

INTELLECT DESIGN ARENA INC.

FINANCIAL STATEMENTS

MARCH 31, 2023

(UNAUDITED)

INTELLECT DESIGN ARENA INC.

MARCH 31, 2023

Contents

	<u>Page</u>
Independent Practitioner's Review Engagement Report	1
Financial Statements	
Balance sheet	3
Statement of retained earnings	4
Statement of income	5
Statement of cash flow	6
Notes to financial statements	7



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, 2023, and the statements of income, retained earnings 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, 2023, 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 black ink that reads "Bimal Shah P.C." in a cursive, flowing script.

Bimal Shah Professional Corporation
Chartered Professional Accountant
Licensed Public Accountant

Mississauga, Ontario
May 5, 2023

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

INTELLECT DESIGN ARENA INC.

BALANCE SHEET AS AT MARCH 31, 2023 (UNAUDITED)

	2023	2022
ASSETS		
Current Assets		
Cash and bank	776,532	2,713,100
Accounts receivable	3,712,547	1,951,485
Accrued receivable - note 3	5,986,572	1,051,423
Deposits and prepaid expenses	37,881	39,495
Loan to related company		1,856,554
Deferred income tax recoverable		224,345
	<u>10,513,532</u>	<u>7,836,402</u>
Property and equipment - note 2 and 4	57,331	72,699
Investment in related company - note 5	<u>1,218</u>	<u>1,218</u>
	<u>\$10,572,081</u>	<u>\$7,910,319</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	979,557	1,285,696
Accounts payable to related company - note 6	1,987,795	1,265,122
Deferred Revenue - note 3 and 7	2,472,419	2,811,380
Payroll liabilities	1,449,824	1,302,667
Sales tax payable	377,956	86,677
Income tax payable	442,756	
	<u>7,710,307</u>	<u>6,751,542</u>
Deferred Revenue - note 7	<u>714,286</u>	<u>892,929</u>
	<u>8,424,593</u>	<u>7,644,471</u>
Shareholders' Equity		
Share capital - note 8	1,150,000	1,150,000
Retained earnings (Deficit)	<u>997,488</u>	<u>(884,152)</u>
	<u>2,147,488</u>	<u>265,848</u>
	<u>\$10,572,081</u>	<u>\$7,910,319</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 RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 2023 (UNAUDITED)

	2023	2022
Deficit, beginning of year	(884,152)	(3,246,512)
Net income	<u>1,881,640</u>	<u>2,362,360</u>
Retained earnings (deficit), end of year	<u>\$997,488</u>	<u>(\$884,152)</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, 2023 (UNAUDITED)

	2023	2022
Revenue		
Revenue (net of discounts) - note 2 and 11	25,512,401	21,499,820
Interest income	26,155	9,035
	<u>25,538,556</u>	<u>21,508,855</u>
Expenses		
Advertisement and promotion	93,914	66,239
Amortization	29,603	31,711
Bank charges	4,346	2,692
Consulting	741,679	658,925
Insurance	17,584	16,063
Occupancy cost	490,485	480,008
Office and general	31,450	12,244
Professional fees	66,391	37,432
Project expenses - note 6, 9 and 11	10,902,254	9,907,523
Repairs and maintenance	7,588	14,074
Salaries and wages	8,856,184	7,206,422
Software license	1,499,997	832,275
Telecommunication	63,185	51,515
Travel	195,915	52,586
	<u>23,000,575</u>	<u>19,369,709</u>
Income from operations	2,537,981	2,139,146
Foreign exchange (loss) gain	<u>10,760</u>	<u>(1,131)</u>
Income before income tax	2,548,741	2,138,015
Deferred income tax recoverable (payable)	(224,345)	224,345
Income tax - note 10	<u>(442,756)</u>	<u></u>
Net income	<u>\$1,881,640</u>	<u>\$2,362,360</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, 2023 (UNAUDITED)

	2023	2022
Operating:		
Net income	1,881,640	2,362,360
Items not requiring an inflow or outlay of funds		
Amortization	29,603	31,711
Deferred income tax	224,345	(224,345)
	<u>2,135,588</u>	<u>2,169,726</u>
Changes in non-cash working capital		
Accounts receivable	(1,761,062)	943,206
Unbilled revenue	(4,935,149)	669,401
Deposit and prepaid expenses	1,614	27,081
Accounts payable and accrued liabilities	416,534	(3,096,872)
Deferred revenue	(517,604)	1,485,944
Payroll liabilities including deductions	147,157	364,792
Sales tax payable	291,279	(119,737)
Income tax payable	442,756	
	<u>(3,778,887)</u>	<u>2,443,541</u>
Investing:		
Acquisition of property and equipment	(14,235)	(20,416)
	<u>(14,235)</u>	<u>(20,416)</u>
Financing:		
Loan (to) from related companies	1,856,554	(1,856,554)
	<u>1,856,554</u>	<u>(1,856,554)</u>
Increase (decrease) in cash	(1,936,568)	566,571
Cash, beginning of year	<u>2,713,100</u>	<u>2,146,529</u>
Cash, end of year	<u>\$776,532</u>	<u>\$2,713,100</u>

The accompanying notes are an integral part of this financial statement

INTELLECT DESIGN ARENA INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(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, 2023 (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, 2023
(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 has changed from using the deferred/future income taxes method to income tax payable method of accounting for income taxes from current fiscal year. Under this method, income tax payable at actual for the year are recorded.

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
MARCH 31, 2023
(UNAUDITED)

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 – ACCRUED RECEIVABLE

Accrued receivable 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
MARCH 31, 2023
(UNAUDITED)

Accrued receivable includes receivable from Concentra Bank. Concentra Bank was bought out by Equitable Bank in 2022 and the company's projects were put on hold under the new management. As of March 31, 2023, the company has an exposure of \$220,425 in "Revenue in Excess of Billing" and \$62,632 in "Billing in excess of Revenue" making a net exposure of \$157,793. This represents the work already done by the company but invoices are not issued. The company is still having negotiations with the new management on the recoverability of this amount. The company will have better clarity in the first quarter of 2023-2024 and will take a decision accordingly.

Note 4 – PROPERTY AND EQUIPMENT

	Cost	Accum. Amorti- zation	2023 Net Book Value	2022 Net Book Value
Computer equipment	124,996	96,161	28,835	30,505
Computer accessories	32,988	26,076	6,912	9,552
Office equipment	31,895	26,488	5,407	10,028
Furniture and fixtures	43,944	29,870	14,074	18,469
Leasehold improvements	12,250	10,147	2,103	4,145
Total	246,073	188,742	57,331	72,699

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.

INTELLECT DESIGN ARENA INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(UNAUDITED)

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:

	2023	2022
Consulting, Outsourcing and Software development expenses:		
Intellect Design Arena Limited, India	\$ 10,902,254	\$ 9,907,523
Interest received on loan:		
Intellect Design Arena Inc., USA	\$ 26,155	\$ 8,985
Investment in related company:		
Intellect Design Chile Limitada	\$ 1,218	\$ 1,218
Loan given to related company:		
Intellect Design Chile Limitada		\$ 856,554
Intellect Design Arena FZ LLC, UAE		\$ 1,000,000
Current account balance receivable:		
Intellect Design Arena Limited, India	\$ 1,646,422	\$ 1,651,666
Trade payables to:		
Intellect Design Arena Limited, India (net)	\$ 3,634,217	\$ 2,916,788

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.

INTELLECT DESIGN ARENA INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(UNAUDITED)

Note 7 – DEFERRED REVENUE

Deferred revenue or billing in excess of revenue represents the difference between revenue invoiced to customers based on milestones and revenue recognized based on the percentage of completion. Also refer note 3 above relating to accrual for Concentra Bank.

Deferred revenue also includes revenue of \$892,857 (previous year \$1,071,500) from Canadian Western Bank. Hosting service is provided whereby the license is installed on our server and not on the customer's server. License revenue on hosting services will be pro-ratably recognized over the next five year period of contract as below:

Revenue recognition in next 12 months	178,571
Revenue recognition between 13 to 60 months	<u>714,286</u>
Total	<u>892,857</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:

	2023	2022
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 two years ago by Ernest and Young, India, the management has decided to keep a profit before tax at 9.99% (previous year 9.94%) this fiscal year.

INTELLECT DESIGN ARENA INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(UNAUDITED)

Note 10 – INCOME TAX PAYABLE

During the current fiscal year, the company has changed the reporting of income tax from “deferred/future income taxes” to “taxes payable” method. If the taxes payable method was adopted previous year, the net income would have been lower by \$224,345

Reconciliation of the income tax expense related to income for the year and the dollar amount of income tax using the statutory rate:

	2023	2022
Income before income taxes	\$ 2,548,741	\$ 2,138,015
Applicable tax rate	26.50%	26.50%
Expected income tax expense	675,416	566,574
Effect on income tax expense of:		
Carried forward losses	(234,829)	(566,574)
Amortization difference between accounting and tax purpose	<u>2,169</u>	<u>—</u>
Income tax expense	<u>442,756</u>	<u>NIL</u>

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 six (previous year – five) customers only. 77.86% (previous year 80.57%) 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, 2024. The annual commitment for the remaining twelve months of the lease is \$442,786, which does not include applicable sales tax.