

**LIBBY K INDUSTRIES INC.**

**Financial Statements**

**For the year ended September 30, 2019 and period from incorporation on July 5, 2018 to September 30, 2018**

**(Expressed in Canadian Dollars)**

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF LIBBY K INDUSTRIES INC.

#### *Opinion*

We have audited the financial statements of Libby K Industries Inc. (the "Company"), which comprise:

- ♦ the statements of financial position as at September 30, 2019 and 2018;
- ♦ the statements of comprehensive loss and changes in shareholders' equity for the year ended September 30, 2019 and the period from incorporation on July 5, 2018 to September 30, 2018;
- ♦ the statements of cash flows for the year ended September 30, 2019 and the period from incorporation on July 5, 2018 to September 30, 2018; and
- ♦ the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the year ended September 30, 2019 and the period from incorporation on July 5, 2018 to September 30, 2018, in accordance with International Financial Reporting Standards.

#### *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 *Auditors' 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 audits 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 in the financial statements, which indicates that the Company incurred a net loss of \$153,876 during the year ended September 30, 2019 (2018 - \$16,277) and has an accumulated deficit of \$170,153 as at September 30, 2019 (2018 - \$16,277). As stated in Note 1, these 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 comprises the information included in the Management Discussion & Analysis filed with the relevant Canadian securities commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management Discussion & Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. 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 International Financial Reporting Standards, 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.

## *Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' report is Hervé Leong-Chung.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
December 12, 2019

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**LIBBY K INDUSTRIES INC.**  
**Statements of Financial Position**  
**As at**  
**(Expressed in Canadian Dollars)**

	September 30, 2019	September 30, 2018
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 636,772	\$ 272,590
Accounts receivable	-	633
Prepaid expenses	-	20,000
	<b>\$ 636,772</b>	<b>\$ 293,223</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 6,000	\$ 9,500
<b>Shareholders' Equity</b>		
Share capital (note 4)	684,590	300,000
Reserves (note 5)	116,335	-
Deficit	(170,153)	(16,277)
	<b>630,772</b>	<b>283,723</b>
	<b>\$ 636,772</b>	<b>\$ 293,223</b>

Approved on behalf of the Board:

\_\_\_\_\_  
*"Robert Kiesman" (signed)*  
 Director

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*"Mark Orsmond" (signed)*  
 Director

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

**LIBBY K INDUSTRIES INC.**  
**Statements of Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

	<b>For the year ended September 30, 2019</b>	<b>For the period from incorporation on July 5, 2018 to September 30, 2018</b>
<b>Operating Expenses</b>		
Bank charges	\$ 64	\$ 215
Filing fees	10,121	-
Legal and professional fees	44,161	11,062
Office expenses	796	5,000
Other general and administrative expenses	6,319	-
Share-based payments (notes 5 and 6)	87,785	-
<b>Loss before other items</b>	<b>(149,246)</b>	<b>(16,277)</b>
Write-down of GST	(4,630)	-
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>(153,876)</b>	<b>(16,277)</b>
<b>Basic and Diluted Loss per Share</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>9,286,027</b>	<b>2,827,586</b>

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

**LIBBY K INDUSTRIES INC.****Statements of Changes in Shareholders' Equity****For the Year Ended September 30, 2019 and for the Period From Incorporation on July 5, 2018 to September 30, 2018****(Expressed in Canadian Dollars)**

	Share Capital			Reserves	Deficit	Total Shareholders' Equity
	Number	Amount				
		\$	\$		\$	\$
<b>Balance, July 5, 2018 (date of incorporation)</b>	1	1	-	-		1
Repurchased by the Company	(1)	(1)	-	-		(1)
Issuance of common shares	6,000,000	300,000	-	-		300,000
Net loss for period	-	-	-	(16,277)		(16,277)
<b>Balance, September 30, 2018</b>	6,000,000	300,000	-	(16,277)		283,723
Issuance of common shares, net	5,100,000	384,590	28,550	-		413,140
Share-based payments (notes 5 and 6)	-	-	87,785	-		87,785
Net loss for year	-	-	-	(153,876)		(153,876)
<b>Balance, September 30, 2019</b>	11,100,000	684,590	116,335	(170,153)		630,772

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

**LIBBY K INDUSTRIES INC.**  
**Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

	<b>For the year ended September 30, 2019</b>	<b>For the period from incorporation on July 5, 2018 to September 30, 2018</b>
<b>Operating Activities</b>		
Net loss for the period	\$ (153,876)	\$ (16,277)
Item not involving cash:		
Share-based payments	87,785	-
Change in working capital balances:		
Accounts receivable	633	(633)
Prepaid expenses	-	(20,000)
Accounts payable and accrued liabilities	(3,500)	9,500
<b>Cash Used in Operating Activities</b>	<b>(68,958)</b>	<b>(27,410)</b>
<b>Financing Activity</b>		
Common shares issued, net	433,140	300,000
<b>Cash Provided by Financing Activity</b>	<b>433,140</b>	<b>300,000</b>
<b>Change in Cash</b>	<b>364,182</b>	<b>272,590</b>
<b>Cash, Beginning of Period</b>	<b>272,590</b>	<b>-</b>
<b>Cash, End of Period</b>	<b>\$ 636,772</b>	<b>\$ 272,590</b>
<b>Supplemental disclosure for cash flows</b>		
Financing costs paid in previous period	\$ 20,000	\$ -

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

# LIBBY K INDUSTRIES INC.

## Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Libby K Industries Inc. (the "Company") was incorporated under the *BC Business Corporations Act* on July 5, 2018. The Company is a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange (the "Exchange") Policy 2.4. The Company completed its initial public offering (the "IPO") on February 8, 2019 (the "Listing Date") and issued an aggregate of 5,000,000 common shares to subscribers in British Columbia, Ontario and Alberta at a price of \$0.10 per share for gross proceeds of \$500,000 pursuant to the Company's prospectus dated January 19, 2019.

The principal business of the Company is to identify, evaluate and then acquire an interest in a business or assets with a view of completing a Qualifying Transaction. The Exchange may suspend from trading or delist the common shares of the Company if it has failed to complete a Qualifying Transaction within 24 months of the Listing Date.

The Company's registered and records office address is 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, BC, V6C 2T5. The head office of the Company is located at 1208 Rosewood Crescent, North Vancouver, BC, V7P 1H4.

These financial statements have been prepared on a going concern basis 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. During the year ended September 30, 2019, the Company incurred a net loss of \$153,876 (period from incorporation on July 5, 2018 to September 30, 2018 - \$16,277). At September 30, 2019, the Company has an accumulated deficit of \$170,153 (2018 - \$16,277). The Company expects to incur further losses to identify and invest in the development of a new business venture, all of which casts significant doubt about the Company's ability to continue as a going concern.

The Company's continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of or participation in an interest in properties, assets or businesses. In addition, the Company will require additional financing in order to carry out its business objectives. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

### 2. BASIS OF PRESENTATION

#### (a) Basis of presentation

These financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as financial instruments at fair value through profit or loss, which are stated 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.

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

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#### 2. BASIS OF PRESENTATION (Continued)

- (b) Approval of the financial statements

These financial statements were authorized for issue by the Board of Directors on December 12, 2019.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

- (a) Financial instruments

- (i) Financial assets

##### Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and iii) is not designated as fair value through profit or loss.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at fair value through profit or loss*

Financial assets measured at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in net loss. The Company classifies cash as fair value through profit or loss.

##### *Financial assets measured at amortized cost*

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance.

There are no financial assets classified as measured at amortized cost.

##### *Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at fair value through other comprehensive income is carried in the statement of financial position with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Financial assets (Continued)

There are no financial assets classified as measured at FVTOCI.

#### Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### (ii) Financial Liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable. The Company classifies accounts payable and accrued liabilities as financial liabilities at amortized cost.

#### (iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

The Company's financial instruments classified as Level 1 in the fair value hierarchy are cash and accounts payable and accrued liabilities. These are recorded at their carrying amounts and approximate their fair values due to their short-term nature

## **LIBBY K INDUSTRIES INC.**

### **Notes to the Annual Financial Statements**

**For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to**

**September 30, 2018**

**(Expressed in Canadian Dollars)**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

(c) Share-based payments

The Company records all share-based payments at fair value. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized through profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied. Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

Options and warrants issued as consideration in connection with common share placements are recorded at their fair value on the date of issuance as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options, agent options and warrants, share capital is recorded for the consideration received and for the fair value amounts previously recorded to share-based payments reserve. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments.

(d) Earnings (loss) per share

The Company presents basic and diluted earnings (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 shares outstanding during the period. Diluted earnings (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.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Income taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities, arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets, as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted tax rates. Changes in those rates could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

#### (f) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may vary from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Significant areas requiring the use of management's judgments include:

#### *Going concern*

The assessment of whether the concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties exist related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (f) Use of estimates and judgments (Continued)

##### *Share-based payments*

Assumptions are used in determining share-based payments. The fair value of stock options and warrants are subject to the limitation of the Black-Scholes option pricing model that requires market data and estimates used by the Company in the assumptions. These inputs are subjective assumptions and changes in these inputs can materially affect the fair value estimated.

#### 4. SHARE CAPITAL

- (a) Authorized:

Unlimited number of common shares without par value.

- (b) Issued and outstanding:

During the year ended September 30, 2019, the Company;

- Issued 5,000,000 common shares at a price of \$0.10 per share for total proceeds of \$500,000 pursuant to its IPO. In connection with the IPO, the Company paid agents fees of \$50,000 in cash and issued 500,000 agent warrants fair valued at \$28,550 (note 5). In addition, the Company incurred \$41,860 in other share issuance costs; and
- Issued 100,000 common shares at a price of \$0.05 per share for total proceeds of \$5,000.

During the period incorporation on July 5, 2018 to September 30, 2018, the Company;

- Issued 1 common share for \$0.05 upon incorporation. The Company subsequently repurchased this share for the same amount, and
- Issued 6,000,000 common shares at a price of \$0.05 per share for total proceeds of \$300,000.

##### **Escrow Shares**

On September 30, 2019, the Company had 4,590,000 shares (2018 – 6,000,000) held in escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the issuance of the Final Exchange Bulletin (the "Initial Release") and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

## 5. WARRANTS AND OPTIONS

### Warrants

Pursuant to an Agency Agreement between the Company and PI Financial Corp. (the "Agent"), the Agent received a cash commission equal to 10% of the gross proceeds (\$50,000) and were granted non-transferable warrants to purchase 500,000 common shares, which represents 10% of the number of common shares sold pursuant to the IPO, at a price of \$0.10 per share expiring 24 months from the date the common shares are listed on the Exchange. The Agent's warrants fair value of \$28,550 was estimated using the Black-Scholes Option Pricing Model with the following assumptions: expected life - two years, expected volatility - 110%, no dividend yield and a risk-free interest rate - 1.79%.

Warrant transactions are summarized as follows:

	September 30, 2019		September 30, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	-	\$ -	-	\$ -
Issued	500,000	0.10	-	-
Outstanding, end of period	500,000	\$ 0.10	-	\$ -

The following warrants are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	September 30, 2019	September 30, 2018
February 8, 2021	1.36	\$ 0.10	500,000	-

### Stock Options

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the Plan, the maximum issuance in any 12-month period is limited for any consultant or person providing investor relations services to 2%, and 5% for any other participant. The exercise price of the shares subject to each option shall be determined by the Board, subject to applicable Exchange approval, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by the Exchange.

Upon closing of the IPO, the Company granted 1,110,000 stock options to directors and officers of the Company. Each stock option is exercisable into one common share of the Company at \$0.10 per share for a period of 5 years. The stock options are exercisable immediately on grant and had a fair value of \$87,785 estimated using the Black-Scholes option pricing model with the

## LIBBY K INDUSTRIES INC.

### Notes to the Annual Financial Statements

For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018

(Expressed in Canadian Dollars)

#### 5. WARRANTS AND OPTIONS (Continued)

following assumptions: expected life - five years, expected volatility - 110%, no dividend yield and a risk-free interest rate - 1.79%.

Stock option transactions are summarized as follows:

	September 30, 2019		September 30, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	-	\$ -	-	\$ -
Granted	1,110,000	0.10	-	-
Outstanding and exercisable, end of period	1,110,000	\$ 0.10	-	\$ -

The following share options are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	September 30, 2019	September 30, 2018
February 8, 2024	4.36	\$ 0.10	1,110,000	-

#### 6. RELATED PARTY TRANSACTIONS

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers.

Share-based payment expense recognized for stock options granted to key management for the year ended September 30, 2019 was \$87,785 (period from incorporation on July 5, 2018 to September 30, 2018 - \$nil).

#### 7. RISK MANAGEMENT

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk for the Company is associated with its cash. The Company is not exposed to significant credit risk as its cash is placed with a major Canadian financial institution.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company is not exposed to significant liquidity risk.

## **LIBBY K INDUSTRIES INC.**

### **Notes to the Annual Financial Statements**

**For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018**

**(Expressed in Canadian Dollars)**

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#### **7. RISK MANAGEMENT (Continued)**

##### **(b) Liquidity risk (Continued)**

As at September 30, 2019, the Company has cash of \$636,772 (2018 - \$272,590) available to apply against short-term business requirements, and current liabilities of \$6,000 (2018 - \$9,500).

##### **(c) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk. The Company is not exposed to significant market risk.

#### **8. CAPITAL MANAGEMENT**

The Company has just commenced operations. It has not yet determined whether it will be successful in its endeavours and does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of common shares. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid.

Pursuant to the policies of the Exchange, 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 not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or for administrative and general expenses. These restrictions apply until completion of the Company's QT as defined by Exchange Policy 2.4.

There were no changes in the Company's approach to capital management during the year.

**LIBBY K INDUSTRIES INC.****Notes to the Annual Financial Statements****For the Year Ended September 30, 2019 and Period from Incorporation on July 5, 2018 to September 30, 2018****(Expressed in Canadian Dollars)****9. INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% to income before income taxes.

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	<b>2019</b>	<b>2018</b>
	\$	\$
Net loss for the period	(153,876)	(16,277)
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	(41,547)	(4,395)
Share issue costs	(4,862)	-
Non-deductible expenses	23,702	-
Unused tax losses and tax offsets not recognized	22,707	4,395
Income tax expense	-	-

The Company recognizes tax benefits on losses or other deductible amounts generated where it is probable the Company will generate future taxable income to be able to utilize those tax assets. The Company's unrecognized deductible temporary differences for which no deferred tax asset is recognized consist of the following amounts:

	2019	2018
Non-capital loss carry-forwards	\$ 100,375	\$ 16,277
Share issuance costs	72,027	-
Unrecognized deductible temporary differences	\$ 172,402	\$ 16,277

At September 30, 2019, the Company has the following non-capital losses that may be carried forward to apply against future income for Canadian tax purposes:

	2018
2038	\$ 16,000
2039	84,000
Total	\$ 100,000

**10. SEGMENTED INFORMATION**

The Company has one operating segment, being the identification and evaluation of assets or businesses with the view of completing a Qualifying Transaction. All assets of the Company are located in Canada.