

# **DUCKHORN VENTURES LTD.**

Interim Financial Statements  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

For the period from incorporation on  
March 25, 2019 to September 30, 2019

**Duckhorn Ventures Ltd.**  
(the “Company” or “Duckhorn”)

**INTERIM FINANCIAL STATEMENTS**  
**For the period from incorporation on March 25, 2019 to September 30, 2019**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Management of the Company is responsible for the preparation of the accompanying unaudited interim financial statements. The unaudited interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) for the preparation of interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company’s auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

**DUCKHORN VENTURES LTD.**

Interim Statement of Financial Position  
(Unaudited – Prepared by Management)  
(Expressed in Canadian dollars)

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|   | As at<br>September 30,<br>2019 |
|---|--------------------------------|
| <b>Assets</b>   |                                |
| Current Assets  |                                |
| Cash  | \$ 4,290                       |
| Accounts receivable                                   | 1,953                          |
| Investment (Note 4)                                   | 11,700                         |
| Promissory note receivable (Note 6)                   | 201,699                        |
| <b>Total Assets</b>                                   | <b>\$ 219,642</b>              |
| <b>Liabilities and Shareholders' Deficiency</b>       |                                |
| Current Liabilities                                   |                                |
| Accounts payable and accrued liabilities              | \$ 41,926                      |
| Promissory notes payable (Note 7)                     | 224,284                        |
|   | 266,210                        |
| Shareholders' Deficiency                              |                                |
| Share capital (Note 8)                                | 25,000                         |
| Share-based payment reserve                           | 37,116                         |
| Deficit   | (108,684)                      |
|   | (46,568)                       |
| <b>Total Liabilities and Shareholders' Deficiency</b> | <b>\$ 219,642</b>              |

Nature and continuance of operations (Note 1)  
Proposed transaction (Note 13)

Approved on Behalf of the Board on November 21, 2019:

"Scott Ackerman"  
Scott Ackerman – CEO/Director

"Doug McFaul"  
Doug McFaul – CFO/President/Director

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

**DUCKHORN VENTURES LTD.**

## Interim Statement of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

|   |           | For the three<br>months ended<br>September 30,<br>2019 |           | For the period<br>from<br>incorporation<br>on March 25,<br>2019 to<br>September 30,<br>2019 |
|---|-----------|--|-----------|---|
| <b>Income (losses)</b>  |           |  |           |   |
| Interest income (Note 6)  | \$        | 1,699  | \$        | 1,699   |
| Unrealized loss on investments at fair value (Note 4)                                 |           | (11,700)   |           | (9,450)   |
|   |           | <b>(10,001)</b>  |           | <b>(7,751)</b>  |
| <b>Expenses</b>   |           |  |           |   |
| Administration and bank charges   | \$        | 2,234  | \$        | 3,986   |
| Finance expense (Note 7)  |           | 2,571  |           | 3,133   |
| Management fees   |           | -  |           | 20,000  |
| Professional fees   |           | 26,244   |           | 36,244  |
| Shareholder communication and filing fees   |           | -  |           | 454   |
| Share-based payments (Note 8)   |           | -  |           | 37,116  |
|   |           | <b>31,049</b>  |           | <b>100,933</b>  |
| <b>Loss and comprehensive loss for the period</b>                                     | <b>\$</b> | <b>41,050</b>  | <b>\$</b> | <b>108,684</b>  |
| <b>Weighted average number of shares outstanding – basic<br/>and diluted (Note 8)</b> |           |  |           |   |
|   |           | <b>24,930,500</b>                                      |           | <b>22,505,095</b>   |
| <b>Basic and diluted loss per share (Note 9)</b>                                      | <b>\$</b> | <b>(0.00)</b>  | <b>\$</b> | <b>(0.00)</b>   |

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

**DUCKHORN VENTURES LTD.**

Interim Statement of Changes in Shareholders' Deficiency

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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|  | Share Capital     |                  | Share-based<br>Payment<br>Reserve | Deficit             | Total<br>Shareholders'<br>Deficiency |
|--|-------------------|------------------|-----------------------------------|---------------------|--------------------------------------|
|  | Number (Note 8)   | Amount           |                                   |                     |                                      |
| <b>Balance, (incorporation) – March 25, 2019</b> | -                 | \$ -             | \$ -                              | \$ -                | \$ -                                 |
| Common shares issued - Cash                      | 5,000,000         | 25,000           | -                                 | -                   | 25,000                               |
| Common shares issued – Plan of Arrangement       | 19,930,500        | -                | -                                 | -                   | -                                    |
| Share-based payments                             | -                 | -                | 37,116                            | -                   | 37,116                               |
| Loss for the period                              | -                 | -                | -                                 | (108,684)           | (108,684)                            |
| <b>Balance, September 30, 2019</b>               | <b>24,930,500</b> | <b>\$ 25,000</b> | <b>\$ 37,116</b>                  | <b>\$ (108,684)</b> | <b>\$ (46,568)</b>                   |

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

**DUCKHORN VENTURES LTD.**

## Interim Statement of Cash Flows

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

|   | For the period<br>from incorporation<br>on<br>March 25, 2019 to<br>September 30,<br>2019 |
|---|--|
| <b>Cash provided by / (used for):</b>         |  |
| <b>Operating Activities:</b>                  |  |
| Loss for the period                           | \$ (108,684)   |
| Item not involving cash:                      |  |
| Share-based payments                          | 37,116   |
| Unrealized loss on investment at fair value   | 9,450  |
| Net change in non-cash working capital items: |  |
| Accounts payable and accrued liabilities      | 41,926   |
| Accounts receivable                           | (1,953)  |
|   | <b>(22,145)</b>  |
| <b>Financing Activities:</b>                  |  |
| Proceeds from share issuance                  | 25,000   |
| Promissory notes payable (Note 7)             | 224,284  |
|   | <b>249,284</b>   |
| <b>Investing Activity:</b>                    |  |
| Purchase of investment in marketable security | (21,150)   |
| Promissory note receivable (Note 6)           | (201,699)  |
|   | <b>(222,849)</b>   |
| <b>Increase in cash for the period</b>        | <b>4,290</b>   |
| Cash, beginning of the period                 | -  |
| <b>Cash, end of the period</b>                | <b>\$ 4,290</b>  |
| <b>Supplemental information:</b>              |  |
| Interest paid                                 | \$ -   |
| Income taxes                                  | \$ -   |

Other than the issuance of 19,930,500 common shares per the Plan of Arrangement (Note 1), there were no significant non-cash transactions during the period from incorporation on March 25, 2019 to September 30, 2019.

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

## **DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

For the period from incorporation on March 25, 2019 to September 30, 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Duckhorn Ventures Ltd. (the “Company” or “Duckhorn”) was incorporated under the British Columbia Business Corporations Act on March 25, 2019. The head office and records and registered office is located at 1600 – 609 Granville Street, Vancouver, British Columbia V7Y 1C3.

The Company is currently managing its investment portfolio and is investigating and evaluating business opportunities to either acquire or in which to participate.

In March 2019, the Company received \$25,000 in consideration of the issuance of 5,000,000 common shares of the Company.

On May 29, 2019, ECC Diversified Inc. (“ECC”) completed a strategic reorganization of its assets by way of a plan of arrangement (the “Arrangement”) in which it spun out Duckhorn and other investee subsidiaries. This Arrangement involved the transfer of certain assets into Duckhorn. The Arrangement was approved by the shareholders of ECC May 17, 2019 and the Supreme Court of British Columbia issued its final order approving the Arrangement on May 28, 2019.

Pursuant to the terms of the Arrangement, ECC distributed to each shareholder of ECC, as of April 17, 2019, one common share in the capital of Duckhorn for every common share in the capital of ECC held. As a result, 19,930,500 common shares of the Company were issued.

In August 2019, the Company entered into a non-binding letter of intent (the “LOI”) with Enosi Pharmaceuticals Corp. (“Enosi”), whereby certain non-binding understandings and certain binding agreements between the Company and Enosi with respect to the basic terms and conditions of the acquisition by the Company of all the issued and outstanding equity securities of Enosi were set out. See Note 12 for details of this transaction.

The Company incurred a net loss and comprehensive loss of \$108,684 for the period ended September 30, 2019. As at September 30, 2019, the Company has an accumulated deficit of \$108,684 and a working capital deficiency of \$46,568. Continuing business as a going concern is dependent upon the ability of the Company to obtain additional debt or equity financing, both of which are uncertain. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

These interim financial statements have been prepared in accordance with 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 a process of forced liquidation. These interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

For the period from incorporation on March 25, 2019 to September 30, 2019

(Unaudited – Prepared by Management)

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**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the interim financial statements in conformity with International Financial Reporting Standards (“IFRS”) requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**(a) Critical accounting estimates**

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year included:

**i. Income tax**

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not 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 the amounts recognized in profit or loss in the period in which the change occurs.

**ii. Valuation of investments at fair value**

The Company recognizes its investments at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models. The inputs to these models are derived from observable market data where possible, but where observable data is not available, judgment is required to establish fair values.

There is inherent uncertainty and imprecision in estimating the factors that can affect fair value, and in estimating fair values generally, when observable data is not available. Changes in assumptions and inputs used in valuing financial instruments could affect reported fair values.

## **DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

For the period from incorporation on March 25, 2019 to September 30, 2019

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### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

#### **(a) Critical accounting estimates (continued)**

##### **iii. Stock options**

Determining the fair value of stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

#### **(b) Critical accounting judgment**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the statements are, but are not limited to, the following:

##### **i. Going concern**

The preparation of the financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 1.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of presentation**

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These 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 and financial instruments classified as available-for-sale, 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. These financial statements were authorized by the Audit Committee and the Board of Directors of the Company on November 21, 2019.

#### **(b) Share-based payments**

The stock option plan allows Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Share-based payments (continued)**

provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from share-based payment reserve to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

**(c) Share capital**

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

**(d) Income (loss) per share**

The Company presents basic and diluted income (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted income (loss) per share is calculated by dividing the income by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company’s case, diluted income (loss) per share is the same as basic income (loss) per share.

**(e) 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.

## **DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

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

#### **(f) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. The Company does not have any provisions for the period presented.

#### **(g) Income taxes**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantially enacted at the reporting date.

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 purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **(h) Financial instrument measurement and valuation**

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:

## DUCKHORN VENTURES LTD.

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For the period from incorporation on March 25, 2019 to September 30, 2019

(Unaudited – Prepared by Management)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Financial instrument measurement and valuation (continued)

|         |  |
|---------|--|
| 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 assets or liability either directly or indirectly; and |
| Level 3 | Inputs that are not based on observable market data.   |

The measurement of the Company's financial instruments is disclosed in Note 11 to these financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

#### **IFRS 9, *Financial Instruments*** (new; replaces IAS 39)

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and, therefore, the accounting policy with respect to financial liabilities is unchanged.

The following is the new accounting policy for financial assets under IFRS 9:

#### **Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

## DUCKHORN VENTURES LTD.

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For the period from incorporation on March 25, 2019 to September 30, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Financial instrument measurement and valuation (continued)

The Company's accounting policy for each of the categories is as follows:

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of (loss) income in the period.

**Financial assets at FVTOCI:** Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss) in which they arise.

**Financial assets at amortized cost:** A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

**Impairment of financial assets at amortized cost:** 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.

The following table shows the classification of the Company's financial assets under IFRS 9:

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| <b>Financial asset</b>                    | <b>IFRS 9<br/>Classification</b> |
|---|----------------------------------|
| Cash                                      | Amortized cost                   |
| Accounts receivable                       | Amortized cost                   |
| Investment – World Class Extractions Inc. | FVTPL                            |
| Promissory note receivable                | Amortized cost                   |
| Accounts payable & accrued liabilities    | Amortized cost                   |
| Promissory notes payable                  | Amortized cost                   |

**DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

For the period from incorporation on March 25, 2019 to September 30, 2019

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(i) Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

**4. INVESTMENTS**

All of the Company's investments have been classified as FVTPL.

As at September 30, 2019:

|                                   | <b>September 30, 2019</b> |               |
|-----------------------------------|---------------------------|---------------|
|                                   | <b>Fair value</b>         | <b>Cost</b>   |
|                                   | \$                        | \$            |
| <b>Publicly traded securities</b> | <b>11,700</b>             | <b>21,150</b> |
|                                   | <b>11,700</b>             | <b>21,150</b> |

Changes in the Company's investments at fair value were as follows:

|  | <b>September 30, 2019</b> |
|--|---------------------------|
|  | \$                        |
| <b>Opening Balance</b>                   | -                         |
| <b>Purchase of marketable securities</b> | <b>21,150</b>             |
| <b>Unrealized loss</b>                   | <b>(9,450)</b>            |
| <b>Ending Balance</b>                    | <b>11,700</b>             |

## **DUCKHORN VENTURES LTD.**

Notes to the Interim Financial Statements

For the period from incorporation on March 25, 2019 to September 30, 2019

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### **4. INVESTMENTS (continued)**

#### **Publicly traded securities**

The Company's publicly traded securities can be sold at any time at the Company's discretion subject to market conditions and from time to time hold period restrictions of not more than four months pursuant to the terms of each respective private placement subscription agreement, as well as escrow restrictions, if applicable. As at September 30, 2019 the Company's investments consisted of the following:

**i. World Class Extractions Inc (“PUMP”) (formerly Quadron Cannatech Corporation (“QCC”))**

As at September 30, 2019, the Company holds 180,000 common shares in PUMP valued at \$11,700. PUMP is a publicly traded company listed on the Canadian Securities Exchange. On June 17, 2019, PUMP and QCC closed a Plan of Arrangement (the “POA”) in which PUMP acquired all of the common shares of QCC. Under the terms of the POA, each QCC shareholder received two common shares of PUMP for each QCC share held prior to the POA. On June 24, 2019, per the terms of the POA, the Company received 180,000 shares of PUMP.

### **5. 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.

As of September 30, 2019, \$Nil was due to related parties.

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them are recorded at their exchange amounts as agreed upon by transacting parties.

During the period from incorporation on March 25, 2019 to September 30, 2019, \$29,811 was recorded as share-based compensation costs for key management personnel.

The Company has secured two promissory notes with different related parties; ECC and The Emprise Special Opportunities Fund (2017) (“ESOF 2017”) are both shareholders of the Company. See Note 7 for details relating to these promissory notes.

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Notes to the Interim Financial Statements

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**6. PROMISSORY NOTE RECEIVABLE****ENOSI**

Pursuant to an agreement dated August 30, 2019, the Company loaned \$200,000, receivable by promissory note to Enosi in conjunction with the LOI (See Note 12 for further details). The principal outstanding under this promissory note bears interest at the simple rate of 10% per annum. If the LOI is terminated as a result of the breach of the LOI by Duckhorn, then the indebtedness shall be due on the date that is four months following demand by Duckhorn; or in the event that the LOI has been terminated as a result of the breach of the LOI by Enosi, then the indebtedness shall be due on the date that is thirty days following demand by Duckhorn.

Interest receivable for the period August 30, 2019 to September 30, 2019 was \$1,699 and has been recorded as interest receivable. As at September 30, 2019, a total of \$1,699 has been recorded as interest receivable.

**7. PROMISSORY NOTES PAYABLE****ECC**

Pursuant to an agreement dated March 25, 2019, the Company purchased 90,000 common shares of PUMP from ECC for an aggregate price of \$21,150, payable by promissory note. The principal outstanding under this promissory note bears interest at the simple rate of 10% per annum. The entire unpaid principal and any interest is fully and immediately payable upon demand of ECC. The Company may repay the principal and all accrued interest thereon at any time and from time to time without notice or penalty. Interest expense for the period from incorporation on March 25, 2019 to September 30, 2019 was \$1,095. As at September 30, 2019, a total of \$1,095 has been recorded as interest payable.

**ESOF 2017**

Pursuant to an agreement dated August 30, 2019, the Company received \$200,000, payable by promissory note. The principal outstanding under this promissory note bears interest at the simple rate of 12% per annum. The entire unpaid principal and any interest is fully and immediately payable upon demand of ESOF 2017. The Company may repay the principal and all accrued interest thereon at any time and from time to time without notice or penalty. Interest expense for the period from August 30, 2019 to September 30, 2019 was \$2,038 and has been recorded as interest payable. As at September 30, 2019, a total of \$2,038 has been recorded as interest payable.

## DUCKHORN VENTURES LTD.

Notes to the Interim Financial Statements

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### 8. SHARE CAPITAL

#### (a) Authorized

Unlimited number of common and preferred shares without par value.

#### (b) Issued and outstanding

As at September 30, 2019 the Company had 24,930,500 common shares issued and outstanding.

On March 25, 2019, the Company received \$25,000 through the issuance of 5,000,000 common shares at \$0.005 per share.

On May 29, 2019, ECC completed a strategic reorganization of its assets in which it spun out certain assets into Duckhorn. The transaction was carried out by way of an Arrangement pursuant to the *Business Corporations Act* (British Columbia). Under the terms of the Arrangement, shareholders of ECC received one common share of the Company for every common share of ECC they held as of April 17, 2019; as a result, 19,930,500 common shares of the Company were issued.

|  | Number of<br>Shares | Amount<br>\$  |
|--|---------------------|---------------|
| <b>Balance, (incorporation) March 25, 2019</b> | -                   | -             |
| March 25, 2019 – share issuance                | 5,000,000           | 25,000        |
| May 29, 2019 – plan of arrangement             | 19,930,500          | -             |
| <b>Balance, September 30, 2019</b>             | <b>24,930,500</b>   | <b>25,000</b> |

#### (c) Stock options

On March 25, 2019, the Company adopted a stock option plan (the “Stock Option Plan”) whereby it can grant incentive stock options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued common shares of the Company at any time. The vesting period for all options is at the discretion of the Board of Directors. The exercise price will be set by the Board of Directors at the time of grant and cannot be less than the discounted market price (if any) of the Company’s common shares.

The Stock Option Plan provides that the number of common shares that may be reserved for the issuance to any one individual upon exercise of all stock options held by such an individual may not exceed 5% of the issued common shares, if the individual is a director or officer, or 2% of the issued common shares, if the individual is a consultant or engaged in providing investor relations

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**8. SHARE CAPITAL (continued)****(c) Stock options (continued)**

services, on a yearly basis. All options granted under the Stock Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from date of termination other than for cause; or (iii) one year from the date of death or disability. Options granted under the Stock Option Plan are not transferable or assignable other than by will or other testamentary instrument or pursuant to the laws of succession.

On May 29, 2019, the Company granted a total of 2,490,000 incentive stock options to officers and a consultant to the Company, which vested immediately, having an exercise price of \$0.02 per share and expire in five years.

Share purchase option transactions are summarized as follows:

|  | Number           | Options<br>Weighted<br>Average<br>Exercise Price |
|--|------------------|--|
| <b>Balance, (incorporation) March 25, 2019</b>         | -                | \$ -   |
| Grants   | 2,490,000        | 0.02   |
| <b>Outstanding and exercisable, September 30, 2019</b> | <b>2,490,000</b> | <b>\$ 0.02</b>                                   |

The fair value of the options granted was determined to be \$37,116 using the Black-Scholes option pricing model under the following assumptions: risk-free interest rate – 1.36%; expected life – 5 years; expected volatility – 100% and expected dividends – nil.

As at September 30, 2019, stock options outstanding and exercisable are as follows:

| Grant Date   | Number of<br>options<br>Outstanding<br>and<br>Exercisable | Exercise<br>Price | Expiry date  | Remai<br>ning<br>contra<br>ctual<br>life<br>(years) |
|--------------|---|-------------------|--------------|---|
| May 29, 2019 | 2,490,000   | \$0.02            | May 29, 2024 | 4.67  |
| <b>Total</b> | <b>2,490,000</b>  | <b>\$0.02</b>     |              | <b>4.67</b>   |

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**9. BASIC AND DILUTED LOSS PER SHARE**

The calculation of basic and diluted loss per share for the period ended September 30, 2019 was based on the loss attributable to common shareholders of \$108,684 and the weighted average number of common shares outstanding of 22,505,095.

**10. 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:

|  | <b>2019</b>     |
|--|-----------------|
| <b>Loss before income taxes</b>                        | <b>108,684</b>  |
| <b>Expected income tax recovery at statutory rates</b> | <b>29,901</b>   |
| <b>Change in unrecognized deferred tax assets</b>      | <b>(29,901)</b> |
| <b>Income tax expense (recovery)</b>                   | <b>-</b>        |

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

|   | <b>2019</b>    |
|---|----------------|
|   | <b>\$</b>      |
| <b>Non-capital losses carried forward</b> | <b>108,684</b> |

As at September 30, 2019, the Company had approximately \$108,684 of non-capital loss carry forwards available to reduce taxable income for future years. The non-capital losses start to expire in 2039.

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### **11. MANAGEMENT OF CAPITAL**

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

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, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at September 30, 2019, the Company is not subject to any externally imposed capital requirements.

### **12. FINANCIAL INSTRUMENTS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### **Market Risk**

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk and are disclosed as follows:

##### **(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no financial instruments that are denominated in a currency other than Canadian dollars. As at September 30, 2019, the Company is not exposed to currency risk.

##### **(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates relative to its cash balances is currently immaterial. The Company also has no long-term debt with variable interest rates so it has no negative exposure to changes in the market interest rate.

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**12. FINANCIAL INSTRUMENTS (continued)****(iii) Price rate risk**

The Company is exposed 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. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Given the Company's limited market exposure at this time it has assessed there to be a low level of price rate risk.

**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's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits the exposure to credit risk by only investing its cash with high-credit quality financial institutions. Management believes that the credit risk related to its cash is negligible.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2019, the Company has limited sources of revenue and has a cash balance of \$4,290 to settle current liabilities of \$266,210. As such, the Company has insufficient cash to fund corporate overhead costs and the repayment of the Company's debt obligations for the next year.

Until such time as the Company's investments increase in value or begin generating significant dividend income, the Company will remain dependent upon the financial support of its shareholders and debt holders or the sale of investments. If the Company is unable to finance itself through these means, it is possible that the Company will be unable to continue as a going concern.

Additionally, the Company likely has insufficient funds from which to finance any identified business acquisition and as such will require additional financing to accomplish the Company's long-term strategic objectives. Future funding may be obtained by means of issuing share capital and/or debt financing. There can be no certainty of the Company's ability to raise additional financing through these means. If the Company is unable to continue to finance itself through these means, it is possible that the Company will be unable to continue as a going concern.

Consequently, the Company is exposed to liquidity risk as at September 30, 2019.

## DUCKHORN VENTURES LTD.

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### 12. FINANCIAL INSTRUMENTS (continued)

#### Fair Value Risk

When participating in investment activities, the Company may incur losses if it is unable to resell the securities it has purchased or if it is forced to liquidate its holdings at less than their respective carrying values. The Company is also exposed to fair value risk as a result of its trading activities in publicly traded securities. All of the Company's investments are carried on a FVTPL basis and are recorded at their fair value. As such, changes in fair value affect earnings as they occur.

The fair value of cash, accounts receivable, promissory note receivable, accounts payable and accrued liabilities, and promissory notes payable at September 30, 2019 approximate their carrying values due to their short term to maturity.

As of September 30, 2019, the determination of estimated fair value of the Company's investments was as follows:

|                   | September 30,<br>2019 | Estimated fair values |         |         |
|-------------------|-----------------------|-----------------------|---------|---------|
|                   |                       | Level 1               | Level 2 | Level 3 |
|                   | \$                    | \$                    | \$      | \$      |
| FVTPL investments | 11,700                | 11,700                | -       | -       |
|                   | 11,700                | 11,700                | -       | -       |

### 13. PROPOSED TRANSACTION

On August 30, 2019, the Company entered into an LOI outlining the general terms and conditions with respect to the Acquisition by Duckhorn of all the issued and outstanding share capital of Enosi. Enosi is a private biotechnology company incorporated under the laws of the province of British Columbia that is focused on translating novel technologies into valuable therapeutics in the treatment of cancer and autoimmune disease.

The proposed transaction (the "Proposed Transaction") will be structured as a share exchange, merger, amalgamation, arrangement or other similar form of transaction, that have a similar effect with Duckhorn acquiring all voting securities of Enosi. The final structure of the Proposed Transaction is subject to satisfactory tax, corporate and securities law advice for both Duckhorn and Enosi.

Completion of the Proposed Transaction is subject to a number of conditions, including completion of a financing, the terms of which have yet to be determined, receipt of all necessary shareholder and regulatory approvals, execution of related transaction documents, and listing of the resulting issuer's

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**13. PROPOSED TRANSACTION (continued)**

common shares for trading on the Canadian Stock Exchange, or such other recognized stock exchange as the parties may agree (the "Exchange").

In connection with the Proposed Transaction, Duckhorn will be required to, among other things; change its name to a name requested by Enosi and acceptable to applicable regulatory authorities; consolidate its issued and outstanding common shares on a basis to be determined; and, replace all directors and officers of the Company on closing of the Proposed Transaction with nominees of Enosi.

There can be no assurance that the Proposed Transaction will be completed as proposed or at all.

See also Note 6.