

**Pinehurst Capital II Inc.**  
(A Capital Pool Corporation)

**Financial Statements**

**For the Period from the Date of Incorporation  
(July 13, 2018) to December 31, 2018**

**(In Canadian Dollars)**

## Independent Auditors' Report

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To the Shareholders of Pinehurst Capital II Inc.:

### Opinion

We have audited the financial statements of Pinehurst Capital II Inc. (the "Company") which comprise the statements of financial position as at December 31, 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the period from July 13, 2018 (date of incorporation) to December 31, 2018, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the period from July 13, 2018 (date of incorporation) to December 31, 2018 in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is William E.K. Avery.

*MNP LLP*

Toronto, Ontario  
April 30, 2019

**Chartered Professional Accountants  
Licensed Public Accountants**

**MNP**

**Pinehurst Capital II Inc.**  
**Statement of Financial Position**  
**As at December 31, 2018**  
(in Canadian Dollars)

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	<b>2018</b>
<b>Assets</b>	
Cash held in trust	\$ 88,261
Prepaid expenses (Note 6)	16,950
	<hr/>
	\$ 105,211
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<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 32,000
Due to shareholder (Note 6)	16,950
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	48,950
 <b>Shareholders' Equity</b>	
Share capital (Note 3)	100,000
Deficit	(43,739)
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	56,261
	<hr/>
	\$ 105,211
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Subsequent events (note 8)

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

(signed) "Paul De Luca"  
Director **(Signed)**

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

**Pinehurst Capital II Inc.**  
**Statement of Loss and Comprehensive Loss**  
**For the Period from the Date of Incorporation (July 13, 2018) to December 31, 2018**  
(in Canadian Dollars)

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	<b>For the Period ended December 31, 2018</b>
<b>Expenses</b>	
Legal fees	\$ 20,000
Accounting fees	12,000
Listing fees	11,739
<b>Net loss and comprehensive loss for the period</b>	<b>(43,739)</b>
<b>Net loss per share – basic and diluted</b>	<b>\$ (0.00)</b>
<b>Weighted average shares outstanding</b>	<b>-</b>

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

**Pinehurst Capital II Inc.**  
**Statement of Cash Flows**  
**For the Period from the Date of Incorporation (July 13, 2018) to December 31, 2018**  
(in Canadian Dollars)

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**For the Period ended  
December 31, 2018**

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**Cash provided by (used in)**

**Operating**

Net loss for the period	\$	(43,739)
Change in accrued liabilities		32,000
		(11,739)

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**Financing**

Share issuance		100,000
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**Net change in cash** 88,261

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**Cash, end of period** \$ 88,261

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

**Pinehurst Capital II Inc.**  
**Statement of Changes in Shareholders' Equity**  
**For the Period from the Date of Incorporation (July 13, 2018) to December 31, 2018**  
(in Canadian Dollars)

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	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Deficit</b>	<b>Shareholders' Equity</b>
Balance, July 13, 2018	-	\$ -	\$ -	\$ -
Share subscription (Note 3)	2,000,000	100,000	-	100,000
Net loss for the period	-	-	(43,739)	(43,739)
<b>Balance, December 31, 2018</b>	<b>2,000,000</b>	<b>\$ 100,000</b>	<b>\$ (43,739)</b>	<b>\$ 56,261</b>

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*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 April 30, 2019, the Board of Directors approved the financial statements for the period from Date of Incorporation (July 13, 2018) to December 31, 2018.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of Compliance**

The 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").

### **Basis of Presentation**

The financial statements are presented in Canadian dollars ("CAD"), which is the Corporation's functional and presentation currency. The financial statements are prepared on a historical cost basis except for certain financial instruments classified as fair value through profit or loss ("FVPTL"), which are stated at their fair value. The accounting policies have been applied consistently throughout the entire period presented in these financial statements.

## **2. SIGNIFICANT ACCOUNTING POLICIES – continued**

### **Loss Per Share**

Basic loss per common share is determined by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period, excluding shares in escrow. Diluted loss per common share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding. 2,000,000 common shares were excluded from the calculation as they were contingently issuable and all conditions necessary for their issuance have not been satisfied (note 3).

### **Financial Instruments**

#### Recognition

The Corporation recognizes financial assets and financial liabilities on the date the Corporation becomes a party to the contractual provisions of the instruments.

#### Classification

The Corporation classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Corporation has implemented the following classifications:

Cash held in trust is classified as assets at fair value and any period change in fair value is recorded in profit or loss.

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

#### Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES – continued**

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments or principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Additional fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements which are as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash held in trust is a level 1 financial instrument measured at fair value on the statement of financial position

Impairment

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

**2. SIGNIFICANT ACCOUNTING POLICIES – continued**

**Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations and comprehensive income.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to be recovered or settled. Deferred tax assets are recognized to the extent that realization of such benefits is probable.

**Estimates**

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates used in the financial statements.

**Pinehurst Capital II Inc.**  
**Notes to the Financial Statements**  
**December 31, 2018**  
(In Canadian Dollars)

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**3. SHARE CAPITAL**

Authorized

Unlimited common shares

Issued

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2,000,000 common shares	<b>\$ 100,000</b>
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**Escrowed Shares**

During the period, 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.

**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.

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**Fair Values**

At 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 sufficient cash in excess of anticipated needs and to meet the Corporation's liabilities. The \$32,000 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 December 31, 2018.

During the period, a shareholder paid \$16,950 on behalf of the Company related to a retainer for services by the Agent related to the IPO, see Note 8.

**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>2018</b>
<b>Net loss for the period</b>	<b>\$</b>	43,739
Expected income tax recovery		(11,591)
Deferred tax assets not recognized		11,591
<b>Income taxes recovery</b>	<b>\$</b>	<b>-</b>

At December 31, 2018, the Corporation has non – capital losses for income tax purposes of approximately \$43,739 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.

**8. SUBSEQUENT EVENTS**

**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. The Corporation also paid a corporate finance fee of \$20,000. 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. The Corporation will also reimburse the Agent for legal fees and other reasonable expenses incurred pursuant to the Offering.

On April 10, 2019, the Corporation intends 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.