

SOLES4SOULS CANADA

Financial Statements

Year Ended June 30, 2021

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Soles4Souls Canada

Qualified Opinion

We have audited the accompanying financial statements of Soles4Souls Canada, which comprise the statement of financial position as at June 30, 2021, and the statements of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Soles4Souls Canada as at June 30, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many charitable organizations, the company derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the company and we were not able to determine whether any adjustments might be necessary to donation revenue, deficiency of revenues over expenses, and cash flows from operations for the year ended June 30, 2021. Our audit opinion on the financial statements for the year ended June 30, 2021 was modified accordingly because of the possible effects of this limitation of scope.

We conducted our audit 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 audit of the 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 qualified audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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 Organization's financial reporting process. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

Independent Auditor's Report to the Members of Soles4Souls Canada (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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.

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.

NVS Professional Corporation

NVS Professional Corporation
Chartered Professional Accountants
Authorized to practise public accounting by the
Chartered Professional Accountants of Ontario

Markham, Ontario
November 15, 2021

SOLES4SOULS CANADA**Statement of Financial Position****June 30, 2021**

	2021	2020
Assets		
Current		
Cash and cash equivalents	\$ 100,399	\$ 16,369
Trade accounts receivable	-	16,394
Inventory	<u>192,312</u>	<u>698</u>
	292,711	33,461
Capital assets (Note 3)	12,266	15,797
Intangible assets (Note 4)	<u>11,328</u>	<u>12,502</u>
	\$ 316,305	\$ 61,760
Liabilities and Net Assets		
Current		
Trade accounts payable (Note 5) (Note 6)	\$ 444,135	\$ 383,318
Net assets (deficit)	<u>(127,830)</u>	<u>(321,558)</u>
	\$ 316,305	\$ 61,760

Approved on behalf of the Board_____
*President*_____
Treasurer

See notes to financial statements

SOLES4SOULS CANADA**Statement of Operations****Year Ended June 30, 2021**

	2021	2020
Revenues	\$ 6,052,078	\$ 7,794,178
Expenses		
Amortization	4,704	3,768
Bank charges	1,515	1,633
Cost of goods sold	5,558,530	7,700,116
Foreign exchanges loss/(gain) on translation of financial statements	(14,100)	4,230
Other insurance	-	671
Other professional fees	12,234	18,069
Office expenses	15	1,082
Salaries and wages	296,630	447,772
Travel expenses	5,404	8,497
	<u>5,864,932</u>	<u>8,185,838</u>
Excess (deficiency) of revenues over expenses from operations	187,146	(391,660)
Other expenses (income)	<u>6,582</u>	<u>(2,048)</u>
Excess (deficiency) of revenues over expenses	\$ 193,728	\$ (393,708)

See notes to financial statements

SOLES4SOULS CANADA

Statement of Changes in Net Assets

Year Ended June 30, 2021

	2021	2020
Net assets (deficit) - beginning of year	\$ (321,558)	\$ 72,150
Excess (deficiency) of revenues over expenses	<u>193,728</u>	<u>(393,708)</u>
Net assets (deficit) - end of year	<u>\$ (127,830)</u>	<u>\$ (321,558)</u>

SOLES4SOULS CANADA**Statement of Cash Flows****Year Ended June 30, 2021**

	2021	2020
Operating activities		
Excess (deficiency) of revenues over expenses	\$ 193,728	\$ (393,708)
Item not affecting cash:		
Amortization	4,704	3,768
	<u>198,432</u>	<u>(389,940)</u>
Changes in non-cash working capital:		
Trade accounts receivable	16,394	131,761
Inventory	(191,614)	(698)
Accounts payable and accrued liabilities	60,818	284,955
	<u>(114,402)</u>	<u>416,018</u>
Cash flow from operating activities	<u>84,030</u>	<u>26,078</u>
Investing activities		
Purchase of capital assets	-	(18,227)
Cash flow used by investing activities	<u>-</u>	<u>(18,227)</u>
Increase in cash flow	84,030	7,851
Cash and cash equivalents - beginning of year	<u>16,369</u>	<u>8,518</u>
Cash and cash equivalents - end of year	\$ 100,399	\$ 16,369

See notes to financial statements

1. PURPOSE OF THE COMPANY

Soles4Souls Canada (the "Organization") was incorporated on February 11, 2016 under the Canada Not-for-profit Corporations Act as a corporation without share capital. The Organization's mission is to relieve poverty in Canada by providing shoes and clothing to individuals and families in need. To relieve poverty in developing nations by providing shoes and clothing to individuals and families in need and provide shoes and clothing to qualified micro-enterprise programs designed to create jobs for individuals and families in need.

The Organization has submitted an application, which is under process to be granted a registered charity status by the Canada Revenue Agency (CRA).

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgment and estimates. As at June 30, 2021, the Organization has not noted any significant impairment as a result of COVID-19. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustments to the carrying amount of: accounts receivable, and government authorities' loans, payables and other loans. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Organization's financial condition, operations and financial results are subject to significant uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts 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 include amortization of capital assets and intangible assets and accrued liabilities and 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.

Financial instruments

The organization's financial instruments consists of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. It is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial statements. The fair values of these financial instruments approximate their carrying values. The Organization initially measures its financial assets and financial liabilities at their fair value.

Revenue recognition

Revenue primarily consists of micro enterprises revenue generated when donated product is sold (with permission by donor) into social enterprise programming. This revenue stream is recognized at the point that the partner Soles4Souls Canada is selling and accepts the negotiation of the sale of the product. The partner assume ownership at the point the product is shipped.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital assets

Capital assets are stated at cost or deemed cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Furniture and fixtures	5 years straight-line method
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The amortization method and estimates of the useful life are reviewed on a regular basis.

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Intangible assets

The trademarks are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 15 years.

Leases

An operating lease is a lease where substantially all the benefits and risks incidental to ownership of property are not transferred to the entities in the Organization. Lease rentals under an operating lease are included in determination of the excess (deficiency) of revenues over expenses over the lease term on a straight-line basis.

Foreign currency transactions and balances

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. This method translates assets, liabilities, revenues and expenditures in a manner that retains their bases of measurement in terms of the Canadian dollar (it uses the Canadian dollar as the unit of measure).

Monetary items are translated at the exchange rate in effect at the balance sheet date.

Non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect at the balance sheet date.

Revenue and expense items are translated at the exchange rate in effect on the dates they occur.

Depreciation or amortization of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates.

Donated products (gifts in-kind)

Inputs for measuring fair value of contributed inventory items may be obtained from published catalogs, vendors, independent appraisals, or other sources. If methods such as estimates, averages, or computational approximations, such as average value per pound or subsequent sales, can reduce the cost measuring the fair value of inventory, use of those methods is appropriate, provided the methods are applied consistently, and the results of applying those methods are reasonably expected not to be materially different from the results of a detailed measurement of the fair value of contributed inventory. The fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are measured at lower of cost or net realizable value. The cost of inventories comprise the fair value of contributed inventory items, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, determined on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs. The Organization records lower of cost or net realizable value adjustments based upon changes in market pricing, demand, technological development or other economic factors or slow moving inventory.

3. CAPITAL ASSETS

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Furniture and fixtures	\$ 18,227	\$ 5,961	\$ 12,266	\$ 15,797

4. INTANGIBLE ASSETS

	2021	2020
Trademarks	\$ 15,434	\$ 15,434
Accumulated amortization	(4,106)	(2,932)
	\$ 11,328	\$ 12,502

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade payables (Note 6)	\$ 444,135	\$ 383,318

The Orgazation had \$Nil (2020 - \$Nil) payroll liabilities, excise taxes and sales taxes as June 30, 2021.

6. RELATED PARTY TRANSACTIONS

	2021	2020
Soles4Souls US Inc. (Parent Organization)		
Fees for Services	\$ 90,300	\$ 193,792
Collaboration Agreement	283,670	338,150
	\$ 373,970	\$ 531,942

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6. RELATED PARTY TRANSACTIONS (continued)

Related party transactions (continued)

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated. Details of transactions with related parties are set out above.

Amounts due to related party

The amount \$444,135 (2020 - \$383,318) included in trade payables is due to Soles4Souls US Inc., the parent organization. The balance is secured, non-interest bearing and is repayable on demand.

7. CONTRACTUAL OBLIGATIONS

(i) Occupancy costs

Operating leases contracted for but not capitalized in the financial statements. Future minimum lease payments plus HST as at June 30, 2021, are set out below:

The warehouse premises lease is a non-cancelable lease with a 3 year term, with minimal annual rental payments and additional rental increase per the lease agreement. The lease is for the period from November 1, 2019 to October 31, 2022, with an option to renew the lease for a further period of 3 years with minimum rentals to be determined post negotiations.

(ii) Fee for service

A fee for service contract has been entered into with Soles4Souls Inc., US on July 1, 2018 which provides for payment of an annual fixed fee in exchange for consultancy services, in addition to disbursements. The contract expires on June 30, 2021.

	(i) Operating leases	(ii) Fee for service	Total
2022	\$ 34,748	\$ -	\$ 34,748
2023 and thereafter	11,865	-	11,865
	<u>\$ 46,613</u>	<u>\$ -</u>	<u>\$ 46,613</u>

8. ECONOMIC DEPENDENCE

The Organization receives 100% of its inventory and consultancy services from one major service provider, Soles4Souls Inc., US. Should this vendor substantially change its dealings with the Organization, management is of the opinion that continued viable operations would be doubtful.

9. FINANCIAL INSTRUMENTS

Financial risks

The main risks that the Organization is exposed to through its financial instruments are liquidity risk and foreign currency exchange risk.

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9. FINANCIAL INSTRUMENTS (continued)***(a) Interest rate and credit risk***

The Organization is not exposed to significant interest rate and credit risks arising from its financial instruments.

(b) Liquidity risk

Liquidity risk refers to the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. At year end, the Organization had \$444,135 (2020 - \$383,318) of current accounts payable and accrued liabilities subject to liquidity risk. The Organization's financial instruments consist mainly of deposits with banks, accounts receivable and accounts payable and accrued liabilities.

(c) Foreign currency exchange risk

The Organization is exposed to fluctuations in foreign currency exchange rates on all payments to Soles4Souls Inc., US in the United States for: (i) its expertise in solitication and procurement of materials from manufacturers and distributors in Canada, and (ii) provide financial and administrative management services. As a result, fluctuations in the United States dollar against the Canadian dollar have been adjusted in the Organization's financial results which are denominated in Canadian dollars.

10. COMPARATIVE FIGURES

Certain of the 2020 figures have been reclassified to conform to the current period's financial statement presentation.
