

## **Orletto Capital II Inc.**

Interim Condensed Financial Statements  
For the nine-month period ended  
September 30, 2021

Together with Review Engagement Report

## INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

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To the Shareholders of  
**Orletto Capital II Inc.**,

We have reviewed the accompanying interim condensed financial statements of **ORLETTO CAPITAL II INC.** (Company), which comprise the statement of the financial position as at September 30, 2021, and the statement of net income and comprehensive income for the three-month and nine-month periods ended September 30, 2021, and the statement of changes in (negative) equity and the statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Interim Condensed Financial Statements**

Management is responsible for the preparation and fair presentation of these interim condensed 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.

### **Practitioner's Responsibility**

Our responsibility is to express a conclusion on the accompanying interim condensed financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these interim condensed financial statements.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements do not present fairly, in all material respects, the financial position of Orletto Capital II Inc. as at September 30, 2021, and the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

## INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT (continued)

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### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates events or situations that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not qualified in respect of this matter.

*Mallette* L.L.P.<sup>1</sup>

Mallette L.L.P.  
Partnership of chartered professional accountants

Québec, Canada  
November 15, 2021

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<sup>1</sup> CPA auditor, CA, public accountancy permit N° A130437

## Orletto Capital II Inc.

### INTERIM CONDENSED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the period of

"Unaudited"

	<b>Nine months ended September 30, 2021</b>	Nine months ended September 30, 2020	<b>Three months ended September 30, 2021</b>	Three months ended September 30, 2020
REVENUE	\$ -	\$ -	\$ -	\$ -
OPERATING EXPENSES				
Listing and maintenance expenses	<b>20,085</b>	8,456	<b>13,109</b>	1,495
Professional fees	<b>184,676</b>	90,955	<b>105,524</b>	12,428
	<b>204,761</b>	99,411	<b>118,633</b>	13,923
NET LOSS AND COMPREHENSIVE LOSS	\$ <b>(204,761)</b>	\$ (99,411)	\$ <b>(118,633)</b>	\$ (13,923)
Net income per share (Note 7)				
Net loss, basic and diluted	\$ <b>(0.030)</b>	\$ (0.015)	\$ <b>(0.017)</b>	\$ (0.002)
Weighted average number of common shares outstanding	<b>6,800,000</b>	6,800,000	<b>6,800,000</b>	6,800,000

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

# Orletto Capital II Inc.

## INTERIM CONDENSED STATEMENT OF CHANGES IN (NEGATIVE) EQUITY

For the nine-month period ended September 30,

“Unaudited”

	Number			2021				
	Common shares	Stock options	Total	Share capital	Stock options	Contributed surplus	Deficit	Amount
								Total
<b>BALANCE</b> , as at December 31, 2020	6,800,000	680,000	7,480,000	\$ 378,769	\$ 49,782	\$ 20,681	\$ (289,091)	\$ 160,141
Net loss and comprehensive loss of the period	-	-	-	-	-	-	(204,761)	(204,761)
<b>BALANCE</b> , as at September 30, 2021	6,800,000	680,000	7,480,000	\$ 378,769	\$ 49,782	\$ 20,681	\$ (493,852)	\$ (44,620)

	Number			2020				
	Common shares	Stock options	Total	Share capital	Stock options	Contributed surplus	Deficit	Amount
								Total
<b>BALANCE</b> , as at December 31, 2019	6,800,000	1,080,000	7,880,000	\$ 378,769	\$ 70,463	\$ -	\$ (168,566)	\$ 280,666
Options expired	-	(400,000)	(400,000)	-	(20,681)	20,681	-	-
Net loss and comprehensive loss of the period	-	-	-	-	-	-	(99,411)	(99,411)
<b>BALANCE</b> , as at September 30, 2020	6,800,000	680,000	7,480,000	\$ 378,769	\$ 49,782	\$ 20,681	\$ (267,977)	\$ 181,255

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

## Orletto Capital II Inc.

### INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at	September 30, 2021	December 31, 2020
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash in trust	\$ 52,661	\$ 175,569
Prepaid expenses	1,495	-
	<u>\$ 54,156</u>	<u>\$ 175,569</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 98,776	\$ 15,428
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)	378,769	378,769
Stock options (Note 6)	49,782	49,782
Contributed surplus	20,681	20,681
Deficit	(493,852)	(289,091)
	<u>(44,620)</u>	<u>160,141</u>
	<u>\$ 54,156</u>	<u>\$ 175,569</u>

Statutes of incorporation, nature of activities and going concern (Note 1)

On behalf of the Board,

(signed) Benoit Chotard \_\_\_\_\_, Director

(signed) Octavio Soares \_\_\_\_\_, Director

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

## Orletto Capital II Inc.

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### INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the nine-month period ended September 30,

2021

2020

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#### OPERATING ACTIVITIES

Net loss	\$	(204,761)	\$	(99,411)
Net change in non-cash working capital items		<u>81,853</u>		<u>(5,097)</u>

#### DECREASE IN CASH AND CASH EQUIVALENTS

		(122,908)		(104,508)
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CASH IN TRUST, beginning of period

		<u>175,569</u>		<u>292,361</u>
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CASH IN TRUST, end of period

\$	52,661	\$	187,853
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Cash flows from operating activities do not include any interest paid or received or tax paid.

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

# Orletto Capital II Inc.

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## NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

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### 1. STATUTES OF INCORPORATION, NATURE OF ACTIVITIES AND GOING CONCERN

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 Company was inoperative until March 26, 2018.

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

The principal business of the Company is the identification and evaluation of assets or business with a view to completing a Qualifying Transaction under the 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.

In addition to challenges related to the achievement of a Qualifying Transaction, costs linked to such a transaction are significant. The Company will thus have to obtain financial support from the target company to complete the intended transaction. If the Company does not complete the Qualifying Transaction, it will have to obtain additional financing from the issue of shares.

### 2. BASIS OF PREPARATION

#### Statement of compliance

The interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are in conformity with IAS 34.

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

The interim condensed financial statements were authorized for issue by the Board of Directors on November 15, 2021.

#### Basis of measurement

The interim condensed 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.

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## NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

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### 2. BASIS OF PREPARATION (continued)

#### 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, 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 year in which the estimates are revised and in any future years affected.

Information related to critical judgments in applying accounting policies and estimates that have the most significant impact on the amounts recognized in the financial statements relate to deferred income taxes.

### 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 year in which the differences are expected to be absorbed.

A deferred tax asset must be recognized for any deductible temporary differences to the extent that it is likely that a taxable income, to which these deductible temporary differences can be charged, will be available.

#### Financial assets and financial liabilities

The Company initially accounts for a financial asset or financial liability on the date on which the Company becomes a party of the contractual provisions of the instrument. Financial assets and liabilities are initially recognized at fair value.

Financial assets are classified and measured based on the economic model in which the assets are managed and on the characteristics of their cash flows. Their classification is established by the Company on initial recognition. They are classified and measured according to three categories: at amortized cost, at fair value through other comprehensive income or at fair value through net income. Financial liabilities are classified and measured according to two categories: at amortized cost or at fair value through net income.

#### Financial assets at fair value through net income

The Company classifies its cash in trust as a financial asset at fair value through net income. These assets are subsequently measured at fair value, and profits or losses are recognized in net income.

# Orletto Capital II Inc.

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## NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets and financial liabilities

##### Financial liabilities measured at amortized cost

The Company classifies accounts payable as a financial liability measured at amortized cost. A financial liability is subsequently measured at amortized cost according to the effective interest rate method. Interest expenses are recognized in net income. Upon derecognition, all profits or losses are also recognized in net income.

#### 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 in trust 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 holder 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 or to contributed surplus when they expire.

# Orletto Capital II Inc.

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## NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Stock-based compensation and other stock-based payments

In the normal course of business, the Company also grants options in exchange for goods or services to parties other than directors, executives or employees. 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.

#### Costs relating to assets or businesses acquisition

All costs incurred to identify and evaluate assets or businesses that may be acquired are recognized as expenses at the time they are incurred.

#### 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 issued by the International Accounting Standards Board are not yet effective and have not been applied in preparing these interim condensed financial statements. None of these is expected to have a significant impact on the interim condensed financial statements of the Company.

### 4. SHARE CAPITAL

#### Authorized

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

	<b>September 30, 2021</b>	December 31, 2020
	<b>(unaudited)</b>	(audited)
<b>Stated and outstanding</b>		
6,800,000 common shares	<b>\$ 378,769</b>	\$ 378,769

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A total of 2,800,000 common shares are escrowed pursuant to the terms of a Security Escrow Agreement and will be released in stages over a maximum period of 18 months from the date of the Final Exchange Bulletin.

## Orletto Capital II Inc.

### NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

#### 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.

#### 6. STOCK OPTIONS

On August 15, 2018, the Company entered into stock option agreements with its executives and directors 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

The value of these options has been recognized as stock-based compensation in net income.

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 nine-month period ended:

	September 30, 2021		September 30, 2020	
	(unaudited)		(unaudited)	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of the period	680,000	\$ 0.10	1,080,000	\$ 0.10
Options expired	-	-	(400,000)	0.10
Outstanding, end of the period	680,000	\$ 0.10	680,000	\$ 0.10
Options exercisable, end of the period	680,000	\$ 0.10	680,000	\$ 0.10

## Orletto Capital II Inc.

### NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at September 30, 2021

#### 6. STOCK OPTIONS (continued)

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2021:

Exercise price	Options outstanding			Options exercisable (unaudited)	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$0.10	680,000	1.87 year	\$ 0.10	680,000	\$ 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 year. 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 year or the issuance date. The treasury stock method is used to determine the dilutive effect of the instruments.

For the nine-month period ended September 30, 2021, 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 this period is 680,000 stock options. Accordingly, the diluted net loss per share was calculated using the basic weighted average number of shares outstanding.

#### 8. 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, 2021, the Company holds its cash in a trust account in a law firm.

##### 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.

## **Orletto Capital II Inc.**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS**

As at September 30, 2021

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#### **9. SIGNIFICANT EVENTS**

##### **COVID-19 Pandemic**

The coronavirus pandemic (COVID-19) has resulted in a major health crisis, which continues to have consequences on the economy. At the date of the report, this pandemic has not had any major negative consequences on the Company's activities, results of operations and cash flows. The duration and the impact of the pandemic cannot be determined. Therefore, it is difficult to reliably estimate the potential financial impact of this uncertainty.

##### **Agreements in principle**

Following the termination of the agreement in principle with MiMedia Inc., the Company has reached an agreement in principle with ENERDRO Inc. on December 23, 2020. The Company and ENERDRO Inc. terminated this agreement on April 6, 2021.

On April 8, 2021, the Company has reached an agreement in principle with Charbone Corporation. According to the terms of the agreement in principle, both companies are committed to combine at a ratio of 18% for the shareholders of the Company and 82% for the shareholders of Charbone Corporation, calculated prior to any additional financing. This operation is subject to various conditions such as its approval by the Board of Directors of the Company and that of Charbone Corporation, and the completion of a concurrent placement of a minimum of \$3,000,000 and a maximum of \$5,000,000.

The agreement in principle expires on December 31, 2021