

PONDEROUS PANDA CAPITAL CORP.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Ponderous Panda Capital Corp.

Opinion

We have audited the accompanying financial statements of Ponderous Panda Capital Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2018 and the period from incorporation on March 22, 2017 to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and the period from incorporation on March 22, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards ("IFRS").

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 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company has an accumulated deficit of \$205,508 as at December 31, 2018. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS, 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 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 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.

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 Erez Bahar.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 29, 2019

PONDEROUS PANDA CAPITAL CORP.
STATEMENTS OF FINANCIAL POSITION
AS AT

	December 31, 2018	December 31, 2017
	\$	\$
ASSETS		
Current		
Cash	549,090	89,804
Prepaid expenses	102	-
Deferred financing costs (Note 5)	-	15,000
Total Assets	549,192	104,804
LIABILITIES		
Current		
Accounts payable and accrued liabilities	17,950	231
	17,950	231
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	640,300	105,000
Reserves	96,000	-
Deficit	(205,058)	(427)
Total Liabilities and Shareholders' Equity	549,192	104,804

Nature and continuance of operations (Note 1)

On behalf of the Board:

"David Smalley"

Director

"Larry K. Doan"

Director

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

**PONDEROUS PANDA CAPITAL CORP.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

	For the year ended December 31, 2018	For the Period From Incorporation on March 22, 2017 to December 31, 2017
	\$	\$
Bank charges	-	196
Rent	1,097	231
Filing fees	33,276	-
Professional fees	87,224	-
Regulatory fees	12,034	-
Share-based compensation (Note 5)	71,000	-
Loss and comprehensive loss for the period	(204,631)	(427)
Basic and diluted loss per common share (Note 5)	\$ (0.15)	\$ (0.00)
Weighted average number of common shares outstanding – basic and diluted (Note 5)	1,358,904	73,994

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

PONDEROUS PANDA CAPITAL CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
		\$	\$	\$	\$
Balance, March 22, 2017 (incorporation)	-	-	-	-	-
Incorporation share issued	1	-	-	-	-
Common share cancelled	(1)	-	-	-	-
Common shares issued	700,003	105,000	-	-	105,000
Loss for the period	-	-	-	(427)	(427)
Balance, December 31, 2017	700,003	105,000	-	(427)	104,573
Balance, December 31, 2017	700,003	105,000	-	(427)	104,573
Common shares issued	2,365,001	654,750	-	-	654,750
Share issue costs – cash	-	(94,450)	-	-	(94,450)
Share issue costs –warrants	-	(25,000)	25,000	-	-
Share-based compensation	-	-	71,000	-	71,000
Loss for the year	-	-	-	(204,631)	(204,631)
Balance, December 31, 2018	3,065,004	640,300	96,000	(205,058)	531,242

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

PONDEROUS PANDA CAPITAL CORP.
STATEMENTS OF CASH FLOWS

	December 31, 2018	For the Period From Incorporation on March 22, 2017 to December 31, 2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(204,631)	(427)
Items not involving cash:		
Share-based compensation	71,000	-
Changes in non-cash working capital item:		
Prepaid expenses	(102)	-
Accounts payable and accrued liabilities	17,719	231
Net cash used in operating activities	<u>(116,014)</u>	<u>(196)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of share capital	654,750	105,000
Share issue costs	(79,450)	-
Deferred financing costs	-	(15,000)
Net cash provided by financing activities	<u>575,300</u>	<u>90,000</u>
Change in cash during the period	459,286	89,804
Cash, beginning of period	<u>89,804</u>	-
Cash, end of period	<u>549,090</u>	<u>89,804</u>
Cash paid for interest during the period	Nil	Nil
Cash paid for income taxes during the period	Nil	Nil

Supplemented Cash Flow Information (Note 10)

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

**PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND
FOR THE PERIOD FROM INCORPORATION ON MARCH 22, 2017 TO DECEMBER 31, 2017**

1. NATURE AND CONTINUANCE OF OPERATIONS

Ponderous Panda Capital Corp. (the "Company") was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the British Columbia Business Corporations Act on March 22, 2017. The Company completed an initial public offering ("IPO") of its common shares on April 27, 2018, and began trading its common shares on the TSX Venture Exchange (the "Exchange" or "TSX-V") under the symbol "PPCC.P". The Company is classified as a Capital Pool Company as defined in the Exchange Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business with a view to completing a Qualifying Transaction subject to receipt of shareholder approval and acceptance by regulatory authorities. The Company's head office and registered and records office address is Suite 2300 – 1066 West Hastings Street, Vancouver, British Columbia, Canada V6E 3X2.

The Company has an accumulated deficit of \$205,058 as at December 31, 2018. The Company's continuing operations are dependent upon its ability to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction, as defined in Exchange Policy 2.4, within 24 months of listing on the TSX-V. Any acquisition or investment proposed by the Company will be subject to regulatory approval. There is no assurance that the Company will identify a business or asset that warrants acquisition or participation within such time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or de-list the Company's common shares from trading. All of the preceding indicates the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. BASIS OF PRESENTATION

Statement of Compliance

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These financial statements were approved and authorized for issue by the Board of Directors on April 29, 2019.

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

Use of estimates and judgements

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates. The preparation of these financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1.

**PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE FINANCIAL STATEMENTS
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2. BASIS OF PRESENTATION (CONTINUED)

Use of estimates and judgements (continued)

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

Deferred tax assets & liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

Valuation of share-based payments and compensatory warrants

Management uses the Black-Scholes model to determine the fair value of stock options granted to officers and directors, and the fair value of compensatory warrants. This model requires assumptions of the expected future price volatility of the Company's common shares, expected life of options and warrants, future risk-free interest rates, and the dividend yield of the Company's common shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income of loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND
FOR THE PERIOD FROM INCORPORATION ON MARCH 22, 2017 TO DECEMBER 31, 2017**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to share capital based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

c) Share-based payments

The Company has a stock option plan that provides for the granting of options to officers, directors, and consultants to acquire common shares of the Company. The fair value of the options is measured on grant date and is recognized as an expense with a corresponding increase in reserves as the options vest.

Options granted to employees and others providing similar services are measured on grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an expense with an offset to reserves. When options are exercised, the consideration received is recorded as share capital. In addition, the related share-based payment amount originally recorded as reserves is transferred to share capital. When options are cancelled or expire, the initial recorded value is reversed from reserves and credited to deficit.

d) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial Instruments

Recognition

The Company recognizes financial assets and liabilities on the date that the Company has become a party to the contractual provisions of the instruments.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- (i) those to be measured subsequently at fair value, either through other comprehensive income, or through profit or loss; and
- (ii) 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 fair value through profit or loss (an 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.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company has implemented the following classifications:

- Cash is classified as an asset at fair value and any period end change in fair value is recorded in profit or loss.
- Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest rate method. Interest expense is recorded in profit or loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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 to profit and loss or other comprehensive income or loss (an irrevocable election at the time of recognition).

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FOR THE PERIOD FROM INCORPORATION ON MARCH 22, 2017 TO DECEMBER 31, 2017**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial Instruments (continued)

Impairment

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

See Note 7 for additional information on the classification of the Company's financial instruments.

f) Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2019. The following have not yet been adopted by the Company.

- IFRS 16 – *Leases*: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company does not expect a significant impact from adopting this standard.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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5. SHARE CAPITAL

Authorized

Unlimited common shares with no par value and unlimited preferred shares with no par value.

Issued and outstanding common shares

Year Ended December 31, 2018

On January 31, and February 12, 2018, the Company issued total of 365,001 common shares at \$0.15 per share for gross proceeds of \$54,750.

On April 27, 2018, the Company completed its IPO of 2,000,000 common shares at \$0.30 per common share for gross proceeds of \$600,000. In connection with the IPO, the Company incurred share issuance costs including finders' fees, legal and other fees of \$94,450, of which \$15,000 was recorded as deferred financing costs as at December 31, 2017. Additionally, the Company issued 200,000 finders' warrants with a fair value of \$25,000. Each finders' warrant is exercisable into one common share of the Company at an exercise price of \$0.30 until April 27, 2020.

Period from incorporation on March 22, 2017 to December 31, 2017

On March 22, 2017, the Company issued one common share at \$0.001 per share upon incorporation. The common share was cancelled on December 1, 2017.

During the period from incorporation on March 22, 2017 to December 31, 2017, the Company issued 703,000 common shares at \$0.15 per share for gross proceeds of \$105,000.

Escrowed securities

The Company entered into an escrow agreement (the "Escrow Agreement") in relation to common shares issued prior to the IPO. Pursuant to the Escrow Agreement, 1,065,004 common shares were placed in escrow on the date of IPO. Upon the Company completing a Qualifying Transaction, the Escrowed Common Shares will be subject to a timed release over a 36-month period.

As at December 31, 2018, 1,065,004 (2017 – Nil) common shares were held in escrow.

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NOTES TO THE FINANCIAL STATEMENTS
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FOR THE PERIOD FROM INCORPORATION ON MARCH 22, 2017 TO DECEMBER 31, 2017**

5. SHARE CAPITAL (CONTINUED)

Loss per share amounts

Weighted average loss per common share for the year ended December 31, 2018 and the period from incorporation on March 22, 2017 to December 31, 2017, is calculated as follows:

	For the year ended December 31, 2018	For the Period From Incorporation on March 22, 2017 to December 31, 2017
Numerator:		
Loss and comprehensive loss for the period	\$ (204,631)	\$ (427)
Denominator:		
Weighted average number of common shares outstanding	1,358,904	73,994
Loss per share, basic and diluted	\$ (0.15)	\$ (0.00)

In accordance with the Company's accounting policy, weighted average number of common shares outstanding excludes 1,065,004 common shares held in escrow.

Warrants

Stock purchase warrants transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at March 22, 2017 and December 31, 2017	-	\$ -
Finders' warrants issued	200,000	0.30
Outstanding at December 31, 2018	200,000	\$ 0.30

The fair value of the finders' warrants issued was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended December 31, 2018	Period from incorporation on March 22 to December 31, 2017
Expected stock price volatility	75%	N/A
Expected life	2 years	N/A
Risk free interest rate	0.77%	N/A
Expected forfeitures	0%	N/A
Expected dividend yield	0%	N/A

As at December 31, 2018, the outstanding and exercisable share purchase warrants were as follows:

Number of Warrants	Exercise Price	Expiry Date	Remaining life (in years)
200,000	\$ 0.30	April 27, 2020	1.32

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5. SHARE CAPITAL (CONTINUED)

Stock options

On January 22, 2018, the Company adopted a Stock Option Plan (the “Plan”) under which it is authorized to grant stock options to executive officers, directors, employees, and consultants. Under the Plan, the number of options that may be issued is limited to no more than 10% of the Company’s issued and outstanding shares immediately prior to the grant. While the Company is a CPC until completion of a Qualifying Transaction, the aggregate number of common shares that may be reserved for issuance under the Plan shall not exceed 10% of the common shares to be outstanding as at the closing of the Company’s initial public offering. The exercise price of each stock option shall equal the market price of the Company’s shares, less any applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors.

Stock options transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at March 22, 2017 and December 31, 2017	-	\$ -
Granted	306,500	0.30
Outstanding at December 31, 2018	306,500	\$ 0.30

On April 27, 2018, the Company granted 306,500 stock options to directors and officers of the Company with a fair value of \$71,000. Each option is exercisable into one common shares of the Company at an exercise price of \$0.30 until April 27, 2028.

The fair value of the options granted was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	December 31, 2018	December 31, 2017
Expected stock price volatility	75%	N/A
Expected life	10 years	N/A
Risk free interest rate	0.77%	N/A
Expected forfeitures	0%	N/A
Expected dividend yield	0%	N/A

As at December 31, 2018, the outstanding and exercisable stock options were as follows:

Number of Options	Exercise Price	Expiry Date	Remaining life (in years)
306,500	\$ 0.30	April 27, 2028	9.32

**PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND
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6. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. The Company has identified its directors and certain senior officers as its key management personnel.

During the year ended December 31, 2018, included in professional fees was \$64,817 (March 22, 2017 to December 31, 2017 - \$Nil) of legal fees for services rendered by a law firm owned by the Chief Executive Officer and \$2,100 (March 22, 2017 to December 31, 2017 - \$Nil) of bookkeeping fees for services rendered by a consulting firms owned by the Corporate Secretary.

During the year ended December 31, 2018, the Company granted 306,500 stock options to directors and officers of the Company with a fair value of \$71,000 (March 22, 2017 to December 31, 2017 - \$Nil).

As at December 31, 2018, included in accounts payable and accrued liabilities were \$17,950 owing to a related party (December 31, 2017 - \$Nil).

7. FINANCIAL INSTRUMENTS

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash is carried at fair value using a level 1 fair value measurement. The recorded values of accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

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7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company limits its exposure to credit risk by placing its cash with a major financial institution. Management feels that the Company's credit risk with respect to cash is remote.

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

Liquidity risk

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in foreign exchange rates. As at December 31, 2018, the Company did not have any financial instruments denominated in foreign currencies and considers foreign currency risk insignificant.

Price risk

The Company has no exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

8. CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity. As at December 31, 2018, the Company's shareholders' equity was \$531,242 and there was no long term debt outstanding. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital.

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds from the issuance of common shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the Exchange Policy 2.4. The Company currently is not subject to other externally imposed capital requirements.

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9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2018	2017
	\$	\$
Loss before income taxes	(204,631)	(427)
Change in statutory tax rates and other	1,000	-
Expected income tax (recovery)	(55,000)	(100)
Permanent difference	19,000	-
Share issue costs	(26,000)	-
Change in unrecognized deferred tax assets	61,000	100
Income tax expense (recovery)	-	-

Significant components of the Company's deferred income tax assets not recognized are shown below:

	2018	Expiry Date	2017	Expiry Date
	\$		\$	
Share issue costs	76,000	2039 - 2042	-	-
Non-capital losses carried forward	153,000	2037 - 2038	427	2037

10. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the period ended December 31, 2018, as follows:

	2018	2017
Fair value of Finders' Warrants recorded as share issue costs	\$25,000	\$Nil

During the year ended December 31, 2018, the Company paid \$nil (2017 - \$nil), and \$nil (2017 - \$nil) for income taxes and interest respectively.