



**Adastra Labs Holdings Ltd.**  
(formerly Arrowstar Resources Ltd.)

**Condensed Interim Consolidated Financial Statements**

**For the three months ended  
March 31, 2020**

**Unaudited – Prepared by Management  
(Expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Adastra Labs Holdings Ltd. (“the Company”) for the three months ended March 31, 2020 and March 31, 2019, have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity’s auditor.

**Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)**

**Condensed Interim Consolidated Statements of Financial Position  
(Unaudited – Prepared by Management)**

As at March 31, 2020 and December 31, 2019

	Note	March 31, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		1,239,988	2,376,826
Receivables and prepayments	4	484,278	461,167
Marketable securities	5	-	1,500
		<b>1,724,266</b>	<b>2,839,493</b>
<b>Non-current assets</b>			
Deposits	6	4,000	4,000
Property and equipment	6	8,932,490	8,507,517
		<b>8,936,490</b>	<b>8,511,517</b>
<b>Total assets</b>		<b>10,660,756</b>	<b>11,351,010</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	894,245	873,402
Convertible debenture	12	2,498,029	-
Mortgage Payable	11	2,429,123	2,437,175
		<b>5,821,397</b>	<b>3,310,577</b>
<b>Non-current liabilities</b>			
Convertible debenture	12	-	2,955,511
<b>Total liabilities</b>		<b>5,821,397</b>	<b>6,266,088</b>
<b>Equity</b>			
Share capital	7	8,964,944	8,348,407
Debenture reserves	12	242,095	298,461
Reserves	7	2,537,300	-
Deficit		(6,904,980)	(3,561,946)
<b>Total equity</b>		<b>4,839,359</b>	<b>5,084,922</b>
<b>Total liabilities and equity</b>		<b>10,660,756</b>	<b>11,351,010</b>
<b>Nature of operations and going concern</b>	<b>1</b>		
<b>Events after the reporting period</b>	<b>14</b>		

Approved on behalf of the Board of Directors on July 14, 2020:

*“Andrew Hale”*

Director

*“Blaine Bailey”*

Director

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

---

**Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)****Condensed Interim Consolidated Statements of Changes in Equity  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

	Number of shares #	Share capital \$	Debenture reserves \$	Reserves \$	Deficit \$	Total equity \$
January 1, 2019	1	1	-	-	(443,783)	(443,782)
Cancellation of incorporation share	(1)	(1)	-	-	-	(1)
Shares issued for cash - private placements	77,006,666	3,374,500	-	-	-	3,374,500
Loss and comprehensive loss for the period	-	-	-	-	(230,415)	(230,415)
<b>March 31, 2019</b>	<b>77,006,666</b>	<b>3,374,500</b>	<b>-</b>	<b>-</b>	<b>(674,198)</b>	<b>2,700,302</b>
January 1, 2020	108,686,822	8,348,407	298,461	-	(3,561,946)	5,084,922
Convertible debenture - settlement	1,370,082	616,537	(56,366)	-	-	560,171
Share-based payments	-	-	-	2,537,300	-	2,537,300
Loss and comprehensive loss for the period	-	-	-	-	(3,343,034)	(3,343,034)
<b>March 31, 2020</b>	<b>110,056,904</b>	<b>8,964,944</b>	<b>242,095</b>	<b>2,537,300</b>	<b>(6,904,980)</b>	<b>4,839,359</b>

---

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

---

**Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31,**

---

	Note	2020 \$	2019 \$
<b>Expenses</b>			
Advertising and promotion		53,817	-
Accretion	12	21,088	-
Depreciation	6	34,313	-
Insurance		11,463	9,658
Office expenses		145,785	42,148
Professional fees and consulting	9	286,295	46,339
Rent		-	12,180
Share-based payments	7,9	2,537,300	-
Travel		700	6,338
Wages and salaries	9	112,462	101,790
<b>Loss from operating expenses</b>		<b>(3,203,223)</b>	<b>(218,453)</b>
Interest expense	11,12	(141,835)	(16,816)
Interest income		3,524	4,854
Realized loss on marketable securities	5	(1,500)	-
<b>Loss and comprehensive loss for the year</b>		<b>(3,343,034)</b>	<b>(230,415)</b>
<b>Loss per share</b>			
<b>Weighted average number of common shares outstanding</b>			
- basic #	8	109,713,012	28,444,157
- diluted #	8	109,713,012	28,444,157
<b>Basic loss per share \$</b>	8	(0.03)	(0.01)
<b>Diluted loss per share \$</b>	8	(0.03)	(0.01)

---

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

---

**Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)****Condensed Interim Consolidated Statements of Cash Flows  
(Unaudited - Prepared by Management)**

---

**For the three months ended March 31,**

---

	Note	2020	2019
<b>Operating activities</b>			
Loss and comprehensive loss for the period		(3,343,034)	(230,415)
Adjustments for non-cash items:			
Depreciation		34,313	-
Accretion		21,088	-
Interest expense		141,833	-
Interest income		(3,524)	(4,854)
Share-based payments		2,537,300	-
Realized loss on marketable securities		1,500	-
Net change in non-cash working capital items	10	132,202	47,875
		<b>(478,322)</b>	<b>(187,394)</b>
<b>Financing activities</b>			
Issue of common shares		-	1,563,302
Borrowing costs - mortgage		(18,345)	-
Interest paid - mortgage		(49,939)	(16,816)
Convertible debenture		-	-
		<b>(68,284)</b>	<b>1,546,486</b>
<b>Investing activities</b>			
Acquisition property and equipment		(593,756)	(193,008)
Interest income		3,524	4,854
		<b>(590,232)</b>	<b>(188,154)</b>
<b>Net (decrease) increase in cash</b>		<b>(1,136,838)</b>	<b>1,170,938</b>
<b>Cash, beginning of period</b>		<b>2,376,826</b>	<b>1,350,276</b>
<b>Cash, end of period</b>		<b>1,239,988</b>	<b>2,521,214</b>
<b>Supplemental cash flow information</b>	10		

---

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

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**1. Nature of operations and going concern**

Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.) (the “Company” or “Arrowstar”) was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company changed its name to Adastra Labs Holdings Ltd., on December 19, 2019. The Company is an extraction and processing solutions company. The Company’s mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol “XTRX”.

The Company’s registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

Health Canada issued a Analytical testing license on the Company’s facility to Chemia Analytics Inc., (“Chemia”). Chemia is a wholly owned subsidiary of the Company. Additionally, Health Canada issued a Standard Processing License on the Company’s facility to Adastra labs Inc., (“Labs”). Labs is a wholly owned subsidiary of the Company.

On December 20, 2019, Arrowstar acquired all of the issued and outstanding common shares of Adastra Labs Holdings (2019) Ltd. (“Adastra”) a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover (“RTO”) of the Company by Adastra (the “Transaction”). The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra (Note 3). These condensed interim consolidated financial statements (the “financial statements”) include the results of operations of Arrowstar since December 20, 2019. The comparative figures are those of Adastra prior to the RTO. At the time of the transaction the Company changed its financial year end from April 30 to December 31.

These financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

The Company’s ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable (note 11).

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The extent of the impact on COVID-19 on the Company’s operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and can not be predicted at this point.

As at March 31, 2020, the Company had a working capital deficit of \$4,097,131 (December 31, 2019 - \$471,084) and has incurred losses since inception. These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements it could be necessary to restate the Company’s assets and liabilities on a liquidation basis.

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**2. Significant accounting policies**

**(a) Basis of presentation**

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited financial statements for the year ended December 31, 2019, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts on these financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries (note 2(b)).

**(b) Principles of consolidation**

These financial statements include the financial information of the Company and its subsidiaries.

The financial statements include the following entities:

---

Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)	Legal parent company
Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)	Holding company
Adastra Labs Inc.	Extraction and concentrates production company
Chemia Analytics Inc.	Cannabis testing and analysis laboratory company
1178562 B.C. Ltd.	Facility owner
Adastra Brands Inc.	Intellectual property company

---

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company.

These financial statements account for Arrowstar as a controlled entity (accounting acquiree) requiring consolidation since the date of the RTO (Notes 1 and 3), effective December 20, 2019.

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its financial statements for the year ended December 31, 2020. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited financial statements.



Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)

For the three months ended March 31, 2020 and March 31, 2019

3. Reverse acquisition

As described in note 1, on December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based payments*. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstar's public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in these financial statements. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

	December 20, 2019
<b>Net assets (liabilities) of Arrowstar acquired:</b>	<b>\$</b>
Cash	111,496
Receivables	10,802
Other assets	7,504
Accounts payable	(356,384)
<b>Net liabilities acquired</b>	<b>(226,582)</b>
<b>Consideration paid in RTO of Arrowstar:</b>	<b>\$</b>
Common shares (fair value 21,656,034 common shares at \$0.05 per share)	1,082,802
<b>Total consideration paid</b>	<b>1,082,802</b>
<b>Listing expense</b>	<b>1,309,384</b>

The Transaction was measured at the fair value of the shares that Adastra would have had to issue to the shareholders of Arrowstar, to give the shareholders of Arrowstar the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

4. Receivables and prepayments

Receivables and prepayments consist of the following:

	March 31, 2020	December 31, 2019
	\$	\$
Sales tax recoverable	346,220	303,708
Prepaid expenses	138,058	157,459
	<b>484,278</b>	<b>461,167</b>

5. Marketable securities

On November 8, 2011, the Company received 10,000 shares in Dunnedin Ventures Inc. as part of a property option agreement. The shares were valued at \$1,500 at the RTO date and included in other assets. On March 31, 2020, the Company disposed of the shares for no proceeds.

**Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)**

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

**For the three months ended March 31, 2020 and March 31, 2019**

**6. Property and equipment**

	Land \$	Building \$	Furniture and equipment \$	Computer software \$	Laboratory equipment \$	Extraction equipment \$	Building improvements \$	Total \$
<b>Cost</b>								
April 30, 2019	1,592,232	1,982,512	11,823	-	-	-	299,643	3,886,210
Additions	-	16,816	47,619	12,105	62,295	1,048,502	3,564,116	4,751,453
December 31, 2019	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
<b>Accumulated depreciation</b>								
April 30, 2019	-	49,563	2,411	-	-	-	-	51,974
Depreciation	-	73,116	5,056	-	-	-	-	78,172
December 31, 2019	-	122,679	7,467	-	-	-	-	130,146
<b>Cost</b>								
December 31, 2019	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
Additions	-	-	18,373	-	74,360	315,395	51,158	459,286
<b>March 31, 2020</b>	<b>1,592,232</b>	<b>1,999,328</b>	<b>77,815</b>	<b>12,105</b>	<b>136,655</b>	<b>1,363,897</b>	<b>3,914,917</b>	<b>9,096,949</b>
<b>Accumulated depreciation</b>								
December 31, 2019	-	122,679	7,467	-	-	-	-	130,146
Depreciation	-	23,458	10,855	-	-	-	-	34,313
<b>March 31, 2020</b>	<b>-</b>	<b>146,137</b>	<b>18,322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>164,459</b>
<b>Net book value</b>								
December 31, 2019	1,592,232	1,876,649	51,975	-	-	-	3,863,759	8,507,517
<b>March 31, 2020</b>	<b>1,592,232</b>	<b>1,853,191</b>	<b>59,493</b>	<b>12,105</b>	<b>136,655</b>	<b>1,363,897</b>	<b>3,914,917</b>	<b>8,932,490</b>

Some of the Company's property and equipment was not yet in use as at March 31, 2020 and December 31, 2019. Depreciation is taken when items are in the location and condition necessary for it to be capable of operating in a manner intended by management.

As at March 31, 2020, the Company had \$4,000 in other deposits (December 31, 2019 - \$4,000) from the RTO date and were included in deposits.

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**7. Share capital**

**Transactions for the issue of share capital during  
the three months ended March 31, 2020:**

- (i) On January 17, 2020, the Company issued 569,802 units on conversion of \$250,000 of principal and \$6,411 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at \$0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.
- (ii) On January 27, 2020, the Company issued 800,280 units on conversion of \$350,000 of principal and \$10,126 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at \$0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

**Transactions for the issue of share capital during  
the three months ended March 31, 2019:**

- (i) On June 20, 2018, the Company issued 1 common share for \$1 on incorporation, the Company cancelled the incorporation share on February 7, 2019.
- (ii) On February 7, 2019, the Company closed a private placement for the issuance of 26,000,000 common shares at a price of \$0.005 per share for gross proceeds of \$130,000.
- (iii) On February 28, 2019, the Company closed a private placement for the issuance of 21,750,000 common shares at a price of \$0.02 per share for gross proceeds of \$435,000.
- (iv) On March 7, 2019, the Company closed a private placement for the issuance of 21,053,333 common shares at a price of \$0.075 per share for gross proceeds of \$1,579,000.
- (v) On March 31, 2019, the Company closed a private placement for the issuance of 8,203,333 common shares at a price of \$0.15 per share for gross proceeds of \$1,230,500.

**Escrowed shares**

The Company entered into an Escrow Agreement in connection with closing the RTO on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023.

As at March 31, 2020, 23,400,000 common shares were held in escrow (December 31, 2019 – 26,000,000).

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)

For the three months ended March 31, 2020 and March 31, 2019

7. Share capital (continued)

Stock options

The Company has an incentive stock option plan (the “Plan”) which provides for the granting of options. Under the Plan the maximum number of stock options issued cannot exceed 10% of the Company’s currently issued and outstanding common shares. Options granted under the Plan may have a maximum term of ten years. A participant, who is not a consultant conducting investor relations activities, who is granted an option that is exercisable at the market price at the date of grant, will have their options vest immediately, unless otherwise determined by the Board of Directors. Options granted at below market prices will vest one-sixth every three months.

A participant who is a consultant conducting investor relations activities who is granted an option under the Plan will become vested with the right to exercise one-quarter of the option upon conclusion of every three months subsequent to the grant date. All options are to be settled by physical delivery of shares.

A summary of the status of the Company’s options as at March 31, 2020 and December 31, 2019 and changes during the periods then ended is as follows:

	Period ended March 31, 2020		Period ended December 31, 2019	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period	-	-	-	-
Granted	7,570,000	0.45	-	-
Options outstanding, end of period	<b>7,570,000</b>	<b>0.45</b>	-	-

As at March 31, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price \$	Expiry date	Weighted average remaining life (years)
7,570,000	7,570,000	0.45	January 30, 2025	4.84
<b>7,570,000</b>	<b>7,570,000</b>			<b>4.84</b>

Warrants

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to the warrants attached to private placement units. Finders’ warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the status of the Company’s warrants as at March 31, 2020 and December 31, 2019 and changes during the periods then ended is as follows:

	Period ended March 31, 2020		Period ended December 31, 2019	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period	7,411,655	0.73	-	-
Replaced on RTO	-	-	1,519,200	0.92
Issued - attached to units	1,370,082	0.75	5,892,455	0.60
Expired	(496,100)	0.75	-	-
Warrants outstanding, end of period	<b>8,781,737</b>	<b>0.74</b>	7,411,655	0.73

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)

For the three months ended March 31, 2020 and March 31, 2019

7. Share capital (continued)

Warrants (continued)

As at March 31, 2020, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding #	Warrants exercisable #	Exercise Price \$	Expiry date	Weighted average remaining life (years)
1,023,100	1,023,100	1.50	April 26, 2020 *	0.07
5,892,455	5,892,455	0.60	December 2, 2022	2.72
569,802	569,802	0.75	January 17, 2022	1.80
800,280	800,280	0.75	January 27, 2022	1.83
<b>8,285,637</b>	<b>8,285,637</b>			<b>2.24</b>

\*Warrants expired unexercised subsequent to the period ending March 31, 2020.

8. Loss per share

The calculation of basic loss per share for the period ended March 31, 2020 was based on the loss attributable to common shareholders of \$3,343,034 (2019 - \$230,415), and a weighted average number of common shares outstanding of 109,713,012 (2019 – 28,444,157).

All warrants and stock options outstanding as at March 31, 2020 and 2019, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

9. Related party payables and transactions

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended March 31, 2020 or December 31, 2019.

During the period ended March 31, 2020, 3,400,000 (2019 – nil) options were granted to Officers and Directors having a fair value on grant of \$1,139,612 (2019 – nil).

The following related parties transacted with the Company or Company controlled entities during the periods:

- (a) Andrew Hale is a Director and the Company's President and CEO.
- (b) Blaine Bailey is a Director and Chairman of the Company's Audit Committee. He controls Promaid Services Ltd. ("Promaid.") which provides the Company with financial services.
- (c) Stephen Brohman is the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provides the Company with accounting and tax services.
- (d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Transactions three months ended March 31, 2020 \$	Transactions three months ended March 31, 2019 \$	Balances outstanding March 30, 2020 \$	Balances outstanding December 31, 2019 \$
DBM CPA	36,000	14,820	12,600	-
Andrew Hale	45,028	45,043	-	-
Pipedreemz	2,500	8,200	-	-
	<b>83,528</b>	<b>68,063</b>	<b>12,600</b>	<b>-</b>

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**9. Related party payables and transactions (continued)**

All related party balances are unsecured and are due within thirty days without interest.

The transactions with the key management personnel and Directors are included in operating expenses as follows:

**(a) Consulting fees**

- Includes the advisory services of Director, George Routhier, charged to the Company by Pipedreemz.

**(b) Professional fees**

- Includes the accounting and tax services of the Company's CFO, Stephen Brohman, charged to the Company by DBM CPA.

**(g) Wages and salaries**

- Includes charges by Andrew Hale for salaries paid to Officer.

**10. Supplemental cash flow information**

Changes in non-cash operating working capital during the three months ended March 31, 2020 and March 31, 2019 were comprised of the following:

	<b>March 31, 2020</b>	March 31,
	<b>\$</b>	2019
		<b>\$</b>
Receivables and prepayments	(23,111)	672
Accounts payable and accrued liabilities	155,313	47,203
<b>Net change</b>	<b>132,202</b>	<b>47,875</b>

The Company incurred non-cash financing and investing activities during the three months ended March 31, 2020 and March 31, 2019 as follows:

	<b>March 31, 2020</b>	March 31,
	<b>\$</b>	2019
		<b>\$</b>
Non-cash financing activities		
Conversion of debenture - reserves	56,366	-
Convertible debenture - settlement	(616,537)	-
	<b>(560,171)</b>	<b>-</b>
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	251,424	-
	<b>251,424</b>	<b>-</b>

During the three months ended March 31, 2020, amounts paid for interest totaled \$49,939 (2019 - \$16,816). No amounts were paid for income taxes.

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**11. Mortgage payable**

- a) On January 7, 2019, the Company entered into a mortgage for \$2,446,000 which bears interest at the rate of 8.25% per annum, calculated monthly. The mortgage matured on February 1, 2020 and could be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

The mortgage payable was recorded at amortized cost and bared an effective interest rate of 10.44%.

The carrying value of the mortgage payable at March 31, 2020 and December 31, 2019 was \$nil and \$2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of \$50,755 which were amortized over the term of the mortgage using the effective interest rate method.

The Company maintained minimum interest only payments of \$16,816 per month. As at March 31, 2020 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total \$nil. Total interest expense during the period ended March 31, 2020 was \$33,632 (December 31, 2019 - \$164,242).

- b) On February 1, 2020, the Company renewed the mortgage of \$2,446,000 which bears interest at the rate of 8.00% per annum, calculated monthly. The mortgage matures on February 1, 2021 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

The mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79% as at March 31, 2020.

The carrying value of the mortgage payable at March 31, 2020 was \$2,429,123. Included in mortgage payable on initial recognition were the related mortgage transaction costs of \$18,345 which are amortized over the term of the mortgage using the effective interest rate method.

The Company maintains minimum interest only payments of \$16,307 per month. As at March 31, 2020 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total \$2,625,373. Total interest expense during the period ended March 31, 2020 was \$16,307.

**12. Convertible debenture**

On October 31, 2019, the Company closed a 7,060,000 convertible debenture unit offering at a price of \$0.45 per debenture unit for gross proceeds \$3,177,000. Each debenture consists of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converts their debenture unit they are entitled to one common share and one share purchase warrant exercisable at \$0.75 per share exercisable two years from the date of the convertible debenture closing October 31, 2021 at the holders discretion.

If the closing price of the Common Shares of the Company is higher than \$1.00 for any 10 consecutive trading days the expiry date of the Warrants may be accelerated to the 30th day after the date of a news release announcing such acceleration. The debentures will be secured to the facility subordinate to the mortgage currently on the facility.

As the debentures are convertible into units, the liability and equity components are presented separately on the condensed interim consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 16% totaling \$2,878,539. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in debenture reserves on the consolidated statement of financial position totaling \$298,461. The debentures, net of the equity component are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

During the three months ended March 31, 2020, the Company settled \$616,537 of the debentures through the issuance of 1,370,083 units. The Company reversed \$56,366 from debenture reserves in connection with the settlement.

The Company recorded interest expense of \$81,602 and accretion expense of \$21,088 related to the convertible debenture during the period ended March 31, 2020 (2019 - \$nil).

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**13. Financial risk management****Capital management**

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three months ended March 31, 2020. The Company is not subject to externally imposed capital requirements.

**Financial instruments - fair value**

The Company's financial instruments consist of cash, deposits, accounts payable and accrued liabilities, mortgage payable and convertible debenture.

The carrying value of accounts payable and accrued liabilities, and accounts payable approximated their fair value because of the short-term nature of these instruments. Mortgage payable and convertible debenture values approximate fair value due to their market rates of interest charged.

Financial instruments measured at fair value on the condensed interim consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>March 31, 2020</b>				
Cash	1,239,988	-	-	1,239,988
Deposits	4,000	-	-	4,000
<b>December 31, 2019</b>				
Cash	2,376,826	-	-	2,376,826
Marketable securities	1,500	-	-	1,500
Deposits	4,000	-	-	4,000

---



**13. Financial risk management (continued)**

**Financial instruments - risk**

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and currency risk.

**(a) Credit risk**

The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

**(c) Market risk**

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk as follows:

**(i) Currency risk**

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company has insignificant exposure to currency risk as it does not have assets or liabilities denominated in foreign currencies. The Company occasionally incurs equipment purchases denominated in the United States dollar.

**(ii) Interest rate risk**

The Company is not exposed to interest rate risk because it does not have any assets or liabilities subject to variable rates of interest, except for cash held in interest-bearing accounts which poses an insignificant risk exposure.

**(iii) Price risk**

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain financing, due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

**Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

---

**For the three months ended March 31, 2020 and March 31, 2019**

---

**14. Events after the reporting period**

- (a) On July 10, 2020, the Company received conversion notice for 601,766 units on conversion of \$250,000 of principal and \$20,795 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at \$0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.
- (b) On July 13, 2020, the Company completed a non-brokered private placement of units ("Units") issuing of 11,648,001 Units at a price of \$0.30 per unit for gross proceeds of \$3,494,400. Each unit consists one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of \$0.50 until July 13, 2022.

In conjunction with the financing, finders' fees of \$21,600 in cash were paid and 72,000 compensation options (each a "Compensation Option") were granted. Each Compensation Option will entitle the holder to purchase one Unit on the same terms as the offering for a period of 24 months from the date of issuance. Each underlying common share purchase warrant (a "Compensation Option Warrant") will be subject to the same terms as the Warrants. If the Warrants are accelerated prior to the exercise of the Compensation Option, each Compensation Option Warrant will expire 30 days after the date of exercise of the Compensation Option.

Additionally, the company settled outstanding indebtedness of \$543,175 through the issuance of 1,941,840 common shares of the corporation at a deemed price of \$0.28 per common share. The common shares issued in connection with the debt settlement are subject to a hold period that expires four months and one day from the date of issuance.