# Drummond Ventures Corp.
# (a capital pool company)

## CONDENSED INTERIM FINANCIAL STATEMENTS

***(Unaudited – Prepared by Management)***

**For the three and six months ended December 31, 2019**

Reader's Note:

These unaudited interim condensed financial statements of Drummond Ventures Corp. have been prepared by management and have not been reviewed by the company's auditor

**Drummond Ventures Corp.**
(a capital pool company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
*(Unaudited)*
(Expressed in Canadian dollars)

| | Note | December 31, 2019 $ | June 30, 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **231,827** | 498,733 |
| Receivable and prepayments | | **911** | - |
| Loan receivable | 3 | **226,558** | - |
| **Total assets** | | **459,296** | 498,733 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 6 | **17,643** | 18,000 |
| **Total liabilities** | | **17,643** | 18,000 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 5 | **568,615** | 568,615 |
| Share-based payment reserve | 5 | **30,485** | 30,485 |
| Deficit | | **(157,447)** | (118,367) |
| **Total shareholders' equity** | | **441,653** | 480,733 |
| **Total liabilities and shareholders' equity** | | **459,296** | 498,733 |

Nature of Operations (Note 1)
Subsequent Events (Note 7)

Approved by the Board of Directors on February 28, 2020

***"Grant Kim"***
***Director***

***"Marcel de Groot"***
***Director***

The accompanying notes form an integral part of these condensed interim financial statements.

**Drummond Ventures Corp.**
(a capital pool company)
CONDENSED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE LOSS
*(Unaudited)*
(Expressed in Canadian dollars. except share information)

| | | For the three months ended December 31 | | For the six months ended December 31 | |
|---|---|---|---|---|---|
| | **Note** | **2019 $** | 2018 $ | **2019 $** | 2018 $ |
| **Operating Expenses** | | | | | |
| Listing and filing fees | | **10,000** | 4,293 | **10,000** | 8,195 |
| Professional fees | | **2,116** | 158 | **19,857** | 4,283 |
| Other general and administrative expenses | | **1,978** | 466 | **10,781** | 500 |
| Share based payments | | **-** | 23,334 | **-** | 23,334 |
| **Loss before other items** | | **(14,094)** | (28,251) | **(40,638)** | (36,312) |
| **Other Income and Expense** | | | | | |
| Interest Income | | **1,558** | - | **1,558** | - |
| **Net loss and comprehensive loss for the period** | | **(12,536)** | (28,251) | **(39,080)** | (36,312) |
| **Net loss per share** | | | | | |
| Basic and diluted | | **(0.01)** | (0.23) | **(0.03)** | (0.59) |
| **Weighted average number of common shares outstanding – basic and diluted** | 5 | **1,125,000** | 122,283 | **1,125,000** | 61,141 |

(Expressed in Canadian dollars)

| | Share capital (# of shares) | Share capital $ | Share-based payments reserve $ | Deficit $ | Total $ |
|---|---|---|---|---|---|
| Balance, June 30, 2018 | 4,000,000 | 400,000 | - | (10,452) | 389,548 |
| IPO (net of share issuance costs) | 1,125,000 | 142,823 | | | 142,823 |
| Options issued to Agents in conjunction with IPO | | (7,151) | 7,151 | | - |
| Share-based payments | | | 23,334 | | 23,334 |
| Net loss and comprehensive loss for the period | | - | - | (36,312) | (36,312) |
| **Balance, December 31, 2018** | **5,125,000** | **535,672** | **30,485** | **(46,764)** | **519,393** |
| Balance, June 30, 2019 | 5,125,000 | 568,615 | 30,485 | (118,367) | 480,733 |
| Net loss and comprehensive loss for the period | - | - | - | (39,080) | (39,080) |
| **Balance, December 31, 2019** | **5,125,000** | **568,615** | **30,485** | **(157,447)** | **441,653** |

The accompanying notes form an integral part of these condensed interim financial statements.

(Expressed in Canadian dollars)

| | For the six months ended December 31, 2019 $ | For the six months ended December 31, 2018 $ |
|---|---|---|
| **Cash flows provided by (used in)** | | |
| **Operating Activities** | | |
| Net loss | **(39,080)** | (36,312) |
| Changes in non-cash working capital: | | |
| Share-based payments | **-** | 23,334 |
| Interest on promissory notes | **(1,558)** | - |
| Receivables and prepayments | **(911)** | (200,339) |
| Accounts payable and accrued liabilities | **(357)** | (30,934) |
| Deferred financing fees | **-** | 25,000 |
| Cash used in operating activities | **(41,906)** | (219,251) |
| **Investing Activities** | | |
| Loan to Sun Machine Entertainment | **(225,000)** | - |
| Cash used in investing activities | **(225,000)** | - |
| **Financing Activities** | | |
| Proceeds from IPO, net of share issuance costs | **-** | 142,823 |
| Cash from financing activities | **-** | 142,823 |
| **Increase (decrease) in cash for the period** | **(266,906)** | (76,428) |
| Cash - beginning of period | **498,733** | 397,453 |
| **Cash - end of period** | **231,827** | 321,025 |

## 1. Nature of operations

Drummond Ventures Corp. (the "Corporation" or "Drummond") was incorporated under the British Columbia *Business Corporations Act* on March 28, 2018. The Corporation is classified as a Capital Pool Company as defined in the TSX Venture Exchange's (the "Exchange") Policy 2.4 ("CPC Policy"). The principal business of the Corporation is the identification and evaluation of a Qualifying Transaction as defined in the CPC Policy ("QT") and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities. The Corporation's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate a QT. The QT 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 of listing on the Exchange. Where a QT has been identified, additional funding may be required in order to complete the transaction and 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 ("Shares") are listed for trading on the Exchange, the Exchange may suspend or de-list the Shares from trading.

On September 24, 2018, the Corporation filed a final prospectus in relation to the offering of 1,125,000 Shares. On December 21, 2018, the Corporation completed an Initial Public Offering ("IPO") and issued 1,125,000 Shares of Drummond at a purchase price of $0.20 per Share for gross proceeds of $225,000. The Corporation's Shares were listed for trading and immediately halted on the Exchange at the opening of the market on the IPO closing date and commenced trading at the opening of the market on December 27, 2018 under the trading symbol "DVX.P".

The head office & principal address of the Corporation is located at 400 Burrard Street, 14th Floor, Vancouver, BC, V6C 3A6 and the registered & records office is located at 595 Burrard Street, 7th Floor, Vancouver, BC, V7X 1S8.

On September 26, 2019, the Corporation entered into a non-binding letter of intent ("LOI") with Sun Machine Entertainment Inc. ("Sun Machine"), pursuant to which the Corporation agreed, subject to certain conditions, to acquire all of the issued and outstanding securities of Sun Machine as its Qualifying Transaction. Sun Machine is a video game development company incorporated on October 5, 2018 under the British Columbia *Business Corporation Act* with its head office located in Vancouver, British Columbia. The LOI was contingent on all necessary approvals and set financing milestones being met.

In connection with the proposed Qualifying Transaction with Sun Machine, on November 1, 2019, the Corporation advanced $225,000 by way of a secured loan to Sun Machine in accordance with the CPC Policy. The loan bears interest at prime rate (3.95% at November 1, 2019), and is payable at the earlier of the completion of the proposed Qualifying Transaction with Sun Machine and February 28, 2020, as amended to March 15, 2020. Interest is also due at maturity. The loan is secured against all of the assets of Sun Machine.

Effective December 2, 2019, the Corporation entered into an amalgamation agreement (the "Amalgamation Agreement") with Sun Machine, which replaced and superseded the LOI. Pursuant to the Qualifying Transaction, the Corporation has agreed to purchase all of the issued and outstanding securities of Sun Machine in exchange of the issuance of an aggregate of 28,571,427 Common Shares of the Corporation and approximately 694,178 replacement stock options. Completion of the Amalgamation is subject to the satisfaction of certain closing conditions as set out in the Amalgamation Agreement, including completion of a pre-closing Sun Machine share split, Sun Machine shareholder approval, completion of a concurrent financing for gross proceeds of $3,000,000, and the final approval of the Exchange.

## 2. Basis of presentation and significant accounting policies

***Statement of Compliance***

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee. These condensed interim financial statements do not include all the necessary annual disclosures in accordance with IFRS and should be read in conjunction with the Corporation's audited financial statements for the year ended June 30, 2019.

The accounting policies followed in these condensed interim financial statements are the same as those applied in the Corporation's most recent audited financial statements for the year ended June 30, 2019.

***Basis of Presentation***

These condensed interim financial statements have been prepared on a historical cost basis. The condensed interim financial statements are presented in Canadian dollars, which is also the Corporation's functional currency.

## 3. Loan to Sun Machine Entertainment

Pursuant to its QT Transaction (Note 1), on November 1, 2019, the Company advanced $225,000 by way of a secured loan to Sun Machine (the "CPC Loan"). The loan bears interest at prime rate, which as at November 1, 2019 is 3.95%, and is payable at the earlier of the completion of the QT Transaction and March 15, 2020. Interest is also due at maturity. The loan is secured against all of the assets of Sun Machine.

## 4. Significant Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management believes the estimates and assumptions used in these condensed interim financial statements are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

The Corporation's significant accounting judgments and estimates are consistent with those applied in the audited financial statements for the year ended June 30, 2019.

## 5. Share Capital and Reserves

a) Authorized:

The Corporation is authorized to issue an unlimited number of common shares without par value.

b) Issued and Outstanding:

As at September 30, 2019, the Corporation had 5,125,000 common shares issued and outstanding. Of these common shares, 4,000,000 are held in escrow pursuant to an escrow agreement. Under the escrow agreement, 10% of the escrowed Shares will be released from escrow on the date of the issuance of the Final Exchange Bulletin (as defined by the CPC Policy) (the "Initial Release") upon completion of a QT, and an additional 15% will be released every six months following the Initial Release over a period of thirty-six months. In addition, should the Corporation fail to complete a QT on or before two years from the date of listing on the Exchange, certain of these Shares may be cancelled and as such are considered contingently returnable; as such, all such Shares have been excluded from the calculation of basic earnings per share.

c) Stock Options

On June 22, 2018, the board of directors of the Corporation (the "Board") established a stock option plan ("Stock Option Plan") where the Board may, from time to time, grant directors, officers, employees and consultants non-transferable options to purchase Shares, provided that the number of Shares reserved for issuance will not exceed 10% of the total issued and outstanding Shares of the Corporation, exercisable for a period of up to 10 years from the date of the grant. In accordance with the CPC Policy, during the time that the Corporation is a Capital Pool Company and prior to Completion of the QT: (i) options granted to a director or officer of the Corporation individually may not exceed 5% of the Shares of the Corporation issued and outstanding at the closing of the IPO; and (ii) options granted to all technical consultants may not exceed 2% of the Shares of the Corporation issued and outstanding at the closing of the IPO. The Board shall not grant any options to an eligible participant under the Stock Option Plan providing investor relations activities, promotional or market-making services to the Corporation.

The exercise price of any option granted pursuant to the Stock Option Plan shall be determined by the Board when granted but shall not be less than the market price. Until Completion of the QT the exercise price shall not be less than the greater of $0.20 and the Discounted Market Price (as defined by the policies of the Exchange). Any Shares acquired pursuant to the exercise of options prior to the Completion of the QT, must be deposited in escrow and will be subject to escrow until Completion of the QT.

On June 22, 2018, the Board approved the grant of 130,000 stock options to a director of the Corporation. These stock options were granted upon closing of the IPO on December 21, 2018; no stock options had previously been granted by the Corporation. The stock options to be granted have an expiry date of ten years from the IPO closing date and at an exercise price of $0.20 and all options vested immediately. As at September 30, 2019, all 130,000 options remain outstanding and exercisable and have a remaining life of 9.23 years.

d) Agent’s warrants

A total of 67,500 non-transferable Agent’s warrants were issued in conjunction with closing of the IPO. The Agent’s warrants have an expiry date of two years from the IPO closing date and an exercise price of $0.20; all warrants vested immediately. As at September 30, 2019, all 67,500 warrants remain outstanding and exercisable and have a remaining life of 1.23 years.

## 6. Related party transactions

Related parties of the Corporation include its key management personnel, being the members of the Board of Directors and Officers of the Corporation. Related parties also include close family members of these individuals. In addition, companies controlled by these individuals are also related parties of Drummond.

No compensation was paid to key management personnel during the period ended September 30, 2019 (2018 - $nil). The Corporation is currently utilizing office space rent-free in the office of a related party.

As at December 31, 2019, accounts payable and accrued liabilities include $462 payable to an officer for reimbursable expenditures of the Corporation.

## 7. Subsequent Events

On February 13, 2020, the proposed Qualifying Transaction with Sun Machine received conditional approval from the Exchange and on February 25, 2020, the Corporation filed its Filing Statement.

On February 28, 2020, the Corporation and Sun Machine extended the February 28, 2020 respective deadlines in the secured loan agreements and the Amalgamation Agreement to March 15, 2020.