began trading on the OTCQB venture market in the United States of America on October 1, 2021 under the symbol "DVNCF". The company's shares will continue to trade on the Canadian Securities Exchange ("CSE") under the symbol "DVN'.