

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

**Financial Statements**

**For the Year ended December 31, 2019 and for  
the Period ended December 31, 2018**

**(In Canadian Dollars)**

**Pinehurst Capital II Inc.**  
**Statements of Financial Position**  
**As at December 31, 2019**  
(in Canadian Dollars)

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Cash held in trust	\$ 243,161	\$ 88,261
Prepaid expenses (Note 6)	-	16,950
	<b>\$ 243,161</b>	<b>\$ 105,211</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 8,141	\$ 32,000
Due to shareholder (Note 6)	-	16,950
	<b>8,141</b>	<b>48,950</b>
<b>Shareholders' Equity</b>		
Share capital (Note 3)	330,815	100,000
Warrants (Note 3)	15,845	-
Contributed surplus (Note 3)	44,784	-
Deficit	(156,424)	(43,739)
	<b>235,020</b>	<b>56,261</b>
	<b>\$ 243,161</b>	<b>\$ 105,211</b>

**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.**  
**Statements of Loss and Comprehensive Loss**  
**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of**  
**Incorporation) to December 31, 2018**  
(in Canadian Dollars)

	For the Year ended December 31, 2019	For the Period ended December 31, 2018
<b>Expenses</b>		
Legal fees	\$ 54,406	\$ 20,000
Listing fees	-	11,739
Accounting fees	13,495	12,000
Stock-based compensation	44,784	-
<b>Net loss and comprehensive loss for the year/period</b>	<b>(112,685)</b>	<b>(43,739)</b>
<b>Net loss per share – basic and diluted</b>	<b>\$ (0.05)</b>	<b>\$ (0.00)</b>
<b>Weighted average shares outstanding – basic and diluted</b>	<b>2,178,082</b>	<b>-</b>

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**Pinehurst Capital II Inc.**  
**Statements of Changes in Cash Flows**  
**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of**  
**Incorporation) to December 31, 2018**  
(in Canadian Dollars)

	<b>For the Year ended December 31, 2019</b>	<b>For the Period ended December 31, 2018</b>
<b>Cash provided by (used in)</b>		
<b>Operating</b>		
Net loss for the year/period	\$ (112,685)	\$ (43,739)
Stock-based compensation	44,784	-
Change in prepaid expenses and deposits	16,950	-
Change in accounts payable and accrued liabilities	(23,859)	32,000
Change in related party balances and transactions	(16,950)	-
	(91,760)	(11,739)
<b>Financing</b>		
Proceeds from initial public offering, net	246,660	100,000
<b>Net change in cash</b>	<b>154,900</b>	<b>88,261</b>
<b>Cash, beginning of year/period</b>	<b>\$ 88,261</b>	<b>\$ -</b>
<b>Cash, end of year/period</b>	<b>\$ 243,161</b>	<b>\$ 88,261</b>

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**Pinehurst Capital II Inc.**  
**Statements of Changes in Shareholders' Equity**  
**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of**  
**Incorporation) to December 31, 2018**  
(in Canadian Dollars)

	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance, July 13, 2018</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -
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>\$ -</b>	<b>\$ -</b>	<b>\$ (43,739)</b>	<b>\$ 56,261</b>
<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	-	(15,845)	15,845	-	-	-
Stock based compensation	-	-	-	44,784	-	44,784
Net loss for the year	-	-	-	-	(112,685)	(112,685)
<b>Balance, December 31, 2019</b>	<b>5,000,000</b>	<b>\$ 330,815</b>	<b>\$ 15,845</b>	<b>\$ 44,784</b>	<b>\$ (156,424)</b>	<b>\$ 235,020</b>

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

**Pinehurst Capital II Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of**  
**Incorporation) to December 31, 2018**  
(In Canadian Dollars)

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**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 a capital pool company ("CPC") as defined TSX Venture Exchange (the "Exchange") Policy 2.4. 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 29, 2020, the Board of Directors approved the financial statements for the year ended December 31, 2019.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of Compliance**

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 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.

**(b) Critical accounting 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, 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.

## **Pinehurst Capital II Inc.**

### **Notes to the Financial Statements**

**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of Incorporation) to December 31, 2018**

(In Canadian Dollars)

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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 of the underlying share.

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.

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**(e) 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.

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;

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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.

**(f) 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.

## **Pinehurst Capital II Inc.**

### **Notes to the Financial Statements**

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(In Canadian Dollars)

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### **3. SHARE CAPITAL**

Authorized

Unlimited common shares

Issued

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5,000,000 common shares, net of issue costs	<b>\$ 330,815</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.

These common shares will be held in escrow pursuant to the requirements of the Exchange Policy 2.4.

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

## **Pinehurst Capital II Inc.**

### **Notes to the Financial Statements**

**For the Year Ended December 31, 2019 and the Period from July 13, 2018 (the Date of Incorporation) to December 31, 2018**

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establishes the terms and conditions of any grants under the 2019 Plan. Incentive share options 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 December 31, 2019 was \$44,784 (period ended December 31, 2018 - \$0).

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	\$ 0.10

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 year ended December 31, 2019 and period ended December 31, 2018.

The weighted average grant-date fair value of options granted during the year ended December 31, 2019 was \$0.089567.

#### **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 \$0.052816 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	\$ 0.10

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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 year ended December 31, 2019 and period ended December 31, 2018, 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 December 31, 2019 and December 31, 2018, the Corporation's financial instruments consist of cash held in trust and accounts payable and accrued liabilities, which are carried at amortized cost and approximate their fair values due to their short term nature.

##### **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. The Corporation is not otherwise exposed to significant credit risk.

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

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

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**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 \$8,141 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 year ended December 31, 2019. Refer to Note 3 for stock based compensation to officers and directors.

During the year 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 December 31, 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 Year ended December 31, 2019</b>	<b>For the Period ended December 31, 2018</b>
<b>Net loss for the period</b>	<b>\$ 112,685</b>	<b>\$ 43,739</b>
Expected income tax recovery	(29,862)	(11,591)
Deferred tax assets not recognized	329,862	11,591
<b>Income taxes recovery</b>	<b>\$ -</b>	<b>\$ -</b>

At December 31, 2019, the Corporation has non-capital losses for income tax purposes of approximately \$156,424 (2018 – \$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 2038-2039.

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.

**Pinehurst Capital II Inc.**

**Notes to the Financial Statements**

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**8. SUBSEQUENT EVENT**

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Corporation as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.