

Orletto Capital II Inc.

Interim Condensed Financial Statements
For the periods of 92 days and of 216 days
ended September 30, 2018

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIODS OF 92 DAYS AND OF 216 DAYS ENDED SEPTEMBER 30, 2018

Statements regarding the interim condensed financial statements

Management has prepared the accompanying interim condensed financial statements of Orletto Capital II Inc. which include the interim condensed statement of financial position as at September 30, 2018, the interim condensed statement of net income and comprehensive income for the periods of 92 days and of 216 days then ended, and the interim condensed statements of changes in equity and cash flows for the period of 216 days then ended. No audit firm has examined or audited these interim condensed financial statements.

Orletto Capital II Inc.

INTERIM CONDENSED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the periods of

92 days
ended
September 30,
2018

216 days
ended
September 30,
2018

"Unaudited"

OPERATING EXPENSES

Listing and maintenance expenses	\$	730	\$	6,622
Professional fees		12,471		14,971
Stock-based compensation		49,782		49,782

NET LOSS AND COMPREHENSIVE INCOME	\$	(62,983)	\$	(71,375)
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Net loss per share (Note 7)

Basic and diluted	\$	(0.013)	\$	(0.019)
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Weighted average number of common shares outstanding		4,843,478		3,794,709
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Orletto Capital II Inc.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period of 216 days ended September 30, 2018

“Unaudited”

	Number			Amount			
	Common shares	Stock options	Total	Share capital	Stock options	Deficit	Total
BALANCE, beginning of the period	-	-	-	\$ -	\$ -	\$ -	\$ -
Share issuance (Note 4)	6,800,000	-	6,800,000	540,000	-	-	540,000
Stock-based compensation	-	680,000	680,000	-	49,782	-	49,782
Share issuance costs							
Cash	-	-	-	(153,473)	-	-	(153,473)
Stock options	-	400,000	400,000	(20,681)	20,681	-	-
Net loss and comprehensive income of the period	-	-	-	-	-	(71,375)	(71,375)
	6,800,000	1,080,000	7,880,000	365,846	70,463	(71,375)	364,934
BALANCE, end of the period	6,800,000	1,080,000	7,880,000	\$ 365,846	\$ 70,463	\$ (71,375)	\$ 364,934

Orletto Capital II Inc.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at September 30, 2018

"Unaudited"

ASSETS

CURRENT ASSETS

Cash in trust	\$	371,444
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	6,510
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SHAREHOLDERS' EQUITY

Share capital (Note 4)	365,846
Stock options (Note 6)	70,463
Deficit	<u>(71,375)</u>

364,934

\$ 371,444

Statutes of incorporation and nature of activities (Note 1)

On behalf of the Board,

(signed) Benoit Chotard _____, Director

(signed) Octavio Soares _____, Director

Orletto Capital II Inc.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the period of 216 days ended September 30, 2018

"Unaudited"

OPERATING ACTIVITIES

Net loss	\$	(71,375)
Stock-based compensation		49,782
Net change in non-cash working capital items		<u>6,510</u>
		<u>(15,083)</u>

FINANCING ACTIVITIES

Issuance of share capital		540,000
Deferred share issuance costs		<u>(153,473)</u>
		<u>386,527</u>

INCREASE IN CASH AND CASH EQUIVALENTS

371,444

CASH, beginning of the period

-

CASH IN TRUST, end of the period

\$ 371,444

Cash flows from operating activities do not include any interest paid or encashed, nor any tax paid.

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2018

“Unaudited”

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company was incorporated on February 27, 2018 under the Canada Business Corporations Act to become a Capital Pool Company listed on the TSX Venture Exchange Inc. (the “Exchange”), according to the provisions of Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual. The Company's shares were admitted to trading on August 15, 2018 under the symbol OLT.P.

The address of the Company's registered office is 70, Dalhousie Street, Suite 300, Québec.

The principal business of the Company is the identification and evaluation of assets or business with a view to completing a Qualifying Transaction under policies of the Exchange. The Company must complete a Qualifying Transaction, which is subject to the approval of the Exchange. In the case of non-arm's length Qualifying Transaction, defined by the Policy 2.4, the Company must also receive Majority of the Minority shareholders' approval, in accordance with the Policy 2.4

2. BASIS OF PREPARATION

Statement of compliance

The unaudited interim condensed financial statements have been prepared under International Financial Reporting Standards (IFRS) and are established in compliance with the standard IAS 34 - Interim Financial Reporting.

The accounting policies described below have been applied on a uniform basis in the unaudited interim condensed financial statements.

The unaudited interim condensed financial statements were authorized for issue by the Board of Directors on November 28, 2018.

Basis of measurement

The financial statements of the Company have been prepared on the going concern assumption and on the historical cost basis, except for the financial asset measured at fair value through net income.

Presentation and functional currency

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

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2018

“Unaudited”

2. BASIS OF PREPARATION (continued)

Use of estimates and judgements

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

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.

Information related to critical judgments in applying accounting policies and assumption that have the most significant impact on the financial statements relates to future income taxes and fair value of stocks options.

3. SIGNIFICANT ACCOUNTING POLICIES

Income taxes

The Company provides for income taxes using the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying value and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the period in which the differences are expected to be absorbed.

The Company establishes a devaluation allowance against deferred tax assets if, based on available information, it is likely that some or all of the deferred tax assets will not be realized.

Financial instruments

The Company has the following financial instruments:

Financial asset at fair value through net income

The financial asset classified at fair value through net income, such as cash, is measured at fair value. Changes in fair value and transaction costs are recognized in net income.

Other financial liabilities

The financial liabilities at amortized cost, such as accounts payable, are initially measured at fair value. They are subsequently measured at amortized cost using the effective interest rate method.

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2018

"Unaudited"

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

The fair value of a financial instrument generally corresponds to the consideration for which the instrument would be exchanged in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial instruments recorded at fair value are classified according to a hierarchy that reflects the significance of inputs used in determining valuations. This hierarchy includes three levels.

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

Level 2 - A valuation based on inputs observable in markets for the asset or liability, obtained either directly or indirectly.

Level 3 - A valuation based on inputs other than inputs observable in markets for the asset or liability.

Cash has been classified at Level 1.

Share issuance costs

Costs directly identifiable with the issuance of shares are deferred as an asset until the issuance of the shares. At issuance, these costs are recorded as a reduction of share capital. In case of abandonment, these costs are recognized in net income.

Stock-based compensation and other stock-based payments

The Company has a stock option plan under which directors, executives, employees and consultants can be granted stock options of the Company. The maximum number of shares that can be issued as options granted under this plan is limited to 10% of the number of shares that will be issued and outstanding at the closing of the initial public offering of the Company. Each option exercise price corresponds to the set price at the time of grant by the Board of Directors. The maximum term of any option is of ten years from the time that it is granted and its vesting is determined at the time of the issuance of stock options.

Each grant is treated separately with its proper vesting period and its own fair value at the grant date, determined by the Black & Scholes option pricing model. Compensation expense is recognized over the vesting period of each grant according to the number of options granted that should be vested, and any impact is immediately recognized. Any consideration paid by the employees on exercise or purchase of stock options is credited to share capital. The value attributed to stock options is transferred to share capital at the issuance of common shares.

In the normal course of business, the Company grants options in exchange for goods or services to parties other than staff members. For these transactions, the Company evaluates the goods or services received and the increase in equity, which is the counterpart, directly to the fair value of goods or services received, unless that fair value cannot be reliably estimated. In this case, the fair value is the value of the options issued on the market at the date the goods or services are received.

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at June 30, 2018

"Unaudited"

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid financial instruments, with an initial term of three months or less, when appropriate.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations are not yet effective as at September 30, 2018 and have not been applied in preparing these financial statements. None of these is expected to have a significant impact on the financial statements of the Company.

4. SHARE CAPITAL

Authorized

An unlimited number of common shares, participating and voting, without par value, non-cumulative dividend

Stated and outstanding

6,800,000 common shares	\$	365,846
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On March 26, 2018, the Company issued 2,800,000 common shares at \$0.05 per share for total proceeds of \$140,000 in cash.

On August 15, 2018, the Company issued 4,000,000 common shares at \$0.10 per share for total proceeds of \$400,000 in cash.

All of the 6,800,000 common shares stated and outstanding as at September 30, 2018 are escrowed pursuant to the terms of a Security Escrow Agreement and are released in stages over a maximum period of three years from the date of the Final Exchange Bulletin.

5. CAPITAL DISCLOSURES

The Company includes the total of the equity in the capital definition. In terms of capital management, the Company's objectives are to preserve its ability to continue its operation to ensure its sustainability and to provide an adequate return to its shareholders, and to ensure sufficient equity financing to find a Qualifying Transaction in a way that maximizes the shareholders' return given the assumed risks of the operation. The Company may issue new shares following approval by the Board of Directors.

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at June 30, 2018

"Unaudited"

6. STOCK OPTIONS

On August 15, 2018, the Company entered into stock option agreements with its executives and directors (Note 8) entitling them to acquire 680,000 common shares at \$0.10 per share. These options expire on August 15, 2023. The fair value of these options is estimated at \$49,782 using the Black & Scholes option pricing model, and according to the following assumptions:

Risk-free interest rate: 1.6%
Average expected life: 5 years
Expected volatility: 97%
Share price: \$0.10

Furthermore, the Company granted the Agent a non-transferable option to purchase 400,000 common shares at \$0.10 per share. This option expires on August 14, 2020. The fair value of these options is estimated at \$20,681 using the Black & Scholes option pricing model, and according to the following assumptions:

Risk-free interest rate: 2.14%
Average expected life: 2 years
Expected volatility: 97%
Share price: \$0.10

The value of this option has been recognized as issuance costs charged against share capital.

Determination of the volatility assumption of stock options is based on a historical volatility analysis over a period equal to the life of the options.

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the period of 216 days ended September 30, 2018:

	Number	Weighted average exercise price
Outstanding, beginning of the period	-	\$ -
Granted	1,080,000	0.10
Outstanding, end of the period	1,080,000	\$ 0.10
Options exercisable, end of the period	1,080,000	
Weighted average fair value of options granted during the period	\$	0.07

Orletto Capital II Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at June 30, 2018

“Unaudited”

6. STOCK OPTIONS (continued)

The following table summarizes information about stock options outstanding as at September 30, 2018:

Exercise price	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$0.10	1,080,000	3,8 years	\$ 0.10	1,080,000	\$ 0.10

7. INCOME PER SHARE

The basic income per common share is calculated by dividing the net income (net loss) assumed by the common shareholders by the weighted average number of common shares outstanding during the period. The diluted net income (net loss) per share is calculated giving effect to the potential dilution that could occur if the instruments to issue common shares were exercised at the later of the beginning of the period or the issuance date. The treasury stock method is used to determine the dilutive effect of the instruments.

For the periods of 92 days and 216 days ended September 30, 2018, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options was not included in the calculation: otherwise the effect would have been antidilutive. The weighted average number of stock options not included in the calculation for the periods of 92 days and 216 days ended September 30, 2018 is 1,080,000 stock options. Accordingly, the diluted net loss per share was calculated using the basic weighted average number of shares outstanding.

8. RELATED PARTY TRANSACTIONS

The main executives of the Company are the directors. During the period of 216 days ended September 30, 2018, the compensation paid to main executives is comprised of options representing a stock-based compensation of \$49,782 (Note 6).

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NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

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9. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to risks, the most significant of which are credit risk and liquidity risk. It has established policies and procedures that govern the extent of the Company's exposure to the most significant risks.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. As at September 30, 2018, the Company holds its cash in a trust account.

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. The Company is exposed to this risk primarily through its accounts payable. However, it does not incur any liquidity risk due to its available cash.