

INTELLECT DESIGN ARENA INC.

FINANCIAL STATEMENTS

MARCH 31, 2022

(UNAUDITED)

INTELLECT DESIGN ARENA INC.

MARCH 31, 2022

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# **BIMAL SHAH PROFESSIONAL CORPORATION**

Chartered Professional Accountant  
Licensed Public Accountant

## **INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT**

To the Shareholders of  
INTELLECT DESIGN ARENA INC.

We have reviewed the accompanying financial statements of INTELLECT DESIGN ARENA INC. that comprise of the balance sheet as at March 31, 2022, and the statements of income, deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Practitioner's Responsibility***

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of INTELLECT DESIGN ARENA INC. as at March 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

A handwritten signature in dark ink, appearing to read "Bimal Shah P.C.", written in a cursive style.

Bimal Shah Professional Corporation  
Chartered Professional Accountant  
Licensed Public Accountant

Mississauga, Ontario  
April 29, 2022

Authorized to practice public accounting by the Chartered Professional Accountants of Ontario.

# INTELLECT DESIGN ARENA INC.

## BALANCE SHEET AS AT MARCH 31, 2022 (UNAUDITED)

	2022	2021
<b>ASSETS</b>		
Current Assets		
Cash and bank	2,713,100	2,146,529
Accounts receivable	1,951,485	2,894,691
Unbilled revenue - note 3	1,051,423	1,720,824
Deposits and prepaid expenses	39,495	66,576
Loan to related company - note 6	1,856,554	
Deferred income tax recoverable - note 10	224,345	
	<u>7,836,402</u>	<u>6,828,620</u>
Property and equipment - note 2 and 4	72,699	83,994
Investment in related company - note 5	<u>1,218</u>	<u>1,218</u>
	<u>\$7,910,319</u>	<u>\$6,913,832</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Current Liabilities		
Accounts payable and accrued liabilities	1,285,696	412,715
Accounts payable to related company - note 6	1,265,122	5,234,975
Deferred Revenue - note 7	2,811,380	1,146,936
Payroll liabilities	1,302,667	937,875
Sales tax payable	86,677	206,414
	<u>6,751,542</u>	<u>7,938,915</u>
Deferred Revenue - note 7	<u>892,929</u>	<u>1,071,429</u>
	<u>7,644,471</u>	<u>9,010,344</u>
Shareholders' Equity (Deficiency)		
Share capital - note 8	1,150,000	1,150,000
Deficit	<u>(884,152)</u>	<u>(3,246,512)</u>
	<u>265,848</u>	<u>(2,096,512)</u>
	<u>\$7,910,319</u>	<u>\$6,913,832</u>
Approved on behalf of the Board		

\_\_\_\_\_  
Director

The accompanying notes are an integral part of this financial statement

# INTELLECT DESIGN ARENA INC.

## STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31, 2022 (UNAUDITED)

	2022	2021
Deficit, beginning of year	(3,246,512)	(4,290,079)
Net income	<u>2,362,360</u>	<u>1,043,567</u>
Deficit, end of year	<u><u>(\$884,152)</u></u>	<u><u>(\$3,246,512)</u></u>

The accompanying notes are an integral part of this financial statement



# INTELLECT DESIGN ARENA INC.

## STATEMENT OF INCOME FOR THE YEAR ENDED MARCH 31, 2022 (UNAUDITED)

	2022	2021
Revenue		
Revenue (net of discounts) - note 2 and 11	21,499,820	17,322,951
Interest income	9,035	19,147
	<u>21,508,855</u>	<u>17,342,098</u>
Expenses		
Advertisement and promotion	66,239	13,406
Amortization	31,711	32,324
Bank charges	2,692	2,621
Consulting	658,925	501,073
Insurance	16,063	12,829
Occupancy cost	480,008	474,023
Office and general	12,244	8,206
Professional fees	37,432	65,305
Project expenses - note 9 and 11	9,907,523	9,132,959
Repairs and maintenance	14,074	13,507
Salaries and wages	7,206,422	5,823,080
Software license	832,275	91,488
Telecommunication	51,515	62,838
Travel	52,586	28,103
	<u>19,369,709</u>	<u>16,261,762</u>
Income from operations	2,139,146	1,080,336
Foreign exchange loss	<u>(1,131)</u>	<u>(36,769)</u>
Income before income tax	2,138,015	1,043,567
Deferred income tax recoverable - note 10	<u>224,345</u>	
Net income	<u>\$2,362,360</u>	<u>\$1,043,567</u>

The accompanying notes are an integral part of this financial statement

# INTELLECT DESIGN ARENA INC.

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED MARCH 31, 2022 (UNAUDITED)

	2022	2021
<b>Operating:</b>		
Net income	2,362,360	1,043,567
Items not requiring an inflow or outlay of funds		
Amortization	31,711	32,324
Deferred income tax recoverable	(224,345)	
	<u>2,169,726</u>	<u>1,075,891</u>
Changes in non-cash working capital		
Accounts receivable	943,206	3,930,631
Unbilled revenue	669,401	1,442,278
Deposit and prepaid expenses	27,081	356
Accounts payable and accrued liabilities	(3,096,872)	(8,408,239)
Deferred revenue	1,485,944	2,052,224
Payroll liabilities including deductions	364,792	82,354
Sales tax payable	(119,737)	(137,147)
	<u>2,443,541</u>	<u>38,348</u>
<b>Investing:</b>		
Acquisition of property and equipment	(20,416)	
	<u>(20,416)</u>	<u>0</u>
<b>Financing:</b>		
Loan (to) from related companies	(1,856,554)	658,740
	<u>(1,856,554)</u>	<u>658,740</u>
<b>Increase in cash</b>	566,571	697,088
<b>Cash, beginning of year</b>	<u>2,146,529</u>	<u>1,449,441</u>
<b>Cash, end of year</b>	<u><u>\$2,713,100</u></u>	<u><u>\$2,146,529</u></u>

The accompanying notes are an integral part of this financial statement



# INTELLECT DESIGN ARENA INC.

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022 (UNAUDITED)

### **Note 1 – DESCRIPTION OF BUSINESS**

The Company was incorporated under the Canada Business Corporations Act on March 2, 2015. The company's main business activity is developing, testing and selling specialized software to various industries.

### **Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE) and include the following significant accounting policies:

#### **Use of estimates**

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates. Estimates are included in the following accounts:

- Reported amounts of revenue and expenses during the current year;
- Reported amounts of assets and liabilities; and
- Disclosure of contingent assets and liabilities at the date of the financial statements.

Actual results could differ from those estimates.

#### **Foreign currency transactions**

The Company uses the temporal method to translate foreign currency transactions. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Sales and expenses denominated in foreign currencies appearing in the current

# INTELLECT DESIGN ARENA INC.

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022 (UNAUDITED)

year's income statement are translated at the rate prevailing on the date of transaction. Exchange gains and losses are included in the income statement.

### Revenue recognition

The Company earns substantially all of its revenue from the software development, maintenance, testing and support services to its customers. Revenue is recognized when earned, specifically when all of the following conditions are met:

- Services are provided to its customers.
- There is clear evidence that an arrangement exists.
- Amounts are fixed or can be determined.
- Company's ability to collect is reasonably assured.
- No significant obligation for future performance remains.

The Company records payment received in advance including upfront non-refundable payments as deferred revenues until the services to customers are provided or delivered.

License revenue is recognized upfront at full amount, based on the customer contract and proof of delivery of license to the customer.

### Property and equipment

Property and equipment are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their useful lives as follows, except in the year of acquisition when amortization is prorated from the date of purchase of the asset.

	<u>Rate</u>	<u>Method</u>
Computer equipment	6 years	straight-line
Computer accessories	6 years	straight-line
Office equipment	6 years	straight-line
Furniture and fixtures	10 years	straight-line
Leasehold improvements	6 years	straight-line

# INTELLECT DESIGN ARENA INC.

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022 (UNAUDITED)

### **Impairment of long lived assets**

Long lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the discounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long lived asset exceeds its fair value.

### **Income taxes**

The Company uses the income deferred/future income taxes method of accounting for income taxes. Under this method, Accounting Standards for Private Enterprises (ASPE) require deferred/future tax balances to be recognized for temporary timing differences arising from differences in the carrying amount and tax bases of assets and liabilities.

### **Financial instruments**

The enterprise initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The enterprise subsequently measures all its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, accounts receivable, prepaid expenses, deposit, advance to related companies.

Financial liabilities measured at cost include accounts payable and accrued liabilities, payroll liabilities, due to government agencies and amounts due to related parties.

The Company has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The principal risks assumed by the Company are credit risk and currency risk.



INTELLECT DESIGN ARENA INC.

NOTES TO FINANCIAL STATEMENTS  
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*Credit risk*

The Company is exposed to credit risk through its account receivable. There is no concentration of risk with respect to any of our customers. The Company maintains a policy of credit review for all of its customers and establishes an allowance for doubtful debts when amounts are not collectible.

*Currency risk*

The Company is exposed to currency risk due to a portion of its sales and expenses is incurred in U.S. dollars and Indian rupees, resulting in accounts receivable and payable in foreign currencies subject to gains or losses due to exchange rate fluctuations.

**Comparative figures**

Certain figures for previous year may have been re-classified to make their presentation identical to that adopted in current year.

**Note 3 – UNBILLED REVENUE**

Unbilled revenue comprises of (1) fixed bid projects and (2) time and material projects.

Revenue accrual for fixed bid projects is carried out based on percentage of completion (POC) approved by the quality team. The quality team tracks and considers various elements such as number of associates, efforts, number of days, etc. They also prepare multiple internal milestones and plot the POC for each milestone, thereby ascertaining the averages to arrive at the final POC, based on which the finance team will provide for revenue accrual.

Revenue accrual for time and material projects are recognized based on the (1) time spent by the resources and (2) the rates as agreed with the customer based on the signed contract and the statement of work. Time spent by the resources is measured by the internal metrics maintained by the delivery and quality department. Time and material revenue accrued at the end of the month is invoiced at the beginning of the next month.

INTELLECT DESIGN ARENA INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note 4 – PROPERTY AND EQUIPMENT**

	Cost	Accum. Amorti- zation	2022 Net Book Value	2021 Net Book Value
Computer equipment	111,646	81,141	30,505	33,016
Computer accessories	32,204	22,652	9,552	6,584
Office equipment	31,895	21,867	10,028	15,344
Furniture and fixtures	43,944	25,475	18,469	22,863
Leasehold improvements	12,250	8,105	4,145	6,187
Total	231,939	159,240	72,699	83,994

**Note 5 – INVESTMENT IN RELATED COMPANY**

Investment in Intellect Design Arena Chile Limitada, is recorded at cost. The investment represents 11% in the limited liability partnership.

**Note 6 – RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties consist of affiliated companies. During the year, the balances and transactions with the related parties are as follows:



# INTELLECT DESIGN ARENA INC.

## NOTES TO FINANCIAL STATEMENTS

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	2022	2021
<b>Consulting, Outsourcing and Software development expenses:</b>		
Intellect Design Arena Limited, India	\$ 9,907,523	\$ 9,132,959
<b>Interest received on loan:</b>		
Intellect Design Arena Inc., USA	\$ 8,985	\$ 18,963
<b>Investment in related company:</b>		
Intellect Design Chile Limitada	\$ 1,218	\$ 1,218
<b>Loan given to related company:</b>		
Intellect Design Chile Limitada	\$ 856,554	
Intellect Design Arena FZ LLC, UAE	\$ 1,000,000	
<b>Current account balance receivable:</b>		
Intellect Design Arena Limited, India	\$ 1,651,666	\$ 1,375,599
<b>Trade payables to:</b>		
Intellect Design Arena Limited, India (net)	\$ 2,916,788	\$ 6,610,573

All of the above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Note 7 – DEFERRED REVENUE

Deferred revenue or billing in excess of revenue represents revenue invoiced to customers based on milestones, but revenue recognized based on the percentage of completion.

Deferred revenue also includes revenue of \$1,071,500 from Canadian Western Bank. Hosting service is provided whereby the license is installed on our server and not on the

# INTELLECT DESIGN ARENA INC.

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022 (UNAUDITED)

customer's server. License revenue on hosting services will be pro-ratably recognized over the next six year period of contract as below:

Revenue recognition in next 12 months	178,571
Revenue recognition between 13 to 72 months	<u>892,929</u>
Total	<u>1,071,500</u>

### Note 8 – SHARE CAPITAL

#### Authorized:

Unlimited number of Class A voting shares without par value  
Unlimited number of Class B non-voting shares without par value

#### Issued:

	2022	2021
1,150,000 Class A shares	1,150,000	1,150,000

### Note 9 – PROJECT EXPENSES

Project expenses include back to back outsourcing charges. In consequent to the transfer pricing study done last year by Ernest and Young, India, the management has decided to keep a profit before tax in at 9.94% (previous year 6.02%) this fiscal year.

### Note 10 – DEFERRED INCOME TAX RECOVERABLE

During the current fiscal year, the company has changed the reporting of income tax from "taxes payable" to "deferred/future income taxes" method. The deferred income tax recoverable based on timing difference is \$224,345 (previous year \$790,919). If the

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deferred/future income tax method was adopted previous year, the net income would have been higher by \$790,919

The company also has \$47,746 (previous year \$47,746) of accumulated capital loss.

**Note 11 – ECONOMIC DEPENDENCE**

The Company is dependent on parent company for support relating to software development, license and support services.

The company has earned its revenue from five customers only. 80.57% (previous year 98.327%) revenue is earned from three major customers.

**Note 12 – CONTRACTUAL OBLIGATIONS**

The company has signed a lease for its office premises in Toronto, which expires on March 31, 2023. The annual commitment for the remaining twelve months of the lease is \$435,134, which does not include applicable sales tax.

**Note 13 – FUTURE EFFECT OF COVID-19 ON BUSINESS**

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). COVID-19 still ravages the global economies. However, local authorities both at the federal and provincial level have taken measures to lessen the impact of crisis on national and global economies. As a result of the overall effect of these events and steps taken by the company to deliver uninterrupted services to the customers and at the same time save on cost, its overall operations for the next fiscal year are expected to follow the same trend as it did for current year.