SPONSORSONE INC.

Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Stated in Canadian dollars - unless otherwise noted)

Independent Auditor's Report

To the Shareholders of SponsorsOne Inc.:

Opinion

We have audited the consolidated financial statements of SponsorsOne Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of operations and comprehensive loss, changes in (deficit) equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company generated a net loss of $4,124,071 for the year ended December 31, 2019 and had a working capital deficit of $1,192,059 as at December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brock Stroud.

MNP LLP

Toronto, Ontario
July 15, 2020

Chartered Professional Accountants
Licensed Public Accountants

SPONSORSONE INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents		**235**	493,494
Other receivables & Prepaids	3	**4,228**	-
		4,463	493,494
Capital assets, net	4	**141,519**	157,653
		145,982	651,147
Liabilities and Shareholders' Deficit			
Current liabilities:			
Accounts payable and accrued liabilities	5 & 14	**1,076,064**	302,679
HST/GST Payable	6	**23,831**	148,872
Convertible Note Payable	8	**70,238**	
Current portion of long-term debt	7	**26,389**	26,389
		1,196,522	477,940
Long-term liabilities			
Long-term debt	7	**23,611**	23,611
		1,220,133	501,551
Shareholders' deficit			
Share capital	9	**8,644,159**	6,521,512
Shares to be issued	9	**232,616**	232,616
Share-based payment reserve	10	**2,829,950**	2,043,299
Warrant reserve	11	**2,182,181**	2,186,475
Equity adjustment from foreign currency translation		**(9,055)**	(4,375)
Accumulated deficit		**(14,954,002)**	(10,829,931)
		(1,074,151)	149,596
		145,982	651,147

Nature of Operations and Going Concern – *Note 1*
Subsequent Event – *Note 18*

Approved on behalf of the Board:

"Myles Bartholomew"	"Gary Bartholomew"
Director (Signed)	Director (Signed)

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

SPONSORSONE INC.

Consolidated Statements of Operations and Comprehensive Loss
Years ended December 31, 2019 and 2018

As at December 31	Note	2019	2018
Revenue	14	**28,600**	-
Operating expenses:			
Marketing, general and administrative		**2,472,275**	2,628,447
Research and development		**171,886**	24,980
Depreciation	4	**26,241**	14,560
HST Assessment	6	**(48,762)**	276,053
		2,593,040	2,944,040
Loss on acquistion	3	**1,458,720**	-
Finance expense		**18,644**	-
Settlement of accounts payable	5	**53,667**	(1,746,080)
Net loss		**4,124,071**	1,197,960
Comprehensive Loss			
Exchange difference on translating foreign operations		**4,680**	4,375
Net loss and comprehensive loss for the year		**4,128,751**	**1,202,335**
Weighted average number of common shares	12	**50,783,069**	36,619,938
Loss per share - basic and diluted	12	**0.08**	0.03

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

SPONSORSONE INC.

Consolidated Statements of Changes in (Deficit) Equity
Years ended December 31, 2019 and 2018

	Number of common shares	Share capital	Shares to be issued	Shares subscribed but not issued	Special Warrants	Warrants	Share-based payment reserve	CTA	Deficit	Total
Balance at December 31, 2018	45,585,737	6,521,512	232,616	-	-	2,186,475	2,043,299	(4,375)	(10,829,931)	149,596
Shares issued on private placement, net	8,528,767	419,407	-	-	-	2,831	-	-	-	422,238
Warrants exercised	375,000	25,875	-	-	-	(7,125)	-	-	-	18,750
Shares issued in debt settlement	13,110,086	737,365	-	-	-	-	-	-	-	737,365
Share-based payments	-	-	-	-	-	-	786,651	-	-	786,651
Shares issued on Verve acquisiton Trauch 1	9,400,000	940,000	-	-	-	-	-	-	-	940,000
Net loss for the period	-	-	-	-	-	-	-	(4,680)	(4,124,071)	(4,128,751)
Balance at December 31, 2019	**76,999,590**	**8,644,159**	**232,616**	**-**	**-**	**2,182,181**	**2,829,950**	**(9,055)**	**(14,954,002)**	**(1,074,151)**

	Number of common shares	Share capital	Shares to be issued	Shares subscribed but not issued	Special Warrants	Warrants	Share-based payment reserve	CTA	Deficit	Total
Balance at December 31, 2017	27,784,712	5,075,467	232,616	90,000	-	1,266,525	804,799	-	(9,631,971)	(2,162,564)
										-
Shares issued on private placement, net	2,625,000	55,125	-	(90,000)	-	49,875	-	-	-	15,000
Special warrants issued	-	-	-	-	228,287	25,800	-	-	-	254,087
Special warrants exercised	1,725,283	164,548	-	-	(228,287)	63,739	-	-	-	-
Units issued in public offering	12,425,742	1,068,755	-	-	-	787,661	-	-	-	1,856,416
Warrants exercised	375,000	25,875	-	-	-	(7,125)	-	-	-	18,750
Shares issued in debt settlement	400,000	84,242	-	-	-	-	-	-	-	84,242
DSU's exercised	250,000	47,500	-	-	-	-	(47,500)	-	-	-
Share-based payments	-	-	-	-	-	-	1,286,000	-	-	1,286,000
Net loss for the period	-	-	-	-	-	-	-	(4,375)	(1,197,960)	(1,202,335)
Balance at December 31, 2018	**45,585,737**	**6,521,512**	**232,616**	**-**	**-**	**2,186,475**	**2,043,299**	**(4,375)**	**(10,829,931)**	**149,596**

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

SPONSORSONE INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income (loss) for the period	**(4,124,071)**	(1,197,960)
Adjustments for:		
Depreciation	**26,241**	14,560
Share-based compensation	**786,651**	1,286,000
Gain on settlement of debt	**53,667**	(1,746,080)
Accrued interest	**11,238**	3,500
Foreign exchange	**(3,852)**	(8,033)
Loss on aquistion	**1,458,720**	-
HST assessments	**(48,762)**	194,994
Change in non-cash operating working capital		
Other receivables & Prepaids	**(4,228)**	-
Accounts payable and accrued liabilities	**932,863**	58,504
HST/GST Payable	**(76,279)**	(10,057)
	(987,812)	(1,404,572)
Cash flows from financing activities:		
Proceeds from private placement, net	**422,238**	15,000
Proceeds from short-form prospectus, net	**-**	1,856,416
Proceeds from the issuance of convertible note payable	**66,415**	-
Proceeds from issuance of special warrants, net	**-**	254,087
Proceeds from the exercising of warrants	**18,750**	18,750
Payment of long-term debt	**-**	(245,466)
	507,403	1,898,787
Cash flows from investing activities:		
Investment in property and equipment	**(12,850)**	(61,181)
	(12,850)	(61,181)
Increase (decrease) in cash and cash equivalents	**(493,259)**	433,034
Cash and cash equivalents, beginning of year	**493,494**	60,460
Cash and cash equivalents, end of year	**235**	493,494

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

SponsorsOne Inc. (the "Company" or "SponsorsOne") was incorporated under the laws of the Province of Ontario on March 9, 1965. Over the years, the Company has changed its name several times and currently operates as SponsorsOne, Inc. The registered office is located at 2 Campbell Drive, #307C, Uxbridge, ON L9P 1H6. References to SponsorsOne or the Company include the other names the company has operated under.

MXM Nation Inc. ("MXM") was incorporated on February 2, 2005 under the Business Corporations Act of Ontario, Canada. On December 19, 2013, MXM completed a reverse takeover transaction of SponsorsOne. For accounting purposes, MXM is considered the acquirer and SponsorsOne the acquire.

SponsorsOne Media, Inc., was incorporated under the laws of the State of Delaware United States of America, on January 9, 2018, and is a wholly owned subsidiary of SponsorsOne, Inc. The primary office of SponsorsOne Media, Inc. is located at South 8514 Sagewood Road, Spokane, Washington 99223.

The Company is an early stage technology company developing a cloud based social sponsorship platform. This cloud-based platform called "SponsorsCloud" is designed to connect and facilitate one-to-one engagement between corporations and users within social networks.

These consolidated financial statements were authorized by the Board of Directors of the Company on July 14, 2020.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced negative cash flows from operations since inception. In the year ending December 31, 2019, the Company has generated a net loss $4,124,071 and had a working capital deficit of $1,192,059.

The Company has relied on financing from its shareholders and officers as well as equity raises to fund operations to date. Full implementation of the Company's business plan will require additional debt or equity financing and there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management recognizes that the Company has insufficient capital to continue operations for the coming twelve months without additional investment capital and there are continuing uncertainties regarding the costs of operations and the timing of revenues. These material uncertainties may cast significant doubt upon the Company's ability to realize its assets and discharge its liabilities in the normal course of business and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management believes that it can generate and/or raise enough funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing twelve months as they fall due.

Accordingly, these consolidated financial statements do not reflect adjustments or classifications which might be necessary if the Company was not able to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC").

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis using accounting policies and methods consistently applied over the periods presented.

c) Functional currency

The Company's functional and reporting currency as determined by management, is the Canadian dollar ("CAD"), which is the Company's presentation currency. As at December 31, 2019, the functional currency of the Company's wholly owned subsidiary, SponsorsOne Media Inc., was determined to be the United States dollar. The functional currency of all other subsidiaries as at December 31, 2019 were determined to be the Canadian dollar ("CAD").

d) Basis of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, MXM, NFU Inc., SponsorsOne Media, Inc and Verve Beverage Company. All intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date of acquisition or incorporation, that being the date on which the Company has power to govern the financial and operating policies of an entity to obtain benefits from its activities and continue to be consolidated until the date such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies in all material respects.

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities, revenue and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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 further periods if the review affects both current and future periods.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to, impairment of assets and the useful life of capital assets, the calculation of the fair value of share based payments, provisions for income taxes, assessing if the acquisition of a company qualifies as a business combination, assessing the classification and valuation of convertible debt and the assessment of the going concern assumption and functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Standards adopted during the period

IFRS 16 - Leases - In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers.

The Company's adoption of IFRS 16 did not have a material financial impact upon the consolidated financial statements as they are not a party to any leases under the scope of the standard.

g) Standards issued but not yet effective

The International Accounting Standards Board ("IASB") has issued the following accounting standards which have not yet been adopted by the Company:

Amendment to IFRS 3 – Business Combinations

On October 22, 2018, the IASB issued Definition of a Business (Amendments to IFRS 3: Business Combinations). The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments to IFRS 3 – Business Combinations may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill. The Company does not expect any impact to the financial statements as a result of its adoption of the amendments to IFRS 3.

h) Foreign currency translation

Transactions in foreign currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end exchange rate with the resulting gains and losses being recognized in the consolidated statements of operations and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

The financial statements of foreign subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the end of the reporting period for assets and liabilities and the average exchange rates for the period for revenue, expenses and cash flows. Foreign exchange differences arising on translation are recognized in other comprehensive income (loss) and in the cumulative transaction adjustment in shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue

The Company's revenue is derived from the completion of a performance obligation outlined by the terms of a Brand Development Agreement entered into with the customer. Revenue is recognized once the performance obligation is satisfied and there is a reasonable expectation of collection.

Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1) Identify the contract with a customer
2) Identify the performance obligations in the contract
3) Determine the transaction price
4) Allocate the transaction price to the performance obligations in the contract
5) Recognize revenue when (or as) the entity satisfies a performance obligation

j) Capital assets

The Company records equipment at cost and provides for depreciation over the useful life of the assets using the straight-line method over 5 years for computer and office equipment and 15 years for marketing vehicle.

In the year of disposal, the resulting gain or loss is included in the statements of operations and comprehensive loss and the cost of the equipment retired or otherwise disposed and the related accumulated depreciation are eliminated from these accounts.

k) Research and development costs

Research costs are expensed as incurred. The Company has not capitalized development expenditures to date. An intangible asset may be recognized in future periods if the Company can demonstrate:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably of the expenditure during development.

l) Share-based compensation

The Company grants stock options and deferred stock units ("DSU's") to acquire common shares of the Company to directors, officers and employees. The Board of Directors grants stock options for periods of up to ten years, with vesting periods determined at its sole discretion and at exercise prices equal to or greater than the closing market price on the day preceding the date the options were granted. DSU's by their terms have no exercise price associated with them and the Board of Directors grants DSU's with vesting periods determined on a case-by-case basis.

The fair value of the options for employee services is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options using the graded vesting method. The fair value is recognized as an expense with the corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where the terms of a stock option are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of vested DSU's are calculated and recorded using the stock price on the grant date of DSU's, but only to the extent that the DSU's are vested. As additional DSU's vest according to their terms, additional compensation expense is recorded in the period when the shares vest. DSU's do bear an exercise price, do not convert into common shares and cannot be transferred or liquidated until the holder ceases to be a director, officer, employee or consultant of the Company.

Share-based payments for non-employee services are measured at the fair value of the goods or services received and are recorded at the date the goods or services are received or, if it is determined the fair value of the goods or services cannot be reliably measured, at the fair value of the equity instruments issued.

m) Loss per share

Basic income (loss) per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive.

n) Income tax

Income tax expense consists of current and deferred tax expense. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that enough taxable earnings will be available to allow all or part of the asset to be recovered.

o) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Below is a summary showing the classification and measurement bases of the Company's financial instruments.

Classification	IFRS 9
Cash and cash equivalents	FVTPL
Other receivables	Amortized Cost
Accounts payable and other liabilities	Amortized Cost
Convertible note payable	Amortized Cost
Convertible note payable – conversion feature	FVTPL
Long-term debt	Amortized Cost

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

ii. Investments recorded at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis.

iii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows, and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected credit loss impairment model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Financial instruments at fair value through profit and loss

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount reflected above represents the Company's maximum exposure to credit risk for the other receivables. As at December 31, 2019 and 2018, the Company did not hold financial instruments recorded at fair value that would require classification within the fair value hierarchy, except for cash and cash equivalents (Level 1) and convertible note payable – conversion feature (Level 2). The carrying value of the financial instruments noted above approximate their fair value due to the short-term nature of these instruments. The carrying value of the long-term debt also approximates its fair value.

p) Conversion options in convertible note payable

An equity conversion feature embedded in a contract about a convertible loan granted to the Company is accounted for as equity only when it will exclusively be settled by the entity delivering a fixed number of its own equity shares in exchange for a fixed amount of cash (the 'fixed-for-fixed criterion').

Where the debt obligation in a convertible loan is denominated in a currency different from the trading currency of the shares of the Company, the consideration payable under the derivative is not fixed in the functional currency of the Company so that the fixed-for-fixed criterion is not fulfilled and the conversion feature fails the definition of equity.

In that case, the conversion option embedded in a convertible loan facility is considered an embedded derivative financial liability not closely related to the host loan agreement and is recognized as a financial liability at FVTPL. Any subsequent changes in the fair value of the conversion option are recognized in the consolidated statements of operations and comprehensive loss under Finance expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Impairment of non-financial assets

The Company reviews its tangible assets for indications of impairment at the end of each reporting period or when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the assets belong. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased by the revised estimate of its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of such impairment loss is also recognized in profit or loss.

3. Acquisition of Verve Beverage Company

On November 1, 2019, the Company acquired all the issued and outstanding shares of Verve Beverage Company ("VBC"). Per the terms of the agreement, the Company is to issue in escrow 47,000,000 shares in the Company of which 20% are to be released from escrow on closing and the remaining are released over a period of 6 months and 24 months after the closing date. Subsequent to year end, the Company and the previous owners of VBC entered into legal dispute due to misrepresentations in accordance with the share purchase agreement.

As part of the share purchase agreement for the acquisition, the Company issued 9,400,000 shares in the company valued at $940,000 (note 9) and cancelled all of the remaining shares held in escrow. As VBC did not meet the definition of a business per IFRS 3, the acquisition has been accounted for as an asset acquisition, whereby the Company is considered to issue shares in return for the net assets of VBC at their fair value. On the acquisition date, the Company also recognized $518,720 of accounts payable representing VBC's net assets and an intangible asset with a value of $1,458,720 representing a license.

Subsequent to the acquisition and in connection with the legal disputes noted above, the license was impaired to $nil and an impairment loss of $1,458,720 is included in the statements of operations and comprehensive loss as a loss on acquisition.

Subsequent to year end, the legal dispute is still on-going.

4. CAPITAL ASSETS

		Electronic equipment		Marketing vehicle		Total
Cost						
At December 31, 2017	$	5,608	$	219,596	**$**	**225,204**
Additions for the period		61,181		-	**$**	**61,181**
Foreign currency translation		3,766		-	**$**	**3,766**
Balance at December 31, 2018	$	70,555	$	219,596	**$**	**290,151**
Additions for the period		-		12,850		**12,850**
Foreign currency translation		(8,722)		-		**(8,722)**
Balance at December 31, 2019	**$**	**61,833**	**$**	**232,446**	**$**	**294,279**
Accumulated depreciation						
At December 31, 2017	$	5,608	$	112,222	**$**	**117,830**
Additions for the period		2,057		12,503		**14,560**
Foreign currency translation		108		-		**108**
Balance at December 31, 2018	$	7,773	$	124,725	**$**	**132,498**
Additions for the period		12,634		13,607		**26,241**
Foreign currency translation		(5,979)		-		**(5,979)**
Balance at December 31, 2019	**$**	**14,428**	**$**	**138,332**	**$**	**152,760**
Net book value						
At December 31, 2019	**$**	**47,405**	**$**	**94,114**	**$**	**141,519**
At December 31, 2018	$	62,782	$	94,871	$	157,653

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

As at,		**December 31, 2019**		December 31, 2018
Accounts payable	**$**	**907,956**	$	212,803
Accrued liabilities		**168,108**		89,876
	$	**1,076,064**	$	302,679

During the year ended December 31, 2019, the Company entered into debt settlement agreements to settle various amounts of accounts payable in the Company. The Company issued a total of 13,110,086 shares (note 9) to settle $683,698 of accounts payable and recorded a loss on settlement of $53,667 included in the Statements of Operations and Comprehensive Loss.

During the year ended December 31, 2018, the Company reached settlement agreements with many of its vendors resulting in reclassification of $154,271 of accounts payable to current and long-term debt (note 7), and the issuance of 400,000 shares with a value of $84,242. Some settlement agreements also included reduced payment terms. Total gain on debts settled during the year totaled $1,746,080 and was recorded as other income in the year ended December 31, 2018.

6. HST PAYABLE

On April 28, 2018, the Corporation received a Notice of (Re) Assessment (the "HST Assessment") from Canada Revenue Agency regarding GST / HST filings for the period from July 1, 2015 to December 31, 2017, which resulted in an accrual of HST owing of $194,994 included in HST assessment in the statements of operations and comprehensive loss. In addition, the company wrote off an additional HST receivable balance of $81,059 related to debt settlements that occurred during the year. As at December 31, 2018, the balance in HST Payable includes the disputed amount less additions for HST incurred in the year that have not been collected.

On May 30, 2019, the Canada Revenue Agency review was completed and the Company recorded a reversal of $48,762 relating to the accrual of HST owing in 2018 noted above. As at December 31, 2019, the balance in HST Payable includes the final amount owing from the assessment, less additions for HST incurred in the period and have not been collected.

7. LONG-TERM DEBT AND LONG-TERM DEBT

In connection with debt settlements negotiated during the fiscal year 2018, the Company entered into agreements with certain vendors holding accounts payable to convert these accounts payables into $154,271 of long-term notes payable, representing the new settlement amount (see note 5 for more details on the settlement). The loans mature on June 15, 2021 and bear interest at 12% per annum. During 2019, the debt holder extended the maturity date as well as all original repayments of payments and interest by one year.

As at December 31, 2019 and 2018, $50,000 of this long-term debt remained outstanding. The current portion of long-term debt consisting of principal payments due over the twelve-month period ending December 31, 2019 and 2018 total $26,389. Interest expense on the note for 2019 is $5,500 (2018 - $3,500) and is included under finance expenses in the consolidated statements of operations and comprehensive loss. Interest payable as at December 31, 2019 is $9,000 (2018 - $3,500) is included in accounts payable and accrued liabilities.

Balance December 31, 2017		137,695
Interest		2,241
Payments		(244,207)
Additions		154,271
Balance December 31, 2019 and 2018	$	50,000

The following table summarizes the payments and interest payable for the next three years:

As at December 31, 2019	2022	2021	2020
Payments due within one year	$ 8,333	$ 15,278	$ 26,389

8. CONVERTIBLE NOTE PAYABLE

During the fiscal year 2019, the Company raised total proceeds of $64,500 (US$50,000) related to the issuance of unsecured convertible debentures (the "Debentures"). The Debentures have a maturity date of 180 days after closing and bear interest at a rate of 15% per annum, payable semi-annually in arrears, 180 days after the closing date. The holder of the Debentures will be entitled to convert all or part the principal amount of the Debentures into units ("Units") of the Company at a price of USD$0.10 per Unit at any time prior to the close of business on the tenth business day immediately preceding the Maturity Date. The Units will be comprised of one common share and a one-half warrant. Each whole warrant will be exercisable into one (1) common share at an exercise price of USD$0.20 per common share.

The conversion feature of the Debentures meets the definition of a derivative liability instrument as the conversion feature is denominated in a currency other than the Company's functional currency, and as such does not meet the fixed for fixed criteria.

8. CONVERTIBLE NOTE PAYABLE (continued)

The fair value of the conversion feature on the recognition date of the Debentures was calculated to be $14,800. The valuation of the conversion feature was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.49%, an expected dividend yield of 0%, volatility rate of 156%, and an expected life of 0.5 years. The value of the conversion feature as at December 31, 2019 was $nil. Included in finance expenses in the consolidated statements of operations and comprehensive loss is a fair value gain on revaluation of the conversion feature of $14,800 and accretion expense of $14,800.

As at December 31, 2019, the value of the Debentures carried at amortized cost is $70,238 ($54,253 USD) and accrued $5,738 ($4,253 USD) included in finance expenses in the consolidated statements of operations and comprehensive loss.

9. SHARE CAPITAL

Authorized:

The Company is authorized to issue an unlimited number of common shares with no par value.

Issued:

As at December 31, 2018, a total of 45,585,727 shares of common stock are issued and outstanding.

(i) During the year ended December 31, 2018, a total of 375,000 warrants were exercised at $0.05, netting the Company $18,750 in capital. The warrants exercised had a value of $7,125 transferred from warrant reserve to share capital.

(ii) On July 30, 2018, the Company closed a public offering of 13,994,182 units (including conversion of the Special Warrants described below) at $0.18 per unit for aggregate offering proceeds of $2,518,953. After payment of commissions and offering expenses, the Company netted $2,110,503 from the offering. Each unit included one share of common stock and a warrant to purchase one-half share of common stock at an exercise price of $0.30 per whole share. A total of 13,994,182 shares of stock were issued upon closing the public offering and an additional 156,843 penalty shares were issued to the holders of the Special Warrants due to delays in closing the public offering.

(iii) On May 16, 2018, the Company completed an offering of Special Warrants which convert by their terms into units in the public offering at the time of closing. A total of 1,568,440 Special Warrants were sold at $0.18 per share for an aggregate of $282,319. Commissions were paid in the amount of $28,232 to the selling brokers and the net proceeds to the Company were $254,087. On July 30, 2018, the Special Warrants were converted to common stock and warrants and no additional consideration was received by the Company at the time of conversion.

(iv) On January 5, 2018, the Company completed a non-brokered private placement for gross proceeds of $105,000 through the issuance of 2,625,000 units (the "Units") at a price of $0.04 per Unit. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.05 per common share for a period of 24 months from the closing of the private placement. $90,000 of the gross proceeds were collected in the prior year. The remaining $15,000 of the gross proceeds were collected in the current year.

9. SHARE CAPITAL (continued)

As at December 31, 2019, a total of 76,999,590 shares of common stock are issued and outstanding.

(v) During the year ended December 31, 2019, a total of 375,000 warrants were exercised at $0.05, netting the Company $18,750 in capital. The warrants exercised had a value of $7,125 transferred from warrant reserve to share capital.
During the year ended December 31, 2019, the Company issued a total of 13,110,086 shares in connection with debt settlement agreements entered into (note 5).

(vi) On November 1, 2019, the Company issued 9,400,000 common shares with a value of $940,000 in connection with the acquisition of Verve Beverage Company (note 3)

(vii) On November 20, 2019, the Company issued 8,528,767 common shares at a price of $0.05 per share for total proceeds of $426,328. In connection with the share issuance the Company paid $4,500 in share issue costs and issued 84,000 broker warrants with a value of $2,831 (note 11).

Shares to be issued

Included in the Company's shareholders' deficit is a balance of $232,616 classified as shares to be issued. The amount relates the value of shares to be issued which was recognized from the aacquisition of NFU Inc. (NFU) in 2015. As part of the acquisition of NFU, the previous owners of NFU must complete certain obligations as set out in the agreement before remaining shares are issued. As at December 31, 2019 and 2018, these obligations have yet to be completed and as such, the shares remain "to be issued".

10. SHARE-BASED PAYMENT RESERVE

Share Option Plan

The Board of Directors of the Company adopted a stock option plan (the "Plan") whereby the aggregate number of common shares reserved for issuance under the Plan, including common shares reserved for issuance under any other share compensation arrangement granted or made available by the Company from time to time may not exceed 15% of the Company's issued and outstanding common shares. The Plan is administered by the Board of Directors and grants made pursuant to the Plan must always comply with the policies of the Canadian Stock Exchange and the Plan.

The terms of any options granted under the Plan are fixed by the Board of Directors and may not exceed a term of ten years. The exercise price of the options granted under the Plan is set at the last closing price of the Company's common shares before the date of grant.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

10. SHARE-BASED PAYMENT RESERVE (continued)

		Number of Options	Weighted average exercise price ($)
Balance at December 31, 2017	**$**	**1,885,000**	**0.39**
Issued January 10, 2018		1,450,000	0.30
Issued August 7, 2018		2,000,000	0.18
Issued August 7, 2018		750,000	0.22
Issued October 12, 2018		50,000	0.18
Forfeited		(225,000)	0.23
Balance at December 31, 2018	**$**	**5,910,000**	**0.28**
Issued April 22, 2019		700,000	0.09
Issued April 26, 2019		300,000	0.12
Issued May 1, 2019		100,000	0.10
Issued Deember 9, 2019		8,600,000	0.18
Balance at December 31, 2019	**$**	**15,610,000**	**0.21**

On January 10, 2018, the Company granted 1,450,000 stock options with an exercise price $0.30 per share for a period of 10 years from the date of grant. The January 10, 2018 options were fully vested on issuance. On August 7, 2018, the Company granted 2,000,000 options with an exercise price of $0.18 per share for a period of 10 years from the date of grant. The August 7, 2018 options were fully vested upon issuance. On September 24, 2018, the Company granted 750,000 options with an exercise price of $0.22 per share for a period of 10 years from the date of grant. 50% of the September 24, 2018 options vested upon issuance and the balance vest on August 1, 2019. On October 12, 2018, the Company granted 50,000 stock options with an exercise price $0.18 per share for a period of 10 years from the date of grant. 10% October 12, 2018 options vested on issuance, 30% vest on the 1st anniversary, 30% on the second anniversary and the remaining 30% on the third anniversary.

On April 22, 2019, the Company granted 700,000 stock options with an exercise price $0.09 per share for a period of 10 years from the date of grant. 610,000 of the April 22, 2019 options vested on issuance, 30,000 vest on the 1st anniversary, 30,000 on the second anniversary and the remaining 30,000 on the third anniversary. On April 26, 2019, the Company granted 300,000 stock options with an exercise price $0.12 per share for a period of 10 years from the date of grant. The April 26, 2019 options were fully vested on issuance. On May 1, 2019, the Company granted 100,000 stock options with an exercise price $0.10 per share for a period of 10 years from the date of grant. 10% May 1, 2019 options vested on issuance, 30% vest on the 1st anniversary, 30% on the second anniversary and the remaining 30% on the third anniversary. On December 9, 2019, the Company granted 8,600,000 stock options with an exercise price $0.18 per share for a period of 10 years from the date of grant. 10% December 9, 2019 options vested on issuance, 30% vest on the 1st anniversary, 30% on the second anniversary and the remaining 30% on the third anniversary.

For the year ended December 31, 2019, $207,214 (2018 - $903,000) of stock-based compensation expense was recorded for the fair value of stock options vested.

10. SHARE-BASED PAYMENT RESERVE (continued)

The following table summarizes the exercise price of outstanding and exercisable stock options as at December 31, 2019:

Expiry date	Number of Options	Exercise Price	Remaining Life (Years)	Number of Options Exercisable
January 1, 2023	610,000	$ 0.15	3.01	610,000.00
January 27, 2023	50,000	$ 0.15	3.08	50,000.00
July 1, 2023	50,000	$ 0.30	3.50	50,000.00
July 24, 2023	50,000	$ 0.30	3.56	50,000.00
July 26, 2023	50,000	$ 0.30	3.57	50,000.00
January 1, 2024	200,000	$ 1.00	4.01	200,000.00
February 27, 2024	50,000	$ 0.95	4.16	50,000.00
January 19, 2025	25,000	$ 0.89	5.06	25,000.00
May 29, 2025	100,000	$ 0.60	5.41	100,000.00
April 28, 2026	25,000	$ 0.15	6.33	25,000.00
April 29, 2026	50,000	$ 0.15	6.33	50,000.00
July 4, 2026	500,000	$ 0.31	6.51	500,000.00
January 10, 2028	1,350,000	$ 0.30	8.03	1,350,000.00
August 1, 2028	750,000	$ 0.22	8.59	750,000.00
August 7, 2028	2,000,000	$ 0.18	8.61	2,000,000.00
October 12, 2028	50,000	$ 0.18	8.79	20,000.00
April 22, 2029	700,000	$ 0.09	9.32	610,000.00
April 26, 2029	300,000	$ 0.12	9.33	300,000.00
May 1, 2029	100,000	$ 0.10	9.34	10,000.00
December 9, 2029	8,600,000	$ 0.18	9.95	860,000.00
Balance, December 31, 2019	**15,610,000**	**$ 0.21**	**8.88**	**7,660,000.00**

The fair values of stock options issued in 2019 were estimated using the Black-Scholes option pricing model with the following assumptions:

	Options December 9, 2019	Options May 1, 2019	Options April 26, 2019	Options April 22, 2019
Assumptions				
Volatility	178%	177%	177%	177%
Risk-free interest rate	1.54%	1.61%	1.59%	1.66%
Expected life (years)	10	10	10	10
Dividend yield	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%
Exercise Price	$0.18	$0.10	$0.12	$0.09
Share Price	$0.04	$0.10	$0.12	$0.09

10. SHARE-BASED PAYMENT RESERVE (continued)

The fair values of stock options issued in 2018 were estimated using the Black-Scholes option pricing model with the following assumptions:

	Options September 24, 2018		Options August 7, 2018		Options January 10, 2018		Options October 12, 2018	
Assumptions								
Volatility		177%		177%		183%		177%
Risk-free interest rate		2.42%		2.36%		2.16%		2.51%
Expected life (years)		9.86		10		10		10
Dividend yield		Nil		Nil		Nil		Nil
Forfeiture rate		0%		0%		0%		0%
Exercise Price	$	0.22	$	0.18	$	0.30	$	0.19
Share Price	$	0.22	$	0.18	$	0.30	$	0.19

Deferred Share Units

The Board of Directors of the Company adopted a deferred share unit plan (the "DSU Plan"). The DSU Plan is administered by the Board of Directors and grants made pursuant to the Plan must at all times comply with the policies of the Canadian Stock Exchange and the Plan.

The terms of any DSU's granted under the DSU Plan are fixed by the Board of Directors. Deferred Share Unit's (DSU's) have a right to share in common dividends if any are authorized after the DSU's become vested in accordance with their terms. DSU's have no voting rights. Upon cessation of service, the holder of a DSU may request that the DSU's be redeemed by the Company at the then current market price for the stock, at which time the Company may redeem the DSU's either by cash payment or, upon regulatory approval, by delivery of shares of stock of the Company equivalent to the number of shares specified in the DSU. Any DSU's not vested at the time of a cessation of service will expire. If any of the DSU's expire prior to vesting, the compensation expense will be reduced.

The Company issued 500,000 deferred share units on August 1, 2018 and an additional 5,000,000 deferred share units on August 7, 2018. Each DSU entitles the holder to receive the equivalent value of the shares of stock contained in the DSU grant at the time such holder ceases to be an employee or consultant for the Company. The DSU grants issued on August 1, 2018 were subject to vesting requirements under which 50% of the DSU's vested upon issuance and the remaining 50% 90 days after issuance. The DSU grants issued on August 7, 2018 were subject to vesting requirements under which an aggregate of 500,000 DSU's vested on the date of the grant and 1,500,000 vests at the completion of each year of service for the succeeding three years. On April 22, 2019, the Company modified 1,000,000 DSU's issued in 2018 to accelerate their vesting terms resulting in the DSU's to vest immediately on that date. During 2019, 1,500,000 of the August 1, 2018 DSU's were forfeited by the holders.

On April 22, 2019 and October 30, 2019, the Company issued 500,000 and 2,000,000 DSU's respectively. Both issuances vested immediately. On December 9, 2019, the Company issued 8,000,000 DSU's. 10% December 9, 2019 DSU's vested on issuance, 30% vest on the 1st anniversary, 30% on the second anniversary and the remaining 30% on the third anniversary.

The fair value of the DSU's granted in 2019 and 2018 were valued based on the fair market value of one common share on the date of issuance.

As of December 31, 2019 14,250,000 DSU's were outstanding (2018 – 5,250,000) and 5,850,000 DSU's were exercisable (2018 – nil) . For the year ended December 31, 2019, $579,437 (2018 - $383,000) of stock-based compensation expense was recorded for the fair value of DSU's vested.

11. WARRANT RESERVE

	Number of Warrants	Weighted average exercise price ($)
Balance, December 31, 2017	**9,141,332**	**0.26**
Warrants issued January 5, 2018	2,625,000	0.05
Warrants issued May 16, 2018	156,844	0.18
Warrants issued July 30, 2018	6,997,091	0.30
Warrants issued July 30, 2018	1,842,574	0.18
Warrants exercised	(375,000)	0.05
Balance, December 31, 2018	**20,387,841**	**0.24**
Warrants issued November 20, 2020	84,000	0.05
Warrants exercised January 5, 2020	(375,000)	0.05
Balance, December 31, 2019	**20,096,841**	**0.23**

(a) On July 5, 2016, 6,790,784 warrants were issued as part of the private placement and debt settlements. On July 4, 2018, the expiry date of these warrants was extended for one year to July 4, 2019. On June 19, 2019, the Company extended the expiry date of these warrants to July 4, 2020.

(b) On January 5, 2018, 2,625,000 warrants were issued as part of the private placement. On August 29, 2018, warrants to purchase 125,000 of these shares at $0.05 per share were exercised. On October 23, 2018, warrants to purchase an additional 250,000 of these shares at $0.05 per share were exercised. In the aggregate, the company received $18,750 for the warrants.

(c) On May 16, 2018, 1,568,440 Special Warrants were issued as part of a private placement in connection with a planned public offering which closed on July 30, 2018. On July 30, 2018, the Special Warrants were converted into Units in the public offering (Note 9). The Company also issued 156,844 brokers units under the Special Warrant offering. The brokers' units are currently exercisable at $0.18 per share and expire on May 16, 2020. These units are exercisable into one common share and one-half of one common share purchase warrant. Each whole purchase warrant is exercisable into one common share of the Company at a price of $0.30 per share.

(d) On July 30, 2018, the Company closed its public offering resulting in issuance of 6,212,871 warrants from the public offering exercisable at $0.30 per share and 784,220 warrants from conversion of the Special Warrants, also exercisable at $0.30 per share. These warrants, aggregating 6,997,091, expire on July 30, 2019. On June 19, 2019, the Company extended the expiry date of these warrants to July 30, 2020.

(e) On July 30, 2018, in connection with the closing of its public offering, the Company issued 1,842,574 brokers' units exercisable at $0.18 per share. The brokers' units are currently exercisable and expire on July 30, 2020. These units are exercisable into one common share and one-half of one common share purchase warrant. Each whole purchase warrant is exercisable into one common share of the Company at a price of $0.30 per share.

(f) On November 20, 2019, in connection with the common shares issued, the Company issued 84,000 brokers' warrants with each warrant exercisable into a common share of the Company at $0.05 per warrant. The brokers' warrants expire on November 20, 2020.

11. WARRANT RESERVE (continued)

The following is a summary of warrants as at December 31, 2019:

Expiry date	Number of Warrants	Exercise Price	Remaining Life (Years)
July 4, 2020	6,790,784	$ 0.30	0.51
May 8, 2020	2,350,548	$ 0.15	0.35
January 5, 2020	1,875,000	$ 0.05	0.01
July 30, 2020	6,997,091	$ 0.30	0.58
May 16, 2020	156,844	$ 0.18	0.38
July 30, 2020	1,842,574	$ 0.18	0.58
November 20, 2020	84,000	$ 0.05	0.89
Balance, December 31, 2019	**20,096,841**	**$ 0.23**	**0.42**

The fair values of warrants issued in 2019 were estimated using the Black-Scholes option pricing model under the following assumptions:

Assumptions	Broker Warrant November 20, 2019
Volatility	194.81%
Risk-free interest rate	1.540%
Expected life (years)	1
Dividend yield	Nil
Forfeiture rate	0%
Exercise price	$0.05
Share price	$0.05
Fair value	$2,831

The fair values of warrants issued in 2018 (excluding the Special Warrants) were estimated using the Black-Scholes option pricing model under the following assumptions:

Assumptions	Warrant July 30, 2018	Broker Unit July 30, 2018	Broker Unit May 16, 2018	Warrant January 5, 2018
Volatility	190.94	203.05%	240.85%	236.91%
Risk-free interest rate	2.05%	2.05%	2.01%	1.75%
Expected life (years)	1	2	2	2
Dividend yield	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%
Exercise price	$0.30	$0.18	$0.18	$0.05
Share price	$0.19	$0.18	$0.18	$0.21
Fair value	$568,700	$282,700	$25,800	$49,800

The Special Warrants were recorded at the value of the net offering proceeds received.

12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the period ended December 31, 2019 was based on the loss attributable to common shareholders of $4,124,071 (2018 – loss of $1,197,960) and the weighted average number of common shares outstanding of 50,783,069 (2018 – 36,619,938). Diluted loss per share did not include the effect of stock options DSU's and warrants as they are anti-dilutive.

13. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

		2018		**2017**
Net loss before recovery of income taxes	$	**4,124,071**	$	1,197,960
Expected income tax recovery	$	**(1,092,879)**	$	(317,459)
Differences in foreign tax rates		**4,283**		24,494
Book to filing adjustments		**-**		(5,196)
Share based compensation and non-deductible expenses		**607,236**		414,820
Share issuance costs		**(1,113)**		(111,746)
Additional taxable income		**-**		-
Change in tax benefits not recognized		**482,473**		(4,913)
Income tax expense	$	-	$	-

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2018		2017
Property, plant and equipment	$	**14,428**	$	2,165
Intangible asset		**56,593**		74,889
Share issuance costs		**256,369**		337,806
Non-capital losses carried forward – Canada		**8,848,512**		6,989,530
Non-capital losses carried forward – US		**507,073**		441,847

The Canadian non-capital loss carry-forward expires as noted in the table below. Share issue and financing costs will be fully amortized in 2023. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company has $8,848,512 Canadian non-capital income tax losses expiring between 2027 and 2039.

The Company has $507,073 US non-capital income tax losses can be carried forward indefinitely.

14. RELATED PARTY TRANSACTIONS

The revenue earned by the Company during the fiscal year 2019 was from a related party Go Nutraceuticals Inc. ("Go"). Gary Bartholomew, a member of the Company's board of directors is also a director for Go.

During the year ended December 31, 2019, officers, directors, and key management personnel received compensation totaling $579,965 (December 31, 2018 - $1,176,388 Management compensation has been included in the marketing, general and administrative account:

As at	**December 31, 2019**	December 31, 2018
Consulting fees	**$ 252,188**	$ 271,103
Accounting fees	**119,855**	130,085
Share-based compensation	**207,992**	775,200
	$ 579,965	$ 1,176,388

As at December 31, 2019, included in accounts payable and accrued liabilities is $164,759 (December 31, 2018 – $50,693) due to related parties for consulting services.

During the year ended December 31, 2019, the Company entered into settlement agreements, including $124,000 that was payable to current related parties. These amounts were settled for consideration totaling $130,000. During the year ended December 31, 2018, the Company entered into settlement agreements, including $896,269 that was payable to current and previous related parties. These amounts were settled for payments totaling $78,271.

In addition to above, during the year ended December 31, 2018, fees totaling $8,150 were paid to a relative of the President and CEO of the Company for consulting services.

15. FINANCIAL RISK FACTORS

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and other receivables. Management believes that the credit risk with respect to cash is remote as it maintains accounts with highly rated financial institutions. Management deems the credit risk with respect to its other receivables to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as a result of a downturn in stock market conditions, generally, or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2019, the Company had a cash balance of $235 (December 31, 2018 - $493,494) to settle current liabilities of $1,196,522 (December 31, 2018 - $477,940) (Note 1).

All the Company's financial liabilities classified as current liabilities have contractual maturities of less than one year and are subject to normal trade terms. The Company cannot ensure there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's cash holdings. The Company is currently implementing its business plan to generate recurring revenue and is concurrently seeking additional sources of funding to settle short-term liabilities, and short-term cash requirements.

FINANCIAL RISK FACTORS (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities.

Due to the short-term nature of the Company's financial instruments paired with fixed interest rates for which are imposed on the Company, fluctuations in market rates do not have a significant impact on the estimated fair values.

Foreign currency risk

The Company's functional currency is the Canadian Dollar and major purchases are transacted in Canadian and US dollars. The Company funds certain operations and administrative expenses in the United States on a cash basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada and maintains a checking account in the US that is funded primarily with transfers from its Canadian accounts. Management believes the foreign exchange risk derived from currency conversions is not significant to its operations and therefore does not hedge its foreign exchange risk. Sensitivity to a plus or minus 5% change in the foreign exchange rate of the US dollar compared to the Canadian dollar would affect the Company's equity by $ 441 (2018 – $7,073) with all other variables held constant.

Other price risks

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risks.

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital, defined as shareholders' equity, are to safeguard the Company's ability to continue as a going concern (Note 1) in order to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors has not yet established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. There have been no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

17. SEGMENT REPORTING

Operating segments were identified based on internal reporting reviews that are performed. Two segments were identified based on the operational activities and the reporting structure of the Company. Assets, liabilities, revenue and operating expenses within each segment are as follows:

As at December 31, 2019

	Canada	United States	Total
Assets	$ 98,479	$ 47,503	$ 145,982
Liabilities	1,191,447	28,686	1,220,133
Revenue	-	28,600	28,600
Operating expenses	2,515,037	106,603	2,621,640

18. SUBSEQUENT EVENTS

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian and U.S. government regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID19 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. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, and staff shortages, all of which may negatively impact the Company's business and financial condition.

On January 10, 2020, the Company issued 525,000 shares for cash proceeds of $26,500

On January 13, 2020 the Company announced that it will begin to trade on Over-the-counter markets exchange.

Subsequent to year end the Company issued 26,928,759 shares to settle $1,346,404 of outstanding accounts payable.

On April 27, 2020, the Company issued 500,000 shares from the exercise of 500,000 DSU's.

Subsequent to year end, the Company extended the expiry date of the following warrants: 2,350,548 warrants were extended May 8, 2021, 6,790,784 warrants were extended to July 4, 2020 and 6,977,091 warrants were extended to July 30, 2021.

Subsequent to year end, 2,031,844 warrants expired unexercised.

Subsequent to year end, the Company received a loan of $126,799 to be used for working capital purposes. The loan is non-interest bearing and has no maturity date.