

## **Pinehurst Capital II Inc.**

**(A Capital Pool Corporation)**

### **Unaudited Condensed Interim Financial Statements**

**As at and For the Period ended September 30,  
2019**

**(In Canadian Dollars)**

#### **Notice of No Auditor Review of the Interim Financial Statements**

The accompanying unaudited condensed interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the CPA Canada for a review of interim financial statements by an entity's auditor.

**Pinehurst Capital II Inc.**  
**Unaudited Condensed Interim Statements of Financial Position**  
**As at September 30, 2019 and December 31, 2018**  
(in Canadian Dollars)

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Cash held in trust	\$ 243,862	\$ 88,261
Prepaid expenses (Note 6)	-	16,950
	<b>\$ 243,862</b>	<b>\$ 105,211</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,560	\$ 32,000
Due to shareholder (Note 6)	-	16,950
	<b>2,560</b>	<b>48,950</b>
<b>Shareholders' Equity</b>		
Share capital (Note 3)	326,094	100,000
Reserve for warrants (Note 3)	20,566	-
Contributed surplus (Note 3)	54,304	-
Deficit	(159,662)	(43,739)
	<b>241,302</b>	<b>56,261</b>
	<b>\$ 243,862</b>	<b>\$ 105,211</b>

**Approved by the Board**     (Signed) David Rosenkrantz  
Director **(Signed)**

(Signed) Ilana Prusky  
Director **(Signed)**

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

**Pinehurst Capital II Inc.**  
**Unaudited Condensed Interim Statement of Loss and Comprehensive Loss**  
**For the Three and Nine Month Periods Ended September 30, 2019**  
(in Canadian Dollars)

	Three months ended September 30, 2019	Nine months ended September 30, 2019
<b>Expenses</b>		
Legal fees	\$ 60	\$ 53,764
Accounting fees	3,124	7,855
Stock-based compensation	-	54,304
<b>Net loss and comprehensive loss for the period</b>	<b>(3,184)</b>	<b>(115,923)</b>
<b>Net loss per share – basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.03)</b>
<b>Weighted average shares outstanding</b>	<b>5,000,000</b>	<b>3,908,088</b>

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

**Pinehurst Capital II Inc.**  
**Unaudited Condensed Interim Statement of Changes in Cash Flows**  
**For the Nine Month Period Ended September 30, 2019**  
(in Canadian Dollars)

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	<b>Nine months ended September 30, 2019</b>
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<b>Cash provided by (used in)</b>	
<b>Operating</b>	
Net loss for the period	\$ (115,923)
Stock-based compensation	54,304
Change in prepaid expenses and deposits	16,950
Change in accounts payable and accrued liabilities	(29,440)
Change in related party balances and transactions	(16,950)
	<hr/> (91,059)
<b>Financing</b>	
Proceeds from initial public offering	246,660
<b>Net change in cash</b>	<hr/> 155,601
<b>Cash, beginning of period</b>	<hr/> \$ 88,261
<b>Cash, end of period</b>	<hr/> \$ 243,862

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**Pinehurst Capital II Inc.**  
**Unaudited Condensed Interim Statement of Changes in Shareholders' Equity**  
**For the Period from January 1, 2019 to September 30, 2019**  
(in Canadian Dollars)

	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance at January 1, 2019</b>	<b>2,000,000</b>	<b>\$ 100,000</b>	-	-	<b>\$ (43,739)</b>	<b>\$ 56,261</b>
Share subscription (Note 3)	3,000,000	246,660	-	-	-	246,660
Warrants		(20,566)	20,566	-	-	-
Stock Options		-	-	54,304	-	54,304
Net loss for the period	-	-	-	-	(115,923)	(115,923)
<b>Balance, September 30, 2019</b>	<b>5,000,000</b>	<b>\$ 326,094</b>	<b>\$ 20,566</b>	<b>\$ 54,304</b>	<b>\$ (159,662)</b>	<b>\$ 241,302</b>

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

**1. INCORPORATION AND NATURE OF BUSINESS**

Pinehurst Capital II Inc. (the "Corporation") was incorporated under the Ontario Business Corporations Act on July 13, 2018 and is in the process of applying for status as a Capital Pool Corporation as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange"). The principal business of the Corporation will be the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction ("QT"). The Corporation has not commenced commercial operations and has no assets other than cash held in trust. Given the nature of the activities, no separate segmented information is reported. The Corporation's continuing operations, as intended, are dependent on its ability to secure equity financing with which it intends to identify and evaluate potential acquisitions of businesses, and once identified and evaluated, to negotiate an acquisition thereof or participation therein subject to receipt of regulatory and, if required, shareholders' approval.

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to the lesser of 30% of the gross proceeds realized by the Corporation in respect of the sale of its securities or \$120,000, may be used for purposes other than evaluating businesses or assets. These restrictions apply until completion of a QT by the Corporation as defined under the policies of the Exchange. The Corporation is required to complete its QT on or before two years from the date the Corporation receives regulatory approval.

The head office and the registered head office of the Corporation is located at Suite 300, 20 Holly St., Toronto, ON, M4S 3B1.

On November 25, 2019, the Board of Directors approved the financial statements as at and for the period ended September 30, 2019.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of Compliance**

The unaudited condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual unaudited condensed interim financial statements.

These financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets, and financial liabilities. These financial statements are presented in Canadian dollars, which is the corporation's functional and presentation currency.

The accounting policies applied by the Corporation in these unaudited condensed interim financial statements are the same as those applied by the Corporation in its Financial Statements for the period ended December 31, 2018.

**(b) Critical accounting estimates and judgments**

The preparation of consolidated 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 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.

i. Share-based compensation

The Corporation uses the Black-Scholes option-pricing model to determine the grant date fair value of share-based compensation. The following assumptions are used in the model: expected volatility; expected option life; risk-free interest rate and fair value.

The Corporation has a share option plan for employees (including officers), consultants and directors from which options to purchase common shares of the Corporation are issued. Share-based compensation costs are accounted for on a fair value basis, as measured at the grant date.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as contributed surplus.

**(c) Earnings per share**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share, except the weighted average number of common shares outstanding are increased to include additional shares from the assumed exercise of share options, if dilutive. Escrowed shares are excluded from the earnings per share determination and in periods of net loss and comprehensive loss the effect of outstanding stock options are not dilutive.

**(d) Share capital**

Share capital represents the nominal (par) value of shares that have been issued.

Contributed surplus includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of related income tax benefits. Contributed surplus includes amounts issued as share-based compensation, which upon exercise of the related awards will be reallocated to share capital or if these awards expire unexercised will remain in contributed surplus.

**Pinehurst Capital II Inc.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**September 30, 2019**  
(In Canadian Dollars)

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**3. SHARE CAPITAL**

Authorized

Unlimited common shares

Issued

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5,000,000 common shares	<b>\$ 400,000</b>
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**Escrowed Shares**

During 2018, the Corporation issued 2,000,000 common shares at \$0.05 per share for total proceeds of \$100,000.

The issued and outstanding common shares will be held in escrow pursuant to the requirements of the Exchange.

All common shares acquired on exercise of stock options granted to directors and officer prior to the completion of a Qualifying Transaction, must also be deposited in escrow until the final exchange bulletin is issued.

All common shares of the Corporation acquired in the secondary market prior to the completion of a Qualifying Transaction by a Control Person, as defined in the policies of the Exchange, are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Corporation held by principals of the resulting issuer will also be subject to escrow.

**Filing of prospectus and Initial Public Offering**

On April 10, 2019, the Corporation issued 3,000,000 common shares at \$0.10 per share for aggregate gross proceeds of \$300,000 pursuant to a prospectus dated February 7, 2019.

The Corporation entered into an agreement with M Partners Inc. (the "Agent") to raise the gross proceeds of \$300,000 in connection with the Corporation's IPO. The Corporation paid a commission of 10% of gross proceeds to the Agent amounting to \$30,000. In addition, the Agent was granted non-transferable warrants to purchase up to 10% of the Common Shares sold in connection with the Offering at a price of \$0.10 per common share, exercisable for a period of twenty-four (24) months from the date of the listing of the Common Shares on the Exchange, see Broker Stock Warrants below. The Corporation reimbursed the Agent for legal fees and other reasonable expenses incurred pursuant to the Offering, in respect of the Offering the Corporation incurred costs of \$23,340.

On April 10, 2019, the Corporation entered into stock option agreements, granting stock options to officers and directors to collectively acquire 500,000 of the outstanding common shares of the Corporation, at an exercise price of \$0.10 per share and expiring April 12, 2029.

**2019 Stock Option Plan**

On April 10, 2019, the Corporation adopted a Stock Option Plan (the "2019 Plan"), which provides for grants of incentive share options and nonqualified share options to employees (including officers), consultants and directors. The 2019 Plan, and grants made under the 2019 Plan, are designed to align shareholder and participant interests. The Corporation's board of directors establishes the terms and conditions of any grants under the 2019 Plan. Incentive share options

**Pinehurst Capital II Inc.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**September 30, 2019**  
(In Canadian Dollars)

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may be granted only to employees. The aggregate number of common shares of the Corporation as to which options may be granted from time to time under the 2019 Plan shall not exceed 500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The options vest immediately.

Share-based compensation expense recognized for the nine months ended September 30, 2019 was \$54,304.

The Corporation recognizes compensation expense for share option grants based on the fair value at the date of grant using the Black-Scholes option pricing model. The following assumptions were used to determine the fair value of share option grants.

Valuation assumptions:	
Expected volatility	100.00%
Expected term (days)	3,655
Risk-free interest rate	1.68%
Share price	\$ 0.12

Volatility was estimated by considering comparable industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The shares granted have an exercise price of \$0.10 and were all immediately vested and exercisable. There were no other changes in share options during the three and nine month periods ended September 30, 2019.

Weighted average remaining contractual life is 10 years. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2019 was \$0.108607.

#### **Broker Stock Warrants**

Broker stock warrants were issued in conjunction with the initial public offering. Each warrant entitles its holder to purchase one common share. The Corporation accounts for common stock warrants based on the fair market value of the instrument using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the options and warrants, risk-free interest rates, and expected dividend yield at the grant date.

Total warrants issued were 300,000 at a fair market value of \$0.068553 per share totaling \$20,565.90 as reported in share capital and the corresponding amount in contributed surplus.

The following assumptions were used to determine the fair value of common stock warrant grants.

Valuation assumptions:	
Expected volatility	100.00%
Expected term (days)	730
Risk-free interest rate	1.60%
Share price	\$ 0.12

Volatility was estimated by considering comparable industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

On April 10, 2019, the Corporation granted non-transferable warrants to purchase up to 10% of the Common Shares sold in connection with the Offering at an exercise price of \$0.10 per common share, exercisable for a period of twenty-four (24) months from the date of the listing of the Common Shares on the Exchange, being April 10, 2019.

For the nine months ended September 30, 2019, no warrants were exercised.

#### **4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

##### **Capital Management**

The Corporation's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Corporation includes equity, comprised of share capital and deficit, in the definition of capital.

The Corporation's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Corporation may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

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 \$120,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the Exchange policy 2.4.

##### **Fair Values**

At September 30, 2019 and December 31, 2018, the Corporation's financial instruments consist of accounts payable and accrued liabilities, which are carried at amortized cost.

##### **Credit Risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risks consist principally of cash held in trust.

##### **Interest Rate Risk**

The Corporation is not exposed to any significant interest rate risk.

##### **Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation currently settles its financial obligations out of cash. The ability to do this relies on the Corporation raising equity financing in a timely manner and by maintaining

**Pinehurst Capital II Inc.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**September 30, 2019**  
(In Canadian Dollars)

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sufficient cash in excess of anticipated needs and to meet the Corporation's liabilities. The \$2,560 of accounts payable and accrued liabilities are due within one year.

**5. CONTINGENCY**

There is no assurance that the Corporation will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or de-list the Corporation's shares from trading.

**6. RELATED PARTY TRANSACTIONS**

There was no remuneration paid to key management personnel during the period ended September 30, 2019.

During the period ended December 31, 2018, a shareholder paid \$16,950 on behalf of the Corporation related to a retainer for services by the Agent related to the IPO, see Note 3. The amount is non-interest bearing and without specified terms of repayment; however, it was repaid as at September 30, 2019.

**7. INCOME TAXES**

A reconciliation of combined federal and provincial corporate income taxes of statutory rates of 26.5% and the Corporation's effective income tax expense is as follows:

	<b>For the Period ended September 30, 2019</b>	
<b>Net loss for the period</b>	<b>\$</b>	115,923
Expected income tax recovery		(30,720)
Deferred tax assets not recognized		30,720
<b>Income taxes recovery</b>	<b>\$</b>	<b>-</b>

At September 30, 2019, the Corporation has non-capital losses for income tax purposes of approximately \$115,923 which can be carried forward to be applied against future taxable income. These losses expire to the extent unutilized against future taxable income in 2038.

The Corporation has not recorded deferred tax assets related to these unused carry forward losses as it is not more likely than not that future taxable profits will be available against which these can be deducted.