

**PONDEROUS PANDA CAPITAL CORP.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 and 2018**

**(Expressed in Canadian Dollars)**

## 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, 2019 and 2018 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 states events and conditions that indicate 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

May 15, 2020

**PONDEROUS PANDA CAPITAL CORP.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019 AND DECEMBER 31, 2018**

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	498,083	549,090
Prepaid expenses	-	102
<b>Total assets</b>	<b>498,083</b>	549,192
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	23,936	17,950
<b>Total liabilities</b>	<b>23,936</b>	17,950
<b>Shareholders' equity</b>		
Share capital (Note 5)	640,300	640,300
Reserves (Note 5)	96,000	96,000
Deficit	(262,153)	(205,058)
<b>Total shareholders' equity</b>	<b>474,147</b>	531,242
<b>Total liabilities and shareholders' equity</b>	<b>498,083</b>	549,192

Nature and continuance of operations (Note 1)

Approved on May 15, 2020 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 YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018**

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
<b>Expenses</b>		
Regulatory fees	6,108	12,034
Filing fees	8,376	33,276
Professional fees (Note 6)	41,142	87,224
Share based payments (Note 5)	-	71,000
Office rent and miscellaneous	1,469	1,097
<b>Loss and comprehensive loss for the year</b>	<b>(57,095)</b>	<b>(204,631)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$ (0.15)</b>
<b>Weighted average number of common shares outstanding – basic and diluted (Note 5)</b>	<b>2,000,000</b>	<b>1,358,904</b>

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

**PONDEROUS PANDA CAPITAL CORP.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018**

	Number of common shares	Share capital	Reserves	Deficit	Total
		\$	\$	\$	\$
<b>Balance, December 31, 2017</b>	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 payments	-	-	71,000	-	71,000
Loss for the year	-	-	-	(204,631)	(204,631)
<b>Balance, December 31, 2018</b>	3,065,004	640,300	96,000	(205,058)	531,242
Loss for the year	-	-	-	(57,095)	(57,095)
<b>Balance, December 31, 2019</b>	<b>3,065,004</b>	<b>640,300</b>	<b>96,000</b>	<b>(262,153)</b>	<b>474,147</b>

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

**PONDEROUS PANDA CAPITAL CORP.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018**

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(57,095)	(204,631)
Item not involving cash:		
Share based payments	-	71,000
Changes in non-cash working capital items:		
Prepaid expenses	102	(102)
Accounts payable and accrued liabilities	5,986	17,719
	<b>(51,007)</b>	<b>(116,014)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares	-	654,750
Share issuance costs	-	(79,450)
	-	575,300
<b>Change in cash during the year</b>	<b>(51,007)</b>	<b>459,286</b>
<b>Cash, beginning of year</b>	<b>549,090</b>	<b>89,804</b>
<b>Cash, end of year</b>	<b>498,083</b>	<b>549,090</b>

Supplemental cash flow information (Note 10)

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Ponderous Panda Capital Corp. (the “Company”) was incorporated 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 on May 2, 2018, its common shares began trading on the TSX Venture Exchange (“TSX-V” or the “Exchange”), under the symbol “PPCC.P”. The Company is classified as a Capital Pool Company (“CPC”), as defined in the Exchange Policy 2.4. The Company’s head office and registered and records office address is Suite 2300, 1066 W Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2.

The principal business of the Company is the identification and evaluation of material assets or businesses with a view to completing a transaction where the Company acquires significant assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means.

These financial statements (the “financial statements”) are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at December 31, 2019, the Company has an accumulated deficit of \$262,153.

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. The inability to achieve these objectives may cast significant doubt about the Company’s ability to continue as a going concern.

**Proposed Transaction**

On August 26, 2019, the Company entered into a Letter of Intent (“LOI”), for the acquisition of Veridyne Power Corp. (“Veridyne”), a private company in the business of developing Solid Oxide Fuel Cell (“SOFC”) power generating units. The LOI was intended to facilitate a business combination that would constitute the Company’s Qualifying Transaction (the “Proposed Transaction”). The LOI expired on March 25, 2020 and the Company took the decision not to further extend it, thereby terminating the Proposed Transaction.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, “IFRS”), as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements have been prepared on an historical cost basis, except for financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

**2. BASIS OF PRESENTATION (CONTINUED)**

**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.

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 and 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 stock options and warrants, future risk-free interest rates, and the dividend yield of the Company's common shares.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in shareholders' equity, in which case it is recognized in other comprehensive income (loss) or shareholders' 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Share capital**

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from shareholders' 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 the common share purchase warrants.

**Share based payments**

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

Stock 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 stock options were granted. The amount recognized as an expense is adjusted to reflect the actual number of stock 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.

Stock 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 stock 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 stock options are cancelled or expire, the initial recorded value is reversed from reserves and credited to deficit.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 year. 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.

**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 (loss), 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 (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 fair value through profit or loss; and
- Accounts payable and accrued liabilities is classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

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.

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 (loss) (an irrevocable election at the time of recognition).

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.

**4. NEW ACCOUNTING POLICIES**

**New accounting standards**

The Company adopted the following new accounting standards effective January 1, 2019:

- **IFRS 16: *Leases*.** A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model.

The Company has no leases and has therefore the adoption of this standard had no impact on the Company's financial statements.

- **IFRIC 23: *Uncertainty over Income Tax Treatments*.** The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The adoption of this Interpretation had no impact on the Company's financial statements.

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

**5. SHARE CAPITAL AND RESERVES**

**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, 2019**

- The Company did not issue any common shares during the year ended December 31, 2019.

**Year ended December 31, 2018**

- On January 31, 2018 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 share for gross proceeds of \$600,000. In connection with the IPO, the Company incurred cash share issue costs including finders' fees, legal and other fees of \$94,450. Additionally, the Company issued 200,000 compensatory 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.

**Escrowed shares**

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, 2019, 1,065,004 (December 31, 2018 – 1,065,004) common shares were held in escrow.

**Loss per share amounts**

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

**5. SHARE CAPITAL AND RESERVES (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 stock 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 stock options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors.

Stock option transactions are summarized as follows:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at December 31, 2017	-	\$ -
Granted	306,500	\$ 0.30
<b>Outstanding at December 31, 2018 and 2019</b>	<b>306,500</b>	<b>\$ 0.30</b>

There were no stock options granted during the year ended December 31, 2019. 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. Each stock option is exercisable at an exercise price of \$0.30 until April 27, 2028.

The fair value of the stock options granted during the year ended December 31, 2018, was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>December 31, 2018</b>
Expected stock price volatility	75%
Expected life	10 years
Risk-free interest rate	0.77%
Expected forfeitures	0%
Expected dividend yield	0%

As at December 31, 2019, the outstanding and exercisable stock options were as follows:

<b>Number of options outstanding and exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>	<b>Remaining life (in years)</b>
306,500	\$ 0.30	April 27, 2028	8.33

**PONDEROUS PANDA CAPITAL CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

**5. SHARE CAPITAL AND RESERVES (CONTINUED)**

**Warrants**

Share purchase warrant transactions are summarized as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Outstanding at December 31, 2017	-	\$ -
Finders' warrants issued	200,000	\$ 0.30
<b>Outstanding at December 31, 2018 and 2019</b>	<b>200,000</b>	<b>\$ 0.30</b>

The fair value of the finders' warrants issued during the year ended December 31, 2018, was estimated at the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>December 31, 2018</b>
Expected stock price volatility	75%
Expected life	2 years
Risk-free interest rate	0.77%
Expected forfeitures	0%
Expected dividend yield	0%

As at December 31, 2019, the outstanding and exercisable share purchase warrants were as follows:

<b>Number of warrants outstanding and exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>	<b>Remaining life (in years)</b>
200,000	\$ 0.30	April 27, 2020	0.32

Subsequent to December 31, 2019, 200,000 share purchase warrants exercisable at \$0.30 each, expired unexercised.

**6. RELATED PARTY TRANSACTIONS**

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of its Executive Officers and Directors. Other related parties to the Company include companies in which key management has control or significant influence. Key management personnel receive no salaries, non-cash benefits (other than incentive stock options), or other remuneration directly from the Company.

**Related party transactions:**

During the year ended December 31, 2019, professional fees included \$17,889 (2018 - \$64,817) for legal services rendered by a law firm owned by the Chief Executive Officer of the Company.

During the year ended December 31, 2019, there were no stock options granted by the Company to directors and officers of the Company. 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.

**Related party balances:**

As at December 31, 2019, accounts payable and accrued liabilities included \$13,215 owed to a related party (December 31, 2018 - \$17,950).

**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 Level 1 inputs. The carrying value of accounts payable and accrued liabilities approximates its fair value due to its short-term nature.

**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 its financial assets is remote.

**7. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management (continued)**

*Interest rate risk*

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

*Liquidity risk*

The Company's financial liabilities are classified as current and are anticipated to mature within the next twelve months. 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, 2019, the Company did not have any financial instruments denominated in foreign currencies and considers foreign currency risk insignificant.

*Price risk*

The Company has limited exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss 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, 2019, the Company's shareholders' equity was \$474,147 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 its underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital. There were no changes to the Company's capital management approach during the year ended December 31, 2019.

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 for the year ended December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
	\$	\$
Loss for the year	(57,095)	(204,631)
Expected income tax (recovery) at statutory rates	(15,000)	(55,000)
Change in statutory tax rates	3,000	1,000
Permanent differences	-	19,000
Share issue costs	-	(26,000)
Change in unrecognized deferred tax assets and other	12,000	61,000
Income tax expense (recovery)	-	-

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

	<b>2019</b>	<b>Expiry Date</b>	<b>2018</b>	<b>Expiry Date</b>
Share issuance costs	\$ 57,000	2019 to 2022	\$ 76,000	2019 to 2022
Non-capital losses carried forward	\$ 229,000	2037 to 2039	\$ 153,000	2037 to 2038

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred the following non-cash financing activity during the years ended December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Fair value of finders' warrants recorded as share issue costs	\$ -	\$ 25,000

During the year ended December 31, 2019 and 2018, the Company did not make any payments for interest or income tax expenses.