
DANAVATION TECHNOLOGIES CORP.

CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022, and 2021

(EXPRESSED IN CANADIAN DOLLARS)

Note to Reader:

These consolidated financial statements are refiled so that the auditor's report accompanying the July 31, 2022 annual financial statements correctly include all financial periods presented for which the auditor has issued an audit report, including the comparative year ended July 31, 2021. No other changes were made.



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 statements of financial position as at July 31, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, consolidated changes in shareholders' equity and cash flows for the years 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, 2022 and 2021, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 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.

Emphasis of Matter - Comparative Information

We draw attention to Note 16 to the consolidated financial statements, which explains that certain comparative information presented for the year ended July 31, 2021 has been restated. Note 16 to the consolidated financial statements explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified in respect of this matter.

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
December 16, 2022

Danavation Technologies Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

(Expressed in Canadian Dollars)

| As at | July 31, 2022 | July 31, 2021 (Restated see Note 16) |
|---|---------------------|---|
| Assets | | |
| Current assets | | |
| Cash | \$ 13,861 | \$ 5,979 |
| Amounts receivable (Note 5) | 276,798 | 594,776 |
| Inventory (Note 6) | 454,058 | 107,932 |
| Prepaid expenses and deposits | 136,707 | 378,252 |
| | 881,424 | 1,086,939 |
| Non-current assets | | |
| Property, plant, and equipment (Note 7) | 647,198 | 683,828 |
| Right-of-use assets (Note 8) | 1,911,479 | 2,130,182 |
| Other long-term assets | 13,404 | - |
| | 2,572,081 | 2,814,010 |
| Total assets | \$ 3,453,505 | \$ 3,900,949 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,089,030 | \$ 752,862 |
| Deferred revenue | 219,226 | 9,925 |
| Interest payable on debts (Note 11) | 25,796 | - |
| Current portion of lease liabilities (Note 9) | 187,128 | 149,701 |
| Due to related party (Note 14) | 501,784 | 599,968 |
| Short-term debt (Note 10) | 750,000 | - |
| | 2,772,964 | 1,512,456 |
| Non-current liabilities | | |
| Long-term lease liabilities (Note 9) | 1,828,337 | 1,967,715 |
| Long-term debt (Note 11) | 3,358,080 | - |
| | 5,186,417 | 1,967,715 |
| Total liabilities | 7,959,381 | 3,480,171 |
| Shareholders' equity (deficit) | | |
| Share capital (Note 12) | 6,718,019 | 6,361,256 |
| Contributed surplus (Note 12) | 2,669,161 | 1,772,962 |
| Deficit | (13,893,056) | (7,713,440) |
| Total shareholders' equity (deficit) | (4,505,876) | 420,778 |
| Total liabilities and shareholders' equity (deficit) | \$ 3,453,505 | \$ 3,900,949 |

Nature of Operations (Note 1)
Going Concern (Note 2)
Subsequent events (Note 18)

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

On behalf of the Board of Directors:

/s/ John Ricci
Director

/s/ Frank Borges
Director

Danavation Technologies Corp.**Consolidated Statements of Loss and Comprehensive Loss**
(Expressed in Canadian Dollars)

| For the year ended | July 31, 2022 | July 31, 2021 (Restated see Note 16) |
|---|------------------|---|
| Revenue | \$ 1,154,466 | \$ 324,891 |
| Costs of sales | (813,423) | (202,672) |
| Gross profit | 341,043 | 122,219 |
| Expenses | | |
| Advertising and sales promotion | 1,262,656 | 987,296 |
| Depreciation and amortization (Note 7 and 8) | 436,397 | 151,321 |
| Bank charges and interest | 565,147 | 83,548 |
| Accretion expense (Note 10 and 11) | 192,514 | - |
| Consulting fees | 59,920 | 285,258 |
| Office and general | 1,188,957 | 500,217 |
| Professional fees | 216,227 | 179,900 |
| Salaries and benefits | 1,719,895 | 1,777,302 |
| Trade show | 116,639 | 36,667 |
| Travel | 54,328 | 12,684 |
| Utilities | 31,898 | 19,092 |
| Vehicle | 27,004 | 24,955 |
| Share-based compensation (Note 12) | 649,077 | 995,739 |
| Listing expenses | - | 753,099 |
| Total expenses | 6,520,659 | 5,807,078 |
| Net loss and comprehensive loss | \$ (6,179,616) | \$ (5,684,859) |
| Basic and diluted loss per Share | \$ (0.06) | \$ (0.06) |
| Weighted average number of shares outstanding - Basic and Diluted (Note 12) | 103,586,235 | 92,671,393 |

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

Danavation Technologies Corp.

Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)

| For the year ended | July 31, 2022 | July 31, 2021 (Restated see Note 16) |
|---|-----------------------|---|
| Operating activities | | |
| Net loss for the period | \$ (6,179,616) | \$ (5,820,115) |
| Share-based compensation (Note 12) | 649,077 | 995,739 |
| Bank charges and interest | - | 59,750 |
| Expected credit losses (Note 5) | 81,229 | 1,728 |
| Depreciation and amortization (Note 7 and 8) | 436,397 | 151,321 |
| Accretion expense (Note 10 and 11) | 192,514 | - |
| Listing expenses | - | 753,099 |
| Changes in non-cash working capital items: | | |
| Decrease (Increase) in accounts receivable | 236,749 | 30,929 |
| Decrease (Increase) in inventory | (346,126) | (85,877) |
| Decrease (Increase) in prepaid expenses and deposits | 241,545 | (127,324) |
| Increase (decrease) in accounts payable and accrued liabilities | 336,168 | 396,239 |
| Increase (decrease) in deferred revenue | 209,301 | 9,925 |
| Increase (decrease) in interest payable on debts | 25,796 | - |
| Cash used in operating activities | \$ (4,116,966) | \$ (3,634,586) |
| Investing activities | | |
| Purchases of property, plant and equipment (Note 7) | \$ (102,817) | \$ (715,946) |
| Purchases of other long-term assets | (13,404) | - |
| Cash acquired on reverse takeover (Note 4) | - | 374,857 |
| Cash from (used in) investing activities | \$ (116,221) | \$ (341,089) |
| Financing activities | | |
| Net proceeds from long-term debts (Note 11) | \$ 3,481,348 | \$ - |
| Proceeds from exercise of stock options (Note 12) | 140,000 | - |
| Proceeds from exercise of warrants (Note 12) | 11,853 | 254,518 |
| Proceeds from short-term debts (Note 10) | 738,750 | - |
| Advances from related parties (Note 14) | (98,184) | (39,290) |
| Lease principal repayments (Note 9) | (180,198) | (140,713) |
| Repayment of long-term debt | - | (295,670) |
| Proceeds from the issuance of shares (Note 12) | 147,500 | 3,504,168 |
| Cash from financing activities | \$ 4,241,069 | \$ 3,283,013 |
| Increase (decrease) in cash | \$ 7,882 | \$ (692,662) |
| Cash, beginning of period | \$ 5,979 | \$ 698,641 |
| Cash, end of period | \$ 13,861 | \$ 5,979 |

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

Danavation Technologies Corp.
Consolidated Statements of Changes in Equity (Deficit)
(Expressed in Canadian Dollars)

| | Number of common shares | Common share capital | Contributed surplus | | | Deficit | Total shareholders' deficit |
|---|----------------------------|-------------------------|---------------------|-------------------|------------------------|-----------|-----------------------------------|
| | | | Reserves | Warrants | | | |
| Balance July 31, 2021 | 103,200,987 | \$ 6,361,256 | \$ 995,739 | \$ 777,223 | \$ (7,713,440) | \$ | 420,778 |
| Exercise of stock options (Note 12) | 400,000 | 216,000 | (76,000) | - | \$ - | | 140,000 |
| Exercise of warrants (Note 12) | 91,863 | 35,043 | - | (23,190) | \$ - | | 11,853 |
| Share-based payments (Note 12) | - | - | 649,077 | - | \$ - | | 649,077 |
| Issuance of convertible debts (Note 11) | - | - | 304,532 | - | \$ - | | 304,532 |
| Issuance of shares (Note 12) | 590,000 | 105,720 | - | 41,780 | \$ - | | 147,500 |
| Net loss for the period | - | - | - | - | \$ (6,179,616) | | (6,179,616) |
| Balance July 31, 2022 | 104,282,850 | \$ 6,718,019 | \$ 1,873,348 | \$ 795,813 | \$ (13,893,056) | \$ | (4,505,876) |

| | Number of common shares | Common share capital | Contributed surplus | | | Deficit | Total shareholders' equity |
|--|----------------------------|-------------------------|---------------------|-------------------|-----------------------|-----------|----------------------------------|
| | | | Reserves | Warrants | | | |
| Balance July 31, 2020 | 79,651,662 | \$ 2,026,244 | \$ - | \$ - | \$ (2,028,581) | \$ | (2,337) |
| Effect of reverse takeover transaction | 22,531,725 | 3,947,840 | - | 909,877 | \$ - | | 4,857,717 |
| Exercise of warrants | 1,017,600 | 387,172 | - | (132,654) | \$ - | | 254,518 |
| Share-based payments | - | - | 995,739 | - | \$ - | | 995,739 |
| Net loss for the period (Restated - see Note 16) | - | - | - | - | \$ (5,684,859) | | (5,684,859) |
| Balance July 31, 2021 | 103,200,987 | \$ 6,361,256 | \$ 995,739 | \$ 777,223 | \$ (7,713,440) | \$ | 420,778 |

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

Danavation Technologies Corp.

Notes to Consolidated Financial Statements

July 31, 2022, and 2021

(Expressed in Canadian Dollars)

1. Nature of Business

Danavation Technologies Corp. (the "Company") 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.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on December 16, 2022.

During the twelve-month period ended July 31, 2021, the Company changed its name to Danavation Technologies Corp. ("Danavation" or the "Company"), consolidated its common shares on the basis of 1 for 30, 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. (Note 4).

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".

The Company's common shares trade on the Canadian Securities Exchange ("CSE") under the symbol "DVN" and on the OTCQB Venture Market in the US under the symbol "DVNCF".

2. Going Concern

In the preparation of these consolidated financial statements, the Company's management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the end of the reporting period. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The Company has incurred a net loss of \$6,179,616 during the year ended July 31, 2022, and as at that date has a year-to-date deficit of \$13,893,056. As a result, there is material uncertainty that may cast significant doubt as to whether the Company will have the ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to successfully generate cash flows from operations or additional funding from external resources to continue operations. The Company has available cash of \$13,861 as of July 31, 2022 and is currently seeking additional funding through multiple sources. Therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

3. Basis of Preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of Measurement

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of financial statements in accordance with International Accounting Standards ("IAS") 1, Presentation of Financial Statements ("IAS 1"), requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

Danavation Technologies Corp.
Notes to Consolidated Financial Statements
July 31, 2022, and 2021
(Expressed in Canadian Dollars)

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based upon the fair value of consideration given in exchange for assets. Fair value is the price that would have been received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes in account the characteristics of the asset or liability that market participants would consider when pricing the asset or liability at the measurement date.

Subsidiaries

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 have 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% |

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated financial statements determines its own functional currency and items included in the consolidated financial statements of each entity are remeasured using the functional currency. The functional currency of the Company's subsidiaries is the Canadian dollar.

Significant Accounting Policies**a) Cash**

Cash in the statements of financial position is comprised of cash held with major financial institutions.

b) Inventory

Inventories of finished goods and packaging materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value 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. Cost is determined using the average cost basis. The Company reviews inventory for obsolete, redundant, and slow-moving goods and any such inventory are written down to net realizable value.

c) Property, plant, and equipment

Property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal are determined by comparing the proceeds from disposal and the carrying amount of the asset and are recognized in the consolidated statements of loss and comprehensive loss.

Danavation Technologies Corp.
Notes to Consolidated Financial Statements
July 31, 2022, and 2021
(Expressed in Canadian Dollars)

Depreciation is calculated using the straight-line method over the useful life of each asset as follows:

- | | |
|---------------------------|------------------------|
| • Computer equipment | 3 - 5 years |
| • Furniture and Equipment | 5 - 10 years |
| • Leasehold improvements | Over term of the lease |
| • Right of use assets | Over term of the lease |

Depreciation methods, useful lives, and estimated residual values are reviewed at the end of each financial year.

d) 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.

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.

f) Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the financial instrument.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value through profit and loss ("FVTPL"); ii) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income or loss.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets to collect contractual cash flows that meet the solely payments of principal and interest criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Danavation Technologies Corp.
Notes to Consolidated Financial Statements
July 31, 2022, and 2021
(Expressed in Canadian Dollars)

Fair value through profit or loss

This category would include debt instruments whose cash flow characteristics fail the solely payments of principal and interest criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recorded in profit or loss.

Fair value through other comprehensive income or loss

Equity instruments that are not held-for-trading cash be irrevocably designated to have their change in fair value recognized through other comprehensive income or loss instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instrument. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income or loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit or loss or other comprehensive income or loss (irrevocable election at the time of recognition).

Summary of the Company's classification and measurements of financial assets and liabilities

| | IFRS 9 | |
|--|-----------------------|--------------------|
| | Classification | Measurement |
| Cash | FVTPL | Fair value |
| Amounts receivable | Amortized Cost | Amortized Cost |
| Government remittances receivable | Amortized Cost | Amortized Cost |
| Prepaid expenses and deposits | Amortized Cost | Amortized Cost |
| Accounts payable and accrued liabilities | Amortized Cost | Amortized Cost |
| Deferred revenue | Amortized Cost | Amortized Cost |
| Short-term debt | FVTPL | Fair value |
| Interest payable on debts | Amortized Cost | Amortized Cost |
| Long-term debt | Amortized Cost | Amortized Cost |

g) Compound financial instruments

Compound financial instruments issued by the Company comprises convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. On conversion or upon expiration, the carrying value of the equity portion is transferred to common shares or contributed surplus.

h) Impairment of long-lived assets

Long-lived 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.

i) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company had no material provisions as at July 31, 2022.

j) Income taxes

Income tax comprises the current and deferred tax. Income tax is recognized in the statements of loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is also recognized directly in shareholders' equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the dates of the statements of financial position and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the asset can be recovered.

Deferred tax assets and liabilities are presented as non-current.

k) Share capital and share-based compensation

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital. The impact of a revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Contributed surplus includes amounts in connection with conversion options embedded in compound financial instruments, stock-based compensation and the value of expired options and warrants. Deficit includes all current and in period income and losses.

l) Business combinations

The Company has applied the acquisition method in accounting for business combinations.

The Company measures goodwill as the difference between the fair value of the consideration transferred, including recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the indefinite assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred, liabilities incurred by the Company on behalf of the acquiree, and equity instruments issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. 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 a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, *Financial Instruments* ("IFRS 9"), with the corresponding gain or loss being recognized in profit or loss.

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the year as incurred and included in selling, general, and administrative expenses.

Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the fair value analysis and related purchase price allocation. Until such time, the fair value and purchase price allocation are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

m) Revenue recognition

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

The Company follows the five-step model in the Standard to recognize revenue:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to performance obligations in the contract
- 5) Recognize revenue when the Company satisfies a performance obligation

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The Company generates revenue from three primary streams:

Hardware – revenue from the sale of Digital Smart Labels (“DSLs”) and other hardware is recognized when control is passed to the customer. This exchange is recognized once the product is shipped to the customer.

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.

n) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders’ equity, in which case the income tax is also recognized directly in shareholders’ equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

o) Loss per share

The Company presents basic and diluted loss per share data for its common shares outstanding, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential common shares.

For the periods presented, all dilutive potential common shares were anti-dilutive.

p) 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.

q) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Inventory

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.

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Estimated useful lives and depreciation and amortization of property, plant, and equipment

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating the fair value of Level 2 investments, the Company uses key inputs including the share price of underlying securities, annualized volatility, the risk-free interest rate, the dividend yield, and the expected life of the security.

Inputs when using Black-Scholes valuation model

The estimates used in determining the stock option and warrant fair values, utilizes estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model. Inputs subject to estimates include volatility, forfeiture rates, estimated lives and market rates.

Discount rates

The discount rates used to calculate net present value of the convertible debentures are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels.

Changes in the general economic environment could result in significant changes to this estimate.

Convertible instruments

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

r) Future changes in accounting policies

There are currently no new accounting standards issued but not yet effective that impact the Company's financial statements.

4. Reverse Takeover of Danavation Technologies Corp. (Formerly Wolf's Den Capital Corp.) by Danavation Technologies Inc.

On January 8, 2021, the Company executed a share exchange agreement (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 Capital Corp. ("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, the Company 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.

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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 (the "**Danavation Tech Financing**"). 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 exchanged for one common share of the Company; 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 exchanged for warrants of the Company exercisable to acquire a common share of the Company on the same terms on a post-Transaction basis. 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 by calculating the fair value using the Black Scholes valuation model and allocating a percentage of the subscription receipts to the warrants. The Black Scholes valuation was done with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.24% 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 \$165,885 using the Black-Scholes valuation model, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.24% and expected life of 2 years.

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.

5. Amounts receivable

| | As at July 31, 2022 | As at July 31, 2021 (Restated see Note |
|---------------------------------|--------------------------------|---|
| Accounts receivable | 321,674 | 335,246 |
| Other receivable | 40,293 | 263,471 |
| Expected credit losses | (85,170) | (3,941) |
| Total amounts receivable | \$ 276,798 | \$ 594,776 |

The movement in the expected credit loss provision can be reconciled as follows:

| | As at July 31, 2022 | As at July 31, 2021 |
|---|--------------------------------|------------------------|
| Expected credit loss provision, beginning balance | 3,941 | 2,213 |
| Expected credit loss movement | 81,229 | 1,728 |
| Total expected credit losses | \$ 85,170 | \$ 3,941 |

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:

| | As at July 31, 2022 | As at July 31, 2021 |
|------------------|--------------------------------|------------------------|
| Finished goods | 454,058 | 107,932 |
| Inventory | \$ 454,058 | \$ 107,932 |

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7. Property, plant, and equipment

As of July 31, 2022, property, plant, and equipment consisted of the following:

| | Leasehold Improvements | | Furniture and Equipment | | Computer | | Total |
|----------------------------------|---------------------------|----------------|----------------------------|----------------|----------|----------------|-------------------|
| Cost: | | | | | | | |
| August 1, 2020 | \$ | - | \$ | - | \$ | 7,400 | \$ 7,400 |
| Additions | | 279,103 | | 357,005 | | 79,838 | 715,946 |
| July 31, 2021 | \$ | 279,103 | \$ | 357,005 | \$ | 87,238 | \$ 723,346 |
| Accumulated depreciation: | | | | | | | |
| August 1, 2020 | \$ | - | \$ | - | \$ | 1,110 | \$ 1,110 |
| Depreciation | | 6,944 | | 20,990 | | 10,474 | 38,408 |
| July 31, 2021 | \$ | 6,944 | \$ | 20,990 | \$ | 11,584 | \$ 39,518 |
| Carrying amounts | | | | | | | |
| July 31, 2021 | \$ | 272,159 | \$ | 336,015 | \$ | 75,654 | \$ 683,828 |
| | Leasehold Improvements | | Furniture and Equipment | | Computer | | Total |
| Cost: | | | | | | | |
| July 31, 2021 | \$ | 279,103 | \$ | 357,005 | \$ | 87,238 | \$ 723,346 |
| Additions | | 609 | | 48,886 | | 53,322 | 102,817 |
| July 31, 2022 | \$ | 279,712 | \$ | 405,891 | \$ | 140,560 | \$ 826,163 |
| Accumulated depreciation: | | | | | | | |
| July 31, 2021 | \$ | 6,944 | \$ | 20,990 | \$ | 11,584 | \$ 39,518 |
| Depreciation | | 27,951 | | 78,948 | | 32,548 | 139,447 |
| July 31, 2022 | \$ | 34,895 | \$ | 99,938 | \$ | 44,132 | \$ 178,965 |
| Carrying amounts | | | | | | | |
| July 31, 2022 | \$ | 244,817 | \$ | 305,953 | \$ | 96,428 | \$ 647,198 |

8. Right-of-Use Assets

The Company enters into lease arrangements for a building, warehouse, office equipment, and other assets as part of its daily operations.

Building and warehouse leases include the rental of office space and storage facilities. These leases vary in length and are typically over 5 years and may include several renewal options.

Office equipment leases include the rental of machinery and computer hardware. These leases vary in duration and structure and typically do not exceed 10 years.

The following table reconciles changes in right-of-use assets for the years ended July 31, 2022, and 2021.

| | |
|-------------------------------|------------------|
| Balance, July 31, 2020 | 28,389 |
| Additions | 2,214,706 |
| Depreciation | (112,913) |
| Balance, July 31, 2021 | 2,130,182 |
| Additions | 78,247 |
| Depreciation | (296,950) |
| Balance, July 31, 2022 | 1,911,479 |

Lease liabilities associated with the Company's right-of-use assets are described in Note 9.

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9. Lease Liability

Lease liabilities consist of the following:

| | | |
|------------------------------------|-----------|------------------|
| As at August 1, 2021 | \$ | 2,117,416 |
| Additions during the period | | 78,247 |
| Payments during the period | | (403,687) |
| Interest expense during the period | | 223,489 |
| Balance, July 31, 2022 | \$ | 2,015,465 |
| Current portion | \$ | 187,128 |
| Long-term balance | \$ | 1,828,337 |
| As at August 1, 2020 | \$ | 29,923 |
| Additions during the period | | 2,168,456 |
| Payments during the period | | (140,713) |
| Interest expense during the period | | 59,750 |
| Balance, July 31, 2021 | \$ | 2,117,416 |
| Current portion | \$ | 149,701 |
| Long-term balance | \$ | 1,967,715 |

The Company's future cash outflows may change due to variable lease payments, renewal options, termination options, residual value guarantees, and leases not yet commenced to which the Company is committed that are not reflected in the lease liabilities. The following is a maturity analysis for undiscounted lease payments that are reflected in the lease liabilities as at July 31, 2022 and 2021:

| | | |
|--|-----------|------------------|
| Maturity analysis - contractual undiscounted cash flows | | |
| Less than one year | \$ | 420,177 |
| One to five years | | 1,651,981 |
| Greater than five years | | 937,500 |
| Total undiscounted lease obligations | \$ | 3,009,658 |

Right-of-use assets associated with the Company's lease liability are described in Note 8.

10. Short-term Debt

On December 21, 2021, the Company issued a convertible promissory note, in the amount of \$750,000 (the "Note"), with issuance costs of \$11,250, for net proceeds of \$738,750. The Note bears interest at 7.00% per annum, payable at maturity. As of July 31, 2022, the Note is repayable on demand by the holder.

The principal amount of the convertible notes will be convertible into common shares of the Company at the option of the holder subject to the completion of a minimum financing of \$1,000,000 at a conversion price equivalent to the securities issued under the financing.

The Company has designated the entire instrument as a Fair Value Through Profit and Loss ("FVTPL") instrument. The fair value of the Note approximates their principal amount at the subscription date, and as of July 31, 2022. During the year ended July 31, 2022, \$11,250 of accretion was recorded on the short-term debt.

Subsequent to year end, the holder of the Note converted the full amount of the Note into Units in accordance with the terms of the Note, and accordingly the Company has issued 3,000,000 Shares and 1,500,000 Common Share Purchase Warrants to the holder.

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11. Long-term Debt

The Company entered into an agreement with Computershare Trust Company of Canada ("Computershare") on August 17, 2021, in which the Company issued unsecured convertible subordinated debentures in the aggregate amount of \$3,850,000. The debentures bear interest at 8.00% per annum, payable quarterly, and mature within 36 months on August 17, 2024.

The principal amount of the debentures is convertible into common shares of the Company at a price of \$0.45 per share, at the option of the holder. However, if the daily volume weighted average price of the common shares on the CSE for 20 consecutive days exceeds \$0.75, the Company may force the conversion of the principal amount of the convertible debentures.

The debenture was recorded at its fair value of \$3,176,816, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method was \$189,146. The effective interest rate used was 15.32% and the coupon rate on the debt is 8.00%. Interest expense for long-term convertible debentures was \$294,499.

The residual value of the gross proceeds was \$336,780 and was allocated to the conversion feature.

The Company holds the right to prepay the debentures at our discretion. Management notes that the likelihood that this option will be exercised is minimal and thus a \$nil value was assigned to the prepayment option.

The Company incurred \$321,645 for cash debenture issuance costs. In addition, the Company issued 421,111 compensation options as non-cash issuance costs. The fair value of the compensation options was estimated at \$47,007 using the Black-Scholes option pricing model, with the following assumptions: dividend yield 0%, 0.81% annual risk-free interest rate, 100% volatility and a 2-year maturity. Of the total \$368,652 issuance costs, \$336,404 was allocated to the long-term debenture and \$32,248 was allocated to the conversion feature.

| | Convertible debenture |
|---|------------------------------|
| As at August 1, 2021 | \$ - |
| Face value of debt upon issuance | 3,850,000 |
| Less: allocation to conversion feature | (336,780) |
| Less: debt issue costs | (336,404) |
| Fair value of debt on initial recognition | 3,176,816 |
| Accretion expense during the period | 181,264 |
| Balance, July 31, 2022 | \$ 3,358,080 |

| | Interest Payable |
|-------------------------------|-------------------------|
| As at August 1, 2021 | \$ - |
| Accrued interest | 294,499 |
| Interest payments | (268,703) |
| Balance, July 31, 2022 | \$ 25,796 |

| | As at July 31, 2022 |
|--|--------------------------------|
| Maturity analysis - contractual undiscounted cash flows | |
| Less than one year | \$ 308,000 |
| One to five years | 4,197,347 |
| Total | \$ 4,505,347 |

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12. Share capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding

At July 31, 2021, there were 103,200,987 issued and outstanding common shares.

During the 2022 fiscal year, 400,000 common shares were issued for the exercise of stock options, and 91,863 common shares were issued for the exercise of warrants.

On July 22, 2022, the Company announced the closing of the first tranche of a non-brokered private placement through the issuance of 590,000 units at a price of \$0.25 per unit, for aggregate proceeds of \$147,500. Each unit is comprised of one common share and one-half of a common share purchase warrant. The warrants are exercisable at a price of \$0.35 for a period of twenty-four months. The Company recorded \$105,720 for the issuance of shares and \$41,780 for the issuance of warrants based on a relative fair value calculation. The warrant value was determined using the Black-Scholes option pricing model, with the following assumptions: dividend yield 0%, 3.08% annual risk-free interest rate, 90.42% volatility and a 2-year maturity.

At July 31, 2022, there were 104,282,850 issued and outstanding common shares.

c) Stock options

The Company has a rolling stock option plan to provide incentives to directors, employees, and consultants of the Company.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following weighted assumptions:

| | Fiscal 2022 | Fiscal 2021 |
|--------------------------------|-----------------|-----------------|
| Share price | \$0.23 - \$0.39 | \$0.35 - \$0.39 |
| Risk-free annual interest rate | 1.22% - 3.16% | 0.46% - 0.93% |
| Expected annual dividend yield | 0% | 0% |
| Expected annualized volatility | 90.38% - 90.74% | 100% |
| Expected life of options | 5 years | 5 years |
| Forfeiture rate | 0% | 0% |

During the fiscal year ended July 31, 2022, 2,825,000 options were granted, 1,770,000 were forfeited or cancelled, and 400,000 options were exercised (2021 – 5,045,000 options granted).

The following table summarizes information about stock options outstanding as at July 31, 2022.

| | Number of options | Average exercise price (\$) | Average remaining life (years) |
|---------------------------------------|-------------------|-----------------------------|--------------------------------|
| Closing balance, July 31, 2021 | 5,045,000 | 0.354 | 4.481 |
| Options granted | 2,825,000 | 0.414 | |
| Options cancelled or forfeited | (1,770,000) | 0.367 | |
| Options exercised | (400,000) | 0.350 | |
| Closing balance, July 31, 2022 | 5,700,000 | 0.380 | 3.917 |

Total options exercisable at July 31, 2022 were 5,700,000 with a remaining average life of 3.917 years (2021 – 5,045,000 with a remaining average life of 4.481 years).

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d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at July 31, 2022:

| | Number of warrants | Average exercise price (\$) | Average remaining life (years) |
|---------------------------------------|--------------------|-----------------------------|--------------------------------|
| Closing balance, July 31, 2021 | 8,499,400 | 0.347 | 1.361 |
| Warrants issued | 716,111 | 0.409 | |
| Warrants exercised | (91,863) | 0.250 | |
| Closing balance, July 31, 2022 | 9,123,648 | 0.353 | 0.445 |

The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted assumptions:

| | Fiscal 2022 | Fiscal 2021 |
|--------------------------------|-----------------|-------------|
| Share price | \$0.24 - \$0.32 | \$0.35 |
| Risk-free annual interest rate | 0.81% - 3.08% | 0.25% |
| Expected annual dividend yield | 0% | 0% |
| Expected annualized volatility | 90.42% - 100% | 100% |
| Expected life of options | 2 years | 2 years |
| Forfeiture rate | 0% | 0% |

e) Loss per share

The calculation of basic and diluted loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potentially dilutive shares such as options, convertible debt and warrants have not been included as they would have the effect of decreasing the loss per share and they would therefore be anti-dilutive.

13. Financial Instruments

The carrying value of cash, amounts receivable, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to the relatively short-term maturities of these financial instruments.

The Company is exposed to the following risks by virtue of its activities:

Credit Risk

Cash is invested with one major bank in Canada. Management believes that the financial institution that holds the Company's cash is financially sound and, accordingly, minimal credit risk exists with respect to this asset. The accounts receivable balance is due from a few retailers which have been assessed for expected credit losses and no significant allowance has been determined. The maximum credit risk is the sum of its cash and accounts receivable.

None of the Company's financial assets are secured by collateral or other credit enhancements. The Company determined that there were no financial assets that were impaired.

Liquidity Risk

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

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Market Risk

Foreign currency risk

The parent company's functional currency is the Canadian dollar. At July 31, 2022, the Company has no long-term liabilities that are in US funds. The Company's foreign exchange risk is minimal.

14. Related party balances and transactions

Amounts payable to related parties:

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

| | As at July 31, 2022 | As at July 31, 2021 |
|-----------------------|--------------------------------|--------------------------------|
| Dana Industries | 350,829 | 433,013 |
| K Iccir Holdings Inc. | 150,955 | 166,955 |
| Total | \$ 501,784 | \$ 599,968 |

The amounts due to Dana Industries Inc. and K Iccir Holdings Inc. are unsecured, non-interest bearing, with no specific terms for repayment and are due on demand.

Key management and director compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, stock options or post-employment benefits. Compensation provided to current and key management are as follows:

| | For the fiscal year ended July 31, 2022 | 2021 |
|---------------------|--|-------------------|
| Short-term benefits | 580,265 | 446,436 |
| Long-term benefits | 433,323 | 503,922 |
| Total | \$ 1,013,588 | \$ 950,358 |

15. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include debt and shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the period.

16. Restatement of Prior Year's Comparative Financial Statements

During the preparation of the year end financial statements, management determined that a sale with one customer had occurred in the prior period. Below are the changes to the prior years balances to reflect the restatement to correct this error.

| As at | Previously stated | Adjustments | Restated |
|---------------------|------------------------------|--------------------|---------------------|
| Accounts receivable | 196,049 | 135,256 | 331,305 |
| Deficit | (13,733,423) | 135,256 | (13,598,167) |
| Revenue | 189,635 | 135,256 | 324,891 |

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17. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to income (loss) from operations before income taxes, shown as follows:

| | July 31, 2022 | July 31, 2021 |
|--|--------------------|--------------------|
| Loss for the year | \$ (6,179,616) | \$ (5,684,859) |
| Statutory income tax rate | 26.50% | 26.50% |
| Expected income tax recovery | (1,637,598) | (1,506,488) |
| Non-deductible items | 280,803 | 265,867 |
| Change in unrecognized deferred tax assets | 1,356,795 | 1,240,621 |
| Income tax expense | \$ - | \$ - |

The significant components of the Company's deferred tax assets are as follows:

| Deferred income tax assets: | July 31, 2022 | July 31, 2021 |
|---|----------------|----------------|
| Non-capital losses available for future periods | \$ (1,936,892) | \$ (1,887,067) |
| Undeducted financing fees | (68,189) | (1,885) |
| Undeducted share issuance costs | - | 8,123 |
| Lease liability | - | 3,383 |
| Property and equipment | (23,792) | 17,684 |
| Unrecognized deferred income tax assets | 2,028,873 | 1,859,762 |
| Net deferred income tax assets | \$ - | \$ - |

Deferred tax assets are recognized to the extent that it is probable that the taxable income will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

The company has \$7,309,028 Canadian non-capital losses available to reduce future years' federal and provincial taxable income, which expire in or before 2042.

18. Subsequent events

On August 26, 2022 the Company announced the closing of the second tranche of a non-brokered private placement through the issuance of 3,120,000 units at a price of \$0.25 per unit, for aggregate proceeds of \$780,000. Each unit is comprised of one common share and one-half of a common share purchase warrant. The warrants are exercisable at a price of \$0.35 for a period of twenty-four months. In connection with the second tranche of the private placement, the Company paid cash commissions of \$25,500. In addition, the Company announced that the holder of a convertible promissory note in the principal amount of \$750,000 has converted the full amount of the Note into units in accordance with the terms of the Note, and accordingly the Company has issued 3,000,000 Shares and 1,500,000 warrants to the holder.

On September 22, 2022 the Company announced the closing of the third tranche of a non-brokered private placement through the issuance of 1,452,000 units at a price of \$0.25 per unit, for aggregate proceeds of \$363,000. Each unit is comprised of one common share and one-half of a common share purchase warrant. The warrants are exercisable at a price of \$0.35 for a period of twenty-four months. In connection with the third tranche of the private placement, the Company paid cash commissions of \$25,350 and issued 101,400 broker warrants. Each broker warrant entitles the holder thereof to acquire one Common Share at an exercise price of \$0.25 per Common Share for twenty-four months from the closing of the private placement. In addition, the Company issued 102,000 broker warrants in connection with the closing of the second tranche of the private placement.

On October 7, 2022 the Company announced the closing of the final tranche of a non-brokered private placement through the issuance of 2,320,000 units at a price of \$0.25 per unit, for aggregate proceeds of \$580,000. Each unit is comprised of one common share and one-half of a common share purchase warrant. The warrants are exercisable at a price of \$0.35 for a period of twenty-four months. In connection with the third tranche of the private placement, the Company paid cash commissions of \$39,750 and issued 25,500 broker warrants. Each broker warrant entitles the holder thereof to acquire one Share at an exercise price of \$0.25 per Share for twenty-four months from the closing of the private placement.