

# **MG Capital Corporation**

**(A Capital Pool Corporation)**

## **Financial Statements**

**September 30, 2018**

**(In Canadian Dollars - Unaudited)**

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

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The accompanying unaudited condensed interim financial statements for the Corporation have been prepared by and are the responsibility of the Corporation's management and have been approved by the Board of Directors. The Corporation's independent auditor has not performed a review of these financial statements.

**MG Capital Corporation**  
**Unaudited Condensed Interim Statements of Financial Position**

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 264,373	\$ 145,097
GST receivable	4,063	258
Deferred financing costs	-	5,000
	<b>\$ 268,436</b>	<b>\$ 150,355</b>
<b>Liabilities</b>		
<b>Current</b>		
Accrued liabilities	\$ 5,639	\$ -
<b>Shareholders' Equity</b>		
Share capital (note 4)	365,099	150,500
Reserve	53,722	-
Deficit	(156,024)	(145)
	262,797	150,355
	<b>\$ 268,436</b>	<b>\$ 150,355</b>

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

Approved on behalf of the Board

"Peter McKeown"

Director

"Glenn Jamieson"

Director

## MG Capital Corporation

### Unaudited Condensed Interim Statements of Operations and Comprehensive Loss

	Three month period ended September 30, 2018	Nine month period ended September 30, 2018	Period from Date of Incorporation to December 31, 2017
Interest income	\$ 211	\$ 474	\$ 24
Accounting and audit fees	1,249	5,224	-
Office and general expenses	644	4,510	169
Professional fees	0	59,537	-
Stock based compensation expense	0	53,722	-
Transfer and listing fees	5,745	33,360	-
	7,638	156,353	169
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (7,427)</b>	<b>\$ (155,879)</b>	<b>\$ (145)</b>
<b>Loss per share</b>			
Basic	\$ (0.00)	\$ (0.04)	\$ (0.00)
Diluted	\$ (0.00)	\$ (0.03)	\$ (0.00)
<b>Weighted average number of common shares outstanding</b>	<b>5,510,000</b>	<b>4,411,099</b>	<b>3,010,000</b>

Date of Incorporation is November 9, 2017

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

## MG Capital Corporation

### Unaudited Condensed Interim Statement of Changes in Shareholders' Equity

	Share Capital	Equity Reserve	Deficit	Total
Balance at the Date of Incorporation	\$ -		\$ -	\$ -
Net loss for the period			(145)	(145)
Issue of common shares (note 4)	150,500		-	150,500
<b>Balance at December 31, 2017</b>	<b>\$ 150,500</b>	<b>\$ -</b>	<b>\$ (145)</b>	<b>\$ 150,355</b>
Net proceeds of IPO (note 4)	214,599	-	-	214,599
Stock-based compensation (note 4)	-	53,722	-	53,722
Net loss for the period	-	-	(155,879)	(155,879)
<b>Balance at September 30, 2018</b>	<b>\$ 365,099</b>	<b>\$ 53,722</b>	<b>\$ (156,024)</b>	<b>\$ 262,797</b>

Date of Incorporation is November 9, 2017

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

**MG Capital Corporation**  
**Unaudited Condensed Interim Statements of Cash Flows**

	Three month period ended September 30, 2018	Nine month period ended September 30, 2018	Period from Date of Incorporation to December 31, 2017
<b>Cash flows from operating activities</b>			
Net loss for the period	\$ (7,427)	\$ (155,879)	\$ (145)
Stock based compensation	-	53,722	-
<b>Adjustments for:</b>			
Interest received	(211)	(474)	(24)
<b>Funds used in operations</b>	<b>(7,638)</b>	<b>(102,631)</b>	<b>(169)</b>
Change in non-cash working capital	3,820	6,834	(5,258)
<b>Net cash from (used in) operating activities</b>	<b>(3,818)</b>	<b>(95,797)</b>	<b>(5,427)</b>
<b>Cash flow from investing activities</b>			
Interest received	211	474	24
<b>Net cash from investing activities</b>	<b>211</b>	<b>474</b>	<b>24</b>
<b>Cash flows from financing activities</b>			
Issue of share capital, net of issuance costs	-	214,599	150,500
<b>Net cash from financing activities</b>	<b>-</b>	<b>214,599</b>	<b>150,500</b>
<b>Change in cash</b>	<b>(3,607)</b>	<b>119,276</b>	<b>145,097</b>
<b>Cash, beginning of period</b>	<b>267,980</b>	<b>145,097</b>	<b>-</b>
<b>Cash, end of period</b>	<b>\$ 264,373</b>	<b>\$ 264,373</b>	<b>\$ 145,097</b>

Date of Incorporation is November 9, 2017

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

# **MG Capital Corporation**

## **Notes to the Unaudited Condensed Interim Financial Statements**

### **1. INCORPORATION AND NATURE OF OPERATIONS**

MG Capital Corporation (the “Corporation”), was incorporated under the Alberta Business Corporations Act on November 9, 2017 (the “Date of Incorporation”) and applied 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 is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (“QT”). The Corporation’s continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition, or business, or an interest therein. Such an acquisition or business will be subject to the approval of the Exchange and in case of a non-arm’s length transaction, of the majority of the Corporation’s minority shareholders. The Corporation is required to complete its QT on or before two years from the date the Corporation’s common shares are listed for trading on the Exchange.

Where a QT has been identified, the ability of the Corporation to complete the transaction may require additional funding. There is no assurance that the Corporation will be successful in obtaining any additional funding. If the Corporation does not complete a QT within two years from the date the Corporation’s common shares are listed for trading on the Exchange, the Exchange may suspend or de-list the Corporation’s common shares from trading.

The Corporation completed an initial public offering (IPO) of common shares and commenced trading under the symbol MGX.P on the Exchange on May 3, 2018.

The registered head office of the Corporation is located at 1900, 520 – 3<sup>rd</sup> Street, Calgary, Alberta, T2P 0R3.

On November 8, 2018, the Board of Directors of the Corporation approved the unaudited condensed interim financial statements for the three-month and nine month periods ended September 30, 2018.

### **2. BASIS OF PRESENTATION**

#### **Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

#### **Basis of Preparation**

The financial statements are presented in Canadian dollars, which is the Corporation’s functional and reporting currency.

The financial statements are prepared on a historical cost basis. The accounting policies have been applied consistently throughout the entire period presented in these unaudited condensed interim financial statements.

#### **Significant Accounting Judgment, Estimates and Assumptions**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities. The estimates and associated assumptions are based on anticipations and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making

# MG Capital Corporation

## Notes to the Unaudited Condensed Interim Financial Statements

the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the review affects both current and future periods.

There have been no significant judgments made by management in the application of IFRS that have a significant effect on these unaudited interim financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

(a) **Non-derivative financial instruments.** Non-derivative financial instruments comprise cash and GST receivable. Non-derivative financial instruments are recognized initially at fair value, plus, for instruments not classified as “fair value through profit or loss”, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

(i) **Cash.** Cash comprises cash on hand and is measured similar to other non-derivative financial instruments.

(ii) **Other.** Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. The Corporation nets all transaction costs incurred in relation to the acquisition of a financial asset or liability, against the related financial asset or liability.

(b) **Share capital.** Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(c) **Financial liabilities.** Liabilities are carried at amortized costs using the effective interest method and includes accounts payable and accrued liabilities.

#### Determination of fair values

A number of the Corporation’s accounting policies and disclosures require the determination of fair value, both for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of financial instrument valuation methods have been defined as follows:

Level 1 fair value measurements are based on unadjusted quoted market prices. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 3 fair value measurements are based on unobservable information.

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## **Notes to the Unaudited Condensed Interim Financial Statements**

The carrying value of cash and GST receivable approximate fair value due to the short-term nature of those instruments.

### **Impairment**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognized in net profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net profit or loss.

### **Deferred financing costs**

Cost directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the cost will be charge against the related share capital or charged to operations if the shares are not issued.

### **Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at

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## Notes to the Unaudited Condensed Interim Financial Statements

each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Loss per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

### Revenue

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

### Accounting Standards Issued

IFRS 9, Financial Instruments ("IFRS 9") was initially issued by the IASB on November 12, 2009 and issued in its completed version in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model based for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 was adopted by the Corporation beginning on January 1, 2018 and had no impact on the financial statements.

## 4. SHARE CAPITAL

### Authorized:

Unlimited voting common shares

Unlimited preferred shares

	September 30, 2018	December 31, 2017
Issued		
<b>5,510,000 common shares</b>	<b>\$ 365,099</b>	<b>\$ 150,500</b>

Prior to December 31, 2017, the Corporation issued 3,010,000 common shares at \$0.05 per share for total proceeds of \$150,500.

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

All common shares acquired on exercise of common stock options granted to directors and officers prior to the completion of a QT, must also be deposited in escrow.

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## **Notes to the Unaudited Condensed Interim Financial Statements**

Additionally, all common shares of the Corporation acquired in the secondary market prior to the completion of a QT by a Control Person, as defined in the polices 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.

The Corporation completed its IPO on April 30, 2018. Under the terms of an agency agreement with Leede Jones Gable Inc. (the "Agent"), the Corporation issued 2,500,000 common shares at \$0.10 per share for gross proceeds of \$250,000. Net of commissions and expenses of the Agent, the Corporation received proceeds of \$214,599 on completion. The common shares of the Corporation began trading on the Exchange on May 3, 2018.

### **Stock Options**

The Corporation has adopted a common share stock option plan ("Option Plan") in accordance with the policies of the Exchange. Stock options may be granted for common shares for a maximum term of five years from the date of the grant. They are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Corporation, and in the case of death, expire 12 months thereafter.

Unless otherwise stated, stock options vest fully when granted. The common share exercise price of stock options is regulated by the Exchange at the date of grant.

On April 30, 2018, the Corporation issued 540,000 Stock Options to directors of the Corporation to purchase common shares for \$0.10 each. These options expire five years from the date of issuance. Stock-based compensation expense of \$40,470 was recognized based on the Black Scholes option pricing model using a 2.12% risk free rate and 100% volatility. These stock options are outstanding as at the date hereof.

The Corporation also issued 250,000 Stock Options to the Agent, pursuant to the terms of the agency agreement, to purchase common shares at \$0.10 per share which expire two years from the date of issuance. Stock-based compensation expense of \$13,252 was recognized based on the Black Scholes option pricing model using a 2.06% risk free rate and 100% volatility. These stock options are outstanding as at the date hereof.

## **5. 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 the shareholders and benefits for other stakeholders. The Corporation includes equity, comprised of issued common shares, 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 qualifying as a QT. To secure the additional capital necessary to pursue this objective, the Corporation may attempt to raise additional funds through the issuance of equity and by securing strategic partners.

# **MG Capital Corporation**

## **Notes to the Unaudited Condensed Interim Financial Statements**

### **Fair Values and Risk Disclosures**

#### **Fair value**

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Certain of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The Corporation's fair value measurements are classified as one of the following levels of the fair value hierarchy:

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The fair value of cash and GST receivable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

#### **Credit Risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's cash and GST receivable. The carrying amount of cash and the GST receivable represent the maximum credit exposure to the Corporation. The Corporation manages credit exposure related to cash by selecting financial institution counterparties with high credit ratings. The GST receivable may be reimbursed on a timely basis by the Government of Canada subject to applicable filings and assessment.

#### **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's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Corporation has accounts payable and accrued liabilities of \$5,639 at September 30, 2018 and has cash balances in excess of this amount. Accordingly, the Corporation does not have significant exposure to liquidity risk as at that date.

#### **Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Corporation does not have significant exposure to these risks.

## MG Capital Corporation

### Notes to the Unaudited Condensed Interim Financial Statements

#### 6. RELATED PARTY TRANSACTIONS

Other than the issuance of common shares or the reimbursement of expenses, there were no transactions with related parties and no remuneration was paid to key management personnel during the periods ended September 30, 2018 and December 31, 2017.

#### 7. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	September 30, 2018
Loss for the period	\$ (155,879)
Tax rate	27%
Expected income tax recovery	42,087
Non-deductible expenses	(14,505)
Change in unrecognized benefit of non-capital losses	(27,582)
<b>Income tax recovery</b>	<b>\$ -</b>

The Corporation has accumulated non-capital losses of approximately \$102,000 which may be deductible in the calculation of taxable income in future years. The losses expire in 2038.