

PINEHURST CAPITAL II INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2021 AND 2020

Background

This management discussion and analysis ("**MD&A**") for Pinehurst Capital II Inc. ("**Pinehurst**" or the "**Company**") is prepared as at September 30, 2021 and is performed by management using information available as of November 29, 2021. We have prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements for the three and nine months ended September 30, 2021 and 2020, and the related notes thereto. The Company's financial statements have been prepared in accordance with International Financial Reporting Standard ("**IFRS**"). This MD&A complements and supplements, but does not form part of, the Company's financial statements.

All dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Company overview

The Company was incorporated on July 13, 2018 under the *Business Corporations Act* (Ontario) ("**OBCA**") and is a capital pool company ("**CPC**"), as defined in TSX Venture Exchange ("**TSX-V**") Policy 2.4 ("**Policy 2.4**"). The principal business of the Company as a CPC is the identification and evaluation of companies, businesses, properties, or assets for acquisition and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder and regulatory approval (the "**Qualifying Transaction**" as defined by the TSX-V). The registered and head office address of the Company is 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1.

The Company has not commenced commercial operations and has no assets other than cash. Until such time that a Qualifying Transaction is completed, the Company will have no significant revenue and will incur expenses primarily for Qualifying Transaction investigation, TSX-V listing and filing requirements, professional services and office facilities and administration, subject to certain restrictions under Policy 2.4.

As at December 31, 2018, the Company had issued 2,000,000 common shares at \$0.05 per share for total proceeds of \$100,000 (the "**Founder Shares**").

On February 8th, 2019, the Company became a reporting issuer in the provinces of British Columbia, Ontario, and Alberta.

On April 10, 2019 the Company successfully completed its initial public offering ("**IPO**" or "**Offering**") of 3,000,000 common shares at a price of \$0.10 resulting in gross proceeds of \$300,000. M Partners Inc. (the "**Agent**") acted as agent for the Offering. In connection with the Offering, the Agent received a cash commission of \$30,000, a corporate finance fee of \$20,000

and 300,000 compensation warrants (the "**Agent's Warrants**"). The Agent's Warrants will expire 24 months from the date the Company's common shares are listed on the TSX-V. Upon completion of the Offering, the Company had 5,000,000 common shares issued and outstanding, of which, the Founder Shares were held in escrow pending the completion of a Qualifying Transaction in accordance with Policy 2.4. The Company has also granted stock options to acquire an aggregate of 500,000 common shares at an exercise price of \$0.10 per share to the directors and officers of the Company, which will expire 10 years from the date of grant. 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 pending the completion of a Qualifying Transaction in accordance with Policy 2.4.

The Company's common shares commenced trading on the TSX-V under the symbol "**PINH.P**" on April 16, 2019.

During the year the Company announced that it had entered into a definitive agreement to acquire the Ana Paula gold development project from by acquiring Aurea Mining Inc. and it's wholly-owned subsidiary Minera Aurea S.A. de C.V. from Argonaut Gold Inc. The agreement was intended to be the Company's Qualifying Transaction and during the year ended December 31, 2020, the Company incurred additional legal, consulting and accounting fees related to pursuing the Qualifying Transaction; however, subsequent to the 2020 year end the Company terminated the agreement.

Effective January 1, 2021, the TSX-V implemented changes to its CPC Policy (the "**New CPC Policy**"). Pursuant to the New CPC Policy, in order for the Company to align certain of its policies with the New CPC Policy, it was required to obtain approval from disinterested shareholders of the Company. At a special meeting of the shareholders of the Company held on February 23, 2021 (the "**Meeting**"), the requisite approval of disinterested shareholders of the Company was obtained for the following matters: (i) to remove the consequences of failing to complete a Qualifying Transaction within 24 months of the Company's date of listing on the TSX-V; and (ii) to amend the escrow release conditions and certain other provisions of the Company's escrow agreement. The Company completed its transition under the New CPC Policy on April 7, 2021.

Pursuant to the terms of the New CPC Policy, the Company amended certain provisions of the Company's previously existing escrow agreement, including allowing the Company's escrowed securities to be subject to an 18-month escrow release schedule as detailed in the New CPC Policy, rather than the 36-month escrow release schedule under the previous Policy 2.4.

The global outbreak of COVID-19 (coronavirus) 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 Company 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.

Forward-Looking Statements

Certain statements contained in the in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of various risk factors.

Selected Financial Information

	September 30, 2021	September 30, 2020
	\$	\$
Total Assets	53,239	195,583
Total liabilities	2,529	36,155
Total shareholders' equity	50,710	159,428
	\$	\$
Net loss for the nine month period	(35,548)	(75,592)
<u>Basic and diluted loss per share</u>	<u>(0.01)</u>	<u>(0.01)</u>
Net loss for the three month period	(4,780)	(50,810)
<u>Basic and diluted loss per share</u>	<u>(0.00)</u>	<u>(0.01)</u>

Summary of Quarterly Results

The Company became a reporting issuer on February 8th, 2019, and as such, does not have quarterly financial information to report prior to that period.

	Septemb er 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021
Total Assets	243,862	243,161	233,607	212,452	195,583	98,425	56,620	57,545	53,239
Total liabilities	2,560	8,141	8,837	2,214	36,155	42,167	16,685	2,056	2,529
Total shareholders' equity	243,862	235,020	224,770	210,238	159,428	56,258	39,935	55,489	376,660
Net loss for the period	(3,184)	(112,685)	(10,250)	(14,533)	(50,810)	(178,762)	(16,323)	(30,769)	(4,780)
<u>Basic and diluted loss per share</u>	<u>(0.00)</u>	<u>(0.05)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.04)</u>	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.00)</u>

Results of Operations

At September 30, 2021, the Company had no continuing source of operating revenues and related expenditures. The Company recorded a net loss of \$4,780 and \$35,548 for the three and nine month periods, respectively, ended September 30, 2021. Of this, the Company incurred \$2,969 and \$22,113 for legal and accounting services, and \$1,811 and \$13,435 are attributable to listing and transfer agent fees, for the three and nine month periods, respectively, ended September 30, 2021.

Financial Condition including Cash Flows, Liquidity and Capital Resources

The Company has financed its operations to date through the issuance of common shares. The Company may seek capital through various means including the issuance of equity and/or debt.

As at September 30, 2021, the Company had cash on hand of \$53,239. The Company had current liabilities of \$2,529 and working capital of \$50,710.

As a CPC, the Company's routine expenses are limited to general administrative costs such as TSX-V listing and filing fees, audit fees and accounting fees. When the Company has identified a potential Qualifying Transaction, additional legal or other transaction-related costs may be incurred, regardless of whether or not the transaction is ultimately completed.

It is uncertain as to when a Qualifying Transaction can be completed, but the Company's current cash balance is sufficient to pay its existing accounts payable and accrued liabilities, to maintain routine on-going operations and to investigate potential Qualifying Transactions for the next 12 months.

Related Party Transactions

There was no remuneration paid to key management personnel during the three and nine months ended September 30, 2021.

On April 10, 2019, the Company granted 500,000 stock options to directors and officers with an exercise price of \$0.10 per share and expiry date of April 12, 2029. The following is a breakdown of the stock options received by related parties:

- David Rosenkrantz: 125,000 common share purchase options;
- Ilana Prussky: 125,000 common share purchase options;
- Paul De Luca: 125,000 common share purchase options; and
- Tracy Graf: 125,000 common share purchase options.

Capital Management

The Company's objectives when managing capital are to maintain financial viability and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term.

The Company'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 Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. The Company includes equity, comprised of share capital, reserves and deficit, in the definition of capital.

Excluding the current liabilities, which relate to standard operating accounts payable, the Company's current capital is the result of the sale of common shares. The net proceeds raised to date are sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction. However, additional funds may be required in the longer-term should the Company be unable to complete a Qualifying Transaction.

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 Company in respect of the sale of its securities or \$210,000, may be used for purposes other than evaluating businesses or assets. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under Policy 2.4.

Financial Instruments and Risk Management

Recognition

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

Classification

The Company 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; 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 Company 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 of 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.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 Company to concentrations of credit risks consist principally of cash held in trust.

Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs and to meet the Company's liabilities. The \$2,529 of accounts payable and accrued liabilities are due within one year.

Outstanding Share Data

As at September 30, 2021, the Company had 5,300,000 common shares and 500,000 stock options outstanding. On April 15, 2021, the 300,000 broker warrants were exercised for proceeds of \$30,000.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Estimates and Judgments

The Company's significant accounting policies are summarized in Note 2 to the audited financial statements for the period ended December 31, 2020.

Risks and Uncertainties

The Company's objective is to identify and complete a Qualifying Transaction and until such time as it does so, the Company will not have a source of recurring income, commercial operations, significant assets other than cash and shall not generate earnings or pay dividends. Until the completion of a Qualifying Transaction, the Company is not permitted to carry on any other business other than the identification and evaluation of potential Qualifying Transactions.

The closing of any proposed Qualifying Transaction is subject to a number of terms and conditions, including completion of due diligence procedures by parties to the transaction and receipt of all required regulatory approvals, and there is no assurance that a transaction will be completed.

Should the Company be unable to complete a Qualifying Transaction before its existing cash has been spent, it will require additional capital financing and there is no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If the Company does not complete a Qualifying Transaction within the time permitted by the TSX-V, its common shares could be delisted.

The Company's success depends to a certain degree upon key members of its management to identify a potential Qualifying Transaction. The loss of the service of members of the management team or certain key employees could have a material adverse effect on the Company.

The proposed business of the Company and the completion of a Qualifying Transaction involves a high degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment, and even if so identified and warranted, it may not be able to finance such an acquisition or investment within the requisite time period.

These factors indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

Conflict of Interest

There are potential conflicts of interest to which all of the directors, officers, insiders and promoters of the Company will be subject in connection with the operations of the Company. All of the directors, officers, insiders and promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the search by the Company for businesses or assets in order to close a Qualifying Transaction. Accordingly, situations may arise where all of the directors, officers, insiders and promoters will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies as provided under the OBCA.

Corporate Governance

TSX-V Policy 3.1 requires that the Company have an audit committee of at least three directors, the majority of whom are not employees, control persons or officers of the Company or any of its associates or affiliates. The audit committee will be responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

Given the current prescribed nature of the Company and its principal business being limited to identifying and evaluating assets or businesses with a view to completing a Qualifying Transaction, it is anticipated that, prior to the Completion of the Qualifying Transaction, the only committee of the board of directors will be the audit committee.

The Company has appointed an audit committee consisting of the following three directors: David Rosenkrantz, Tracy Graf and Paul De Luca.

On February 23, 2021, the Company received Exchange approval for transition to align its policies with the New CPC Policy. On approval of disinterested shareholders at the Meeting and upon fulfilment of the Exchange conditions, the Company implemented its changes to remove the consequences of completing a Qualifying Transaction within 24 months of listing on the Exchange and to amend the escrow release conditions in its previous escrow agreement.

Proposed Qualifying Transaction

On November 12, 2021, the Company announced that it had entered into a binding letter of intent with Halcones Precious Metals Inc. (“**Halcones**”) in respect of a proposed business combination transaction pursuant to which the Company will acquire all of the issued and outstanding securities of Halcones (the “**Proposed Transaction**”). It is anticipated that the Proposed Transaction will constitute the qualifying transaction of the Company in accordance with the New CPC Policy. Halcones is a private company incorporated under the laws of the Province of Ontario which owns an option to acquire 100% of the right, title and interest of the Carachapampa project located in Diego de Almagro, Copiapo, Chile (the “**Project**”). The Project is located within the northeast part of the renowned Maricunga Belt. The Maricunga Belt is the most important gold producing district in South America. The property is tied onto the Nueva Esperanza Property of Kingsgate which is a recent discovery that is planned for development next year. Other important deposits in the region include Solares Norte (Goldfields) and La Koipa (Kinross). The Project comprises 12 claims covering 2,868 hectares and is 2 km southeast of the Chimberos deposit, gold-silver producing open pit.

The completion of the Proposed Transaction is subject to a number of terms and conditions including, without limitation, the negotiation and execution of a definitive agreement, there being no material adverse changes in respect of either the Company or Halcones, and the parties obtaining all necessary consents, orders, regulatory and shareholder approvals, including the conditional approval of the TSX-V. The Proposed Transaction does not constitute a Non-Arm's Length Qualifying Transaction (as that term is defined in the New CPC Policy) and, accordingly, is not expected to require the approval of the Company's shareholders. There can be no assurance that all of the necessary regulatory and shareholder approvals will be obtained or that all conditions of closing will be met.