QUINSAM CAPITAL CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Quinsam Capital Corporation:

Opinion

We have audited the financial statements of Quinsam Capital Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of (loss) income and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its 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 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 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.

Other Information

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 Patrycja Anna Kajda.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 28, 2020 — Licensed Public Accountants

MNP

QUINSAM CAPITAL CORPORATION
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	As at December 31, 2019	As at December 31, 2018
	$	$
Assets		
Cash	**674,266**	847,674
Receivables (Note 4)	**1,409,274**	2,175,263
Investments (Note 5)	**32,377,557**	45,323,137
Prepaid expenses	**6,042**	5,326
Total Assets	**34,467,139**	48,351,400
Liabilities		
Margin facility	**699,974**	-
Accounts payable and accrued liabilities (Notes 6 and 11)	**119,731**	964,799
Income tax payable (Note 12)	**888,861**	2,089,054
Deferred tax liability (Note 12)	**-**	1,864,694
Total Liabilities	**1,708,566**	4,918,547
Shareholders' Equity		
Share capital (Note 7)	**21,773,113**	22,934,751
Deferred share units reserve (Note 8)	**442,521**	-
Share-based payments reserve (Note 9)	**2,387,201**	1,685,939
Warrants reserve (Note 10)	**4,154,857**	6,185,142
Retained earnings	**4,000,881**	12,627,021
Total Shareholders' Equity	**32,758,573**	43,432,853
Total Liabilities and Shareholders' Equity	**34,467,139**	48,351,400

Nature of operations (Note 1)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors

"Roger Dent" (Director) **"Eric Szustak"** (Director)

The accompanying notes are an integral part of these financial statements

QUINSAM CAPITAL CORPORATION
STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Net Investment Revenue		
Net realized (loss) gains on disposals of investments (Note 5)	**(594,370)**	11,028,165
Net changes in unrealized (loss) gains on investments (Note 5)	**(12,003,454)**	5,692,488
	(12,597,824)	16,720,653
Other Income		
Interest and advisory services income	**2,560,033**	911,950
Expenses		
Stock-based compensation (Notes 8 and 9)	**808,350**	1,512,785
Professional fees (Note 11)	**538,221**	339,979
Allowance for expected credit losses (Note 4)	**206,556**	-
Salaries, bonus and other employment benefits (Note 11)	**170,201**	1,027,743
Interest expense	**77,868**	-
General and administrative	**44,490**	93,544
Transfer agent and filing fees	**32,994**	42,948
Advertising and promotional	**2,719**	37,987
	(1,881,399)	(3,054,986)
Net (Loss) Income Before Tax	**(11,919,190)**	14,577,617
Income tax (expense) – current (Note 12)	**(23,123)**	(2,089,054)
Income tax recovery (expense) – deferred (Note 12)	**1,864,694**	(1,864,694)
Other expenses	**-**	(33,074)
Net (Loss) Income and Comprehensive (Loss) Income	**(10,077,619)**	10,590,795
Net (Loss) Income per Share		
Basic (Note 7)	**(0.09)**	0.09
Diluted (Note 7)	**(0.09)**	0.09
Weighted Average Number of Shares Outstanding		
Basic (Note 7)	**115,516,549**	114,477,090
Diluted (Note 7)	**115,574,993**	120,810,949

The accompanying notes are an integral part of these financial statements

QUINSAM CAPITAL CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Share Capital		Reserves				
	Number of Shares	**Amount**	**Deferred Share Units**	**Share-Based Payments**	**Warrants**	**Retained Earnings**	**Total**
	#	**$**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2017	**93,522,986**	**13,251,814**	**-**	**246,446**	**3,510,745**	**2,598,251**	**19,607,256**
Issuance of dividends	-	-	-	-	-	(562,025)	(562,025)
Issuance of units from private placements (Note 7)	22,403,034	10,763,133	-	-	3,311,450	-	14,074,583
Share issue costs (Notes 7 and 9)	-	(1,671,488)	-	-	(415,994)	-	(2,087,482)
Repurchase of shares (Note 7)	(600,000)	(397,461)	-	-	-	-	(397,461)
Issuance on exercise of stock options (Note 9)	1,178,000	191,092	-	(73,292)	-	-	117,800
Issuance on exercise of warrants (Note 10)	2,188,624	797,661	-	-	(221,059)	-	576,602
Stock-based compensation (Note 9)	-	-	-	1,512,785	-	-	1,512,785
Net income and comprehensive income	-	-	-	-	-	10,590,795	10,590,795
Balance, December 31, 2018	**118,692,644**	**22,934,751**	**-**	**1,685,939**	**6,185,142**	**12,627,021**	**43,432,853**
Issuance of dividends	-	-	-	-	-	(578,806)	(578,806)
Repurchase of shares (Note 7)	(8,717,951)	(1,382,255)	-	-	-	-	(1,382,255)
Issuance of deferred share units (Note 8)	-	-	442,521	-	-	-	442,521
Issuance on exercise of stock options (Note 7)	1,198,000	220,617	-	(100,817)	-	-	119,800
Stock-based compensation (Note 9)	-	-	-	802,079	-	-	802,079
Expiry of warrants (Note 10)	-	-	-	-	(2,030,285)	2,030,285	-
Net loss and comprehensive loss	-	-	-	-	-	(10,077,619)	(10,077,619)
Balance, December 31, 2019	**111,172,693**	**21,773,113**	**442,521**	**2,387,201**	**4,154,857**	**4,000,881**	**32,758,573**

The accompanying notes are an integral part of these financial statements

QUINSAM CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Operating Activities		
Net (loss) income for the year	**(10,077,619)**	10,590,795
Adjustments for non-cash items:		
Stock-based compensation (Notes 8 and 9)	**808,350**	1,512,785
Net realized loss (gains) on disposals of investments (Note 5)	**594,370**	(11,028,165)
Unrealized loss (gains) on investments (Note 5)	**12,003,454**	(5,692,488)
Interest accrued on debenture investments (Note 4)	**(257,889)**	(622,169)
Allowance for expected credit losses (Note 4)	**206,556**	-
Foreign exchange (gain) loss	**(247,758)**	199,742
Income tax expense – current (Note 12)	**23,123**	-
Income tax (recovery) expense – deferred (Note 12)	**(1,864,694)**	1,864,694
	1,187,893	(3,174,806)
Changes in non-cash working capital:		
Receivable (Note 4)	**817,323**	25,870
Prepaid expenses	**(716)**	(3,267)
Accounts payable and accrued liabilities (Notes 6 & 11)	**(408,819)**	889,685
Income tax payable (Note 12)	**(1,223,316)**	2,089,054
Unearned interest revenue	**-**	(13,500)
	(815,528)	2,987,842
Net additions in investments		
Purchases of investments (Note 5)	**(15,331,364)**	(39,521,047)
Proceeds on disposition of investments (Note 5)	**15,926,878**	19,592,721
Funds drawn from margin facility	**699,974**	-
	1,295,488	(19,928,326)
Cash Flows from (used in) Operating Activities	**1,667,853**	(20,115,290)
Financing Activities		
Proceeds from private placements (Note 7)	**-**	13,139,610
Share issue costs (Note 7)	**-**	(1,152,509)
Repurchase of common shares (Note 7)	**(1,382,255)**	(397,461)
Proceeds from exercise of stock options (Note 7)	**119,800**	117,800
Proceeds from exercise of warrants (Note 7)	**-**	576,602
Issuance of dividends	**(578,806)**	(562,025)
Cash Flows (used in) from Financing Activities	**(1,841,261)**	11,722,017
Decrease in cash	**(173,408)**	(8,393,273)
Cash, beginning of year	**847,674**	9,240,947
Cash, end of year	**674,266**	847,674

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Quinsam Capital Corporation ("Quinsam" or the "Company") was incorporated under the Canada Business Corporations Act on March 18, 2004 in British Columbia. The Company is an investment and merchant banking firm focused on the small-cap market, with early-stage investments in the cannabis market. The Company's common shares are listed on the Canadian Securities Exchange (the "CSE") under the ticker symbol "QCA".

The Company is domiciled in Canada and its registered and records office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors (the "Board") of the Company on April 28, 2020.

(b) Basis of Presentation

These financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern, using the historical cost basis except for the revaluation of investments.

In addition, these financial statements have been prepared using the accrual basis of accounting.

(c) Basis of Consolidation

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are-deconsolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

The following are the criteria within IFRS 10 – Consolidated Financial Statements, which the Company used to evaluate and determine that it continues to meet the definition of an Investment Entity:

- Obtain funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measures and evaluates the performance of substantially all its investments on a fair value basis.

The Company has evaluated the above criteria and determine that Quinsam meets the definition of an Investment Entity. On the other hand, High Standard Royalty Corp. ("High Standard"), the investment entity which Quinsam had acquired in 2017, is not itself an investment entity and whose main purpose and activities are providing services relating to the Company's investment activities. As such, the Company had concluded that High Standard should be carried at fair value.

(d) Functional and Presentation Currency

These financial statements have been prepared in Canadian dollars ($), which is also the functional currency of the Company. The functional currency is the currency of the primary economic environment in which the Company operates.

2. BASIS OF PREPARATION (continued)

(e) Significant Accounting Judgments and Estimates

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Fair value of investment in securities not quoted in an active market or private company investments

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position, including shares, warrants, convertible debentures and loans investments, cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

Fair value of financial derivatives

Investments in warrants and conversion features of debentures that are not traded on a recognized securities exchange do not have readily available market values. When there are sufficient and reliable observable market inputs, a valuation technique is used.

Valuation of share-based compensation and share purchase warrants

Management determines the costs for share-based compensation and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment is used in applying the valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and share purchase warrants.

Income taxes

Income taxes and tax exposures recognized in the financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

2. BASIS OF PREPARATION (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

For accounts receivable, the Company applies the simplified approach as permitted by IFRS 9 – Financial Instruments ("IFRS 9"), whereby lifetime ECL are recognized based on aging characteristics and credit worthiness of customers. Specific provisions may be used where there is information that a specific customer's ECL have increased.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue

Realized gains (losses) on disposals of investments and unrealized gains (losses) on securities classified as FVTPL are reflected in the statements of (loss) income and comprehensive (loss) income on the transaction date and are calculated on an average cost basis. For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income or expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition.

Other investment income is recognized on the accrual basis and is considered operating income for cash flow purposes.

(b) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (1) those to be measured subsequently at FVTPL; (2) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (3) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at FVTPL, gains and losses are recorded in the statements of (loss) income and comprehensive (loss) income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Company's financial assets include cash, investments, and receivables excluding any sales tax amounts. The Company's financial liabilities include its margin facility and accounts payable and accrued liabilities.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payment of principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Expected credit loss impairment model

IFRS 9 introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's statements of (loss) income and comprehensive (loss) income from one (1) of its convertible debentures investments which matured during the year ended December 31, 2019 (see Note 4).

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.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the statements of (loss) income and comprehensive (loss) income.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at December 31, 2019, the Company did not have any financial assets at FVTOCI.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through the statements of (loss) income and comprehensive (loss) income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

Investments are measured at FVTPL and are derecognized when the rights to receive cash flows from the investments have expired. When the Company holds units of equity and debentures that are convertible into issuers' equity shares at the Company's option, the warrants component and the equity conversion feature are recognized using the relative fair value method, and subsequently measured at FVTPL based on the fair value of the shares.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

The Company's classification and measurements of financial assets and liabilities are summarized below:

	Classification	**Measurement**
Cash	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Margin facility	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Determination of fair value

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements 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 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – 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 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements:

i. Securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy (see Note 5).

ii. For options, warrants and conversion features of debentures which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model ("Black-Scholes") and the Monte Carlo simulation ("Monte Carlo") are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy (see Note 5).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Determination of fair value (continued)

iii. Convertible debentures and loans issued by investee companies are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes and Monte Carlo.

   The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financials instruments. These are included in Level 3 of the fair value hierarchy (see Note 5).

Private company investments

All privately held investments (including options, warrants and conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below. These are included in Level 3 of the fair value hierarchy (see Note 5).

The determination of fair value of the Company's privately held investments at other than initial cost, is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

The use of the valuation approaches described below may involve uncertainties and determinations based on management's judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a privately held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly traded companies when valuing privately held investments.

The fair value of a privately held investment may be adjusted if:

i. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

ii. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;

iii. The investee company is placed into receivership or bankruptcy;

iv. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;

v. Release by the investee company of positive/negative operational results; and

vi. Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Determination of fair value (continued)

Private company investments (continued)

Adjustments to the fair value of a privately held investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately held investments could be currently disposed of may differ from the carrying value assigned.

(c) Foreign Currency Translation

The Company invests from time to time on securities which are denominated in currencies other than Canadian dollars. On initial recognition, these investments are recorded by applying the foreign currency amount based on the spot exchange rate on the transaction date.

At the end of each reporting period, the investments are translated to the functional currency using the closing spot exchange rate. The resulting gain or loss is recorded as part of the net unrealized gain (loss) for the period in the statements of (loss) income and comprehensive (loss) income.

(d) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at December 31, 2019 and 2018, the Company had no material provisions.

(e) Income Taxes

Income tax expense comprises current and deferred income tax expense. Current and deferred taxes are recognized in net loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current income taxes

Current income taxes are 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 income taxes

Deferred income taxes are recorded for temporary differences at the date of the statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred income tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income Taxes (continued)

Deferred income taxes (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

(f) Share Capital

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity.

(g) Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

(h) Share-Based Payments Transactions

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received, or at the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using Black–Scholes. The fair value of equity-settled share-based compensation transactions are recognized as an expense with a corresponding increase in share-based payments reserve.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

For options that expire after vesting, the recorded value is transferred to retained earnings. Expired warrants are also transferred to retained earnings.

The Company also operates a deferred share unit plan (the "DSU Plan"). DSUs are equity-settled share-based payments. DSUs are measured at the fair value on the date of grant, based on the closing price of the Company's shares on the grant date. Share-based compensation is recognized over the vesting period with a corresponding credit to deferred share units reserve. Under IFRS, the Company's DSUs are classified as equity-settled share-based payment transactions as they are settled in common shares at the sole discretion of the Company.

(i) Basic and Diluted (Loss) Earnings per Share

Basic (loss) earnings per share ("EPS") is calculated by dividing the comprehensive (loss) income attributable to common shareholders by the weighted average number of common shares outstanding in the period, adjusted for shares held in escrow that are subject to contingent release based on conditions other than the passage of time. For all periods presented, the earnings (loss) attributable to common shareholders equals the reported earnings attributable to owners of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Basic and Diluted (Loss) Earnings per Share (continued)

Diluted EPS is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted (loss) earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. When a loss is incurred during a period, basic and diluted loss per share are the same because the exercise of share equivalents is then considered to be "anti-dilutive".

(j) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(k) Changes in Accounting Policies

The Company adopted the following standards, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under 12 months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset ("RUA") and a lease liability. The RUA is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the RUA at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company had reviewed its leasing arrangements outstanding as at January 1, 2019 and had assessed that there was no impact of adopting this new standard on the Company's financial statements.

(l) Recent Accounting Pronouncements

As at the date of authorization of these financial statements, the IASB and the IFRS Interpretations Committee had issued the following new standards which are effective on or after January 1, 2020. The Company had assessed that the adoption of this new standard will not have a material impact on the financial statements.

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

(Expressed in Canadian Dollars)

4. RECEIVABLES

	December 31, 2019	December 31, 2018
	$	$
Interest receivable (i)	**1,348,330**	643,605
Other receivables (ii)	**60,944**	1,003,458
Taxes recoverable (iii)	**-**	528,200
Total receivables	**1,409,274**	2,175,263

(i) As at December 31, 2019, the Company has accrued interest income of $1,348,330 (December 31, 2018 – $643,605), from its convertible debentures and loan investments.

(ii) During year ended December 31, 2019, the Company held certain debt private placements of an investee company which had matured. As at December 31, 2019, an amount of $267,500 (December 31, 2018 – $nil) is due from such investee company. As the proceeds are more than 30 days past due maturity, an allowance for ECL of $206,566 was recorded by the Company on the investment.

During the year ended December 31, 2018, the Company participated in certain private placements of investee companies which did not close as planned. Funds advanced for such investment subscriptions for $1,003,458 had been returned to the Company during the current year.

(iii) During the year ended December 31, 2018, non-resident tax was withheld on the deemed disposition of the shares of an investee entity upon the completion of a going-public transaction in the United States (the "US"). During the current year, the Company received the full refund amount.

5. INVESTMENTS

The Company's investments portfolio consisted of the following securities as at December 31, 2019:

		Fair Value			
Investments	**Cost**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	$	**$**	**$**	**$**	**$**
Equities	17,367,040	5,232,102	-	12,535,246	17,767,348
Warrants	3,024,241	26,702	316,347	1,473,649	1,816,698
Convertible debentures	8,226,938	-	4,596,571	3,142,779	7,739,350
Loans	5,031,480	-	-	5,054,161	5,054,161
Total investments	**33,649,699**	**5,258,804**	**4,912,918**	**22,205,835**	**32,377,557**

The Company's investments portfolio consisted of the following securities as at December 31, 2018:

		Fair Value			
Investments	**Cost**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	$	**$**	**$**	**$**	**$**
Equities	18,003,981	11,036,173	-	19,831,980	30,868,153
Warrants	2,962,583	-	761,192	2,005,999	2,767,191
Convertible debentures	6,846,674	-	2,686,840	4,903,782	7,590,622
Loans	4,031,480	-	-	4,097,171	4,097,171
Total investments	**31,844,718**	**11,036,173**	**3,448,032**	**30,838,932**	**45,323,137**

(Expressed in Canadian Dollars)

5. INVESTMENTS (continued)

Level 3 fair value hierarchy

The following table presents the changes in fair value measurements classified at Level 3 of the fair value hierarchy. The financial instruments are measured at fair value utilizing non-observable market inputs. The net realized gains (loss) on disposals of investments and the net change in unrealized gains (loss) on investments are recognized in the statements of (loss) income and comprehensive (loss) income.

	Opening balance	Purchases / loans	Transfers / conversions	Proceeds	Net realized gains (loss)	Net unrealized gains (loss)	Ending balance
	$	$	$	$	$	$	$
December 31, 2019	30,838,932	7,483,041	(13,862,229)	(1,550,000)	(404,798)	(299,111)	22,205,835
December 31, 2018	4,345,206	19,862,833	(2,963,892)	(5,456,800)	4,145,293	10,906,292	30,838,932

Within Level 3, the Company included private company investments and other investment instruments such as convertible debentures and loans which are not quoted on a recognized securities exchange. The key assumptions used in the valuation of these instruments include, but are not limited to, the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly traded companies.

The following table presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at December 31, 2019:

Investments	Total fair value	Method	Unobservable inputs	Range of inputs
	$			
Equities	12,535,246	Transaction price	Recent purchase price	N/A
Warrants	1,473,649	Black-Scholes	Market prices, volatility, discount rate	90% – 100% volatility
Convertible debentures	3,142,779	Black-Scholes or Monte Carlo	Market prices, volatility, discount rate	90% – 100% volatility, 20.5% discount rate
Loans	5,054,161	Discounted cash flows	Discount rate	8% – 12%
	22,205,835			

Within Level 3 of the fair value hierarchy, for those investments valued based on recent financings, management has determined that there are no reasonably possible alternative assumptions that would change the fair value significantly as at December 31, 2019 and 2018. For those investments valued based on trends in comparable publicly traded companies and general market conditions, the inputs can be highly judgmental. A 10% change in the fair value of these investments would result in a corresponding +/- $2,220,584 (December 31, 2018 +/- $3,083,893) change to the fair value of the investments. The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Company's view of expected future changes in the fair value of these investments.

(Expressed in Canadian Dollars)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
	$	$
Trade payables and other accrued liabilities	**119,731**	111,789
Management bonus payable	**-**	853,000
Total accounts payable and accrued liabilities	**119,731**	964,799

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding incurred in the normal course of business.

The following is an aged analysis of the accounts payable and accrued liabilities:

	December 31, 2019	December 31, 2018
	$	$
Less than 90 days	**57,469**	424,002
Greater than 90 days	**62,262**	540,797
Total accounts payable and accrued liabilities	**119,731**	964,799

7. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares and preferred shares without par value. The preferred shares may be issued in one (1) or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. The Company has not issued any preferred shares to date.

Common shares issued and outstanding as at December 31, 2019 and 2018 are as follows:

	Number of common shares	**Amount**
	#	**$**
Balance, December 31, 2017	**93,522,986**	**13,251,814**
Shares issued from private placements	22,403,034	10,763,133
Share issuance costs	-	(1,671,488)
Repurchase of common shares	(600,000)	(397,461)
Shares issued from exercise of options	1,178,000	191,092
Shares issued from exercise of warrants	2,188,624	797,661
Balance, December 31, 2018	**118,692,644**	**22,934,751**
Repurchase of common shares	(8,717,951)	(1,382,255)
Issuance on exercise of stock options	1,198,000	220,617
Balance, December 31, 2019	**111,172,693**	**21,773,113**

7. SHARE CAPITAL (continued)

Share capital transactions for the year ended December 31, 2019

On January 16, 2019, a total of 843,000 common shares of the Company, comprised of 781,000 common shares previously repurchased for $226,781 under the normal course issuer bid (the "Bid") which began since August 2018, and 62,000 common shares repurchased for $14,317 on January 8, 2019, were cancelled and returned to the Treasury. Under the Bid, all common shares were purchased on the open market through the facilities of the CSE, and payment for the common shares was made in accordance with CSE policies. The price paid for the common shares was the prevailing market price at the time of purchase.

On June 6, 2019, 1,800,000 common shares repurchased for $370,476 were cancelled and returned to the Treasury.

On June 26, 2019, 2,485,951 common shares repurchased for $500,532 were cancelled and returned to the Treasury.

On July 11, 2019, 89,000 common shares repurchased for $16,138 were cancelled and returned to the Treasury.

On September 25, 2019, 2,000,000 common shares repurchased for $324,268 were cancelled and returned to the Treasury.

On December 24, 2019, 1,500,000 common shares repurchased for $156,524 were also cancelled and returned to the Treasury.

During the year ended December 31, 2019, 1,198,000 common shares were issued as a result of the exercise of options for cash proceeds of $119,800.

Share capital transactions for the year ended December 31, 2018

On March 1, 2018, the Company closed a brokered private placement financing ("March 2018 Offering") of 21,899,349 units ("Units") at a price of $0.60 per Unit, for gross proceeds of $13,139,609. Each Unit consists of one (1) common share ("Common Share") and one-half (1/2) of a warrant ("Warrant"). Each Warrant entitles the holder to purchase one (1) Common Share of the Company at a price of $0.80 per Common Share, expiring on March 1, 2020.

In conjunction with the March 2018 Offering, the Company issued 503,685 Units and paid a cash commission of $1,051,169 to agents. The agents also received 1,751,947 finders' warrants exercisable at a price of $0.60 for 24 months following closing of the offering (see Note 10).

On August 6, 2018, the Company began the Bid to purchase up to 5,928,951 common shares, representing 5% of its issued and outstanding common shares.

As at December 31, 2018, 600,000 common shares of the Company repurchased for $170,680 had been cancelled and returned to the Treasury, and 781,000 additional common shares repurchased for $226,781 were subsequently returned to the Treasury on January 16, 2019.

During the year ended December 31, 2018, 1,178,000 common shares were issued as a result of the exercise of options for cash proceeds of $117,800.

During the year ended December 31, 2018, 2,188,624 common shares were also issued as a result of the exercise of warrants for cash proceeds of $576,602.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

Basic and diluted loss per share

The calculations of basic and diluted EPS for the year ended December 31, 2019 were based on the net loss from operations attributable to common shareholders of $10,077,619 (2018 – net income of $10,590,795) and the weighted average number of basic common shares outstanding of 115,516,549 (2018 – 114,477,090) and diluted common shares of 115,574,993 (2018 – 120,810,949).

The details of the computation of basic and diluted (loss) earnings per share are as follows:

	2019	2018
	$	$
Net (Loss) Income and Comprehensive (Loss) Income	**(10,077,619)**	10,590,795
	#	#
Basic weighted-average number of shares outstanding	**115,516,549**	114,477,090
Assumed conversion of dilutive stock options and warrants	**58,444**	6,333,859
Diluted weighted-average number of shares outstanding	**115,574,993**	120,810,949
	$	$
Basic EPS	**(0.09)**	0.09
Diluted EPS	**(0.09)**	0.09

8. DEFERRED SHARE UNITS RESERVE

On April 29, 2019, the Company established a DSU Plan, which was approved at the Company's annual shareholders' meeting held on June 25, 2019. Under the DSU Plan, one (1) DSU is equivalent in value to one (1) common share of the Company. The maximum number of shares that are issuable under the DSU Plan, and in combination with all other equity incentive plans at any time, shall not exceed 10% of the issued and outstanding common shares of the Company. The maximum number of shares issuable to Insiders under the DSU Plan, at any time, shall not exceed 10% of the issued common shares, and the maximum number of DSUs which may be granted to any one (1) person under the DSU Plan, in any 12 month period, shall not exceed 5% of the issued common shares calculated on the grant date of such DSU.

All DSUs credited under the DSU Plan shall remain in DSU accounts and shall be settled or forfeited in accordance with the terms of the DSU Plan. Whenever cash dividends or distributions are paid on the common shares of the Company, additional DSUs will be credited to a participant's DSU account. The number of such additional DSUs will be calculated by multiplying the per share dividend rate by the number of DSUs held at that time in the participant's DSU account.

Any vesting conditions for DSUs shall be determined by the Compensation and Corporate Governance Committee of the Board of the Company. Notwithstanding any other provision of the DSU Plan, the Board may in its sole discretion accelerate and/or waive any vesting or other conditions for all or any DSUs for any participant at any time.

On June 25, 2019, the Company granted 2,500,000 DSUs to certain of its officers, as partial payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2018. The DSUs vested immediately on grant and were valued at $436,250, based on the Company's closing share price on the date of grant.

On August 26, 2019, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on August 9, 2019. On distribution of the cash dividends, the Company had granted an additional 16,891.89 DSUs at a price of $0.185 to certain of its officers. These DSUs were valued at $3,125 and recorded as stock-based compensation during the year ended December 31, 2019.

(Expressed in Canadian Dollars)

8. DEFERRED SHARE UNITS RESERVE (continued)

On November 27, 2019, the Company paid another quarterly dividend of $0.00125 per common share to shareholders of record on November 6, 2019. On distribution of the cash dividends, the Company had granted an additional 31,461.15 DSUs at a price of $0.10 to certain of its officers. These DSUs were valued at $3,146 and recorded as stock-based compensation during the year ended December 31, 2019.

9. SHARE-BASED PAYMENTS RESERVE

The Company maintains a stock option plan (the "Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Plan is limited to 10% of the number of outstanding common shares. As at December 31, 2019, the Company had 3,317,269 common shares that are issuable under the Plan.

Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less an applicable discount. Options can be granted for a maximum term of five (5) years and vesting periods are determined by the Board.

The following summarizes the stock option activity for the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**8,998,000**	**0.44**	7,576,000	0.33
Granted	**-**	**-**	2,600,000	0.60
Exercised	**(1,198,000)**	**0.10**	(1,178,000)	0.10
Outstanding, end of year	**7,800,000**	**0.49**	8,998,000	0.44
Exercisable, end of year	**5,143,426**	**0.49**	3,631,651	0.36

Option grants for the year ended December 31, 2019

There were no option grants during the year ended December 31, 2019.

Option grants for the year ended December 31, 2018

On March 19, 2018, the Company granted 2,600,000 stock options to various officers and directors of the Company. The options are exercisable at $0.60 per share and vest equally over a period of three (3) years. The options were valued using Black-Scholes, with the following assumptions: expected volatility of 123% based on historical volatility of the Company, expected dividend yield of 1.11%, risk-free interest rate of 2.00% and an expected life of five (5) years. The grant date fair value attributable to these options was $894,992, of which $313,463 was recorded as stock-based compensation in connection with the vesting of these options during the year ended December 31, 2019 (2018 – $428,039).

(Expressed in Canadian Dollars)

9. SHARE-BASED PAYMENTS RESERVE (continued)

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

Date of expiry	Number of options outstanding	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	Weighted average remaining contractual life
	#	$	#	$	Years
July 1, 2020	200,000	0.13	179,956	0.13	0.50
October 19, 2022	600,000	0.295	440,000	0.295	2.80
October 19, 2022	100,000	0.30	73,333	0.30	2.80
December 22, 2022	4,300,000	0.48	2,902,009	0.48	2.98
March 19, 2023	2,600,000	0.60	1,548,128	0.60	3.22
	7,800,000	**0.49**	**5,143,426**	**0.49**	**2.98**

10. WARRANTS RESERVE

The following summarizes the warrant activity for the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
	#	$	#	$
Outstanding, beginning of year	**51,289,156**	**0.46**	40,220,268	0.35
Issued	-	-	11,201,517	0.80
Issued	-	-	1,751,947	0.60
Issued	-	-	304,048	0.40
Exercised	-	-	(2,188,624)	0.26
Expired	**(7,164,998)**	**0.30**	-	-
Expired	**(482,441)**	**0.15**	-	-
Expired	**(23,539,500)**	**0.40**	-	-
Outstanding, end of year	**20,102,217**	**0.60**	51,289,156	0.46

Warrant issuances for the year ended December 31, 2019

There were no warrants issuances during the year ended December 31, 2019.

Warrant issuances for the year ended December 31, 2018

On March 1, 2018, the Company issued 10,949,675 Warrants, at an exercise price of $0.80, in conjunction with the March 2018 Offering, as disclosed in Note 7. The grant date fair value of the 10,949,675 Warrants issued was estimated to be $2,618,463 using Black-Scholes with the following assumptions: expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 1.04%, risk-free interest rate of 1.76% and an expected life of two (2) years. In conjunction with the private placement, 251,842 Warrants were issued as part of the Agents' Units as compensation to the private placement offering. These warrants were valued using Black-Scholes with the following assumptions: market price of $0.48, expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 1.043%, risk-free interest rate of 1.76% and an expected life of two (2) years.

(Expressed in Canadian Dollars)

10. WARRANTS RESERVE (continued)

Warrant issuances for the year ended December 31, 2018 (continued)

In addition, 1,751,947 broker warrants, exercisable at $0.60 per share expiring in two (2) years, were also issued as compensation for the finders' involvement in the offering. These finders' warrants were valued at $632,763 using Black-Scholes with the following assumptions: market price of $0.60, expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 0.83%, risk-free interest rate of 1.76% and an expected life of two (2) years.

The following table summarizes information of warrants outstanding as at December 31, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	$	Years
March 1, 2020	1,751,947	0.60	0.17
March 1, 2020	11,201,517	0.80	0.17
October 17, 2020	4,000,000	0.30	0.80
December 11, 2020	2,844,705	0.25	0.95
December 11, 2020	304,048	0.40	0.95
	20,102,217	**0.60**	**0.41**

11. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

Key management personnel compensation

The remuneration of directors and other members of key management personnel during the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
	$	$
Salaries, bonus and other benefits	**170,201**	1,017,243
Professional fees	**231,820**	178,744
Stock-based compensation (Notes 8 and 9)	**755,997**	1,395,842
	1,158,018	2,591,829

During the year ended December 31, 2019, officers and directors of the Company were paid compensation benefits of $170,201 (2018 – $1,017,243, including a provision for management bonus of $853,000, based on 5% of net investment income on a quarterly basis), for services rendered which was charged to salaries, bonus and other benefits. As at December 31, 2019, no management bonus had been recorded (December 31, 2018 – $853,000 included in accounts payable and accrued liabilities).

During the year ended December 31, 2019, Roger Dent, Chief Executive Officer ("CEO"), and Eric Szustak, Chairman of the Company, were granted 2,375,000 and 125,000 DSUs, respectively, as partial payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2018. Upon distribution of the cash dividends paid on August 26, 2019 and November 27, 2019, the CEO and the Chairman of the Company were issued 45,935.39 and 2,417.65 additional DSUs, respectively, as adjustments in accordance with the terms of the DSU Plan.

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel compensation (continued)

During the year ended December 31, 2019, Peter Bilodeau, the President and a director of the Company, was paid $33,900 (2018 – $25,425) for consulting services provided to the Company, which are included in professional fees.

During the year ended December 31, 2019, Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, were paid professional fees of $196,620 (2018 – $88,705), for CFO services provided to the Company, as well as other accounting and administrative services, which are included in professional fees. As at December 31, 2019, no balance was owed to Branson (December 31, 2018 – $9,040; included in accounts payable and accrued liabilities), and $40 was owed to the CFO for expense reimbursement and was included in accounts payable and accrued liabilities (December 31, 2018 – $nil).

During the year ended December 31, 2019, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras, a director of the Company, is also a partner, provided $1,300 (2018 – $54,114) of legal services to the Company, which are included in professional fees. As at December 31, 2019, no balance was owed to Fogler (December 31, 2018 – $61; included in accounts payable and accrued liabilities).

During the year ended December 31, 2018, Bryan Knebel, the former CFO of the Company, was paid consulting fees of $10,500 for accounting services provided to the Company up to his resignation in March 2018.

Investments on companies with common management personnel

As at December 31, 2019, the Company held investment positions in the following issuers with common officers and directors:

	Investments	**Holdings**	**Fair Value**
		#	**$**
Harborside Inc. (1), (2), (3), (4)	Subordinate voting shares	197,318 shares	132,203
Harborside Inc. (1), (2), (3), (4)	Warrants	61,315 warrants	427
Nutritional High International Inc. (5)	Warrants	1,250,250 warrants	305
Nutritional High International Inc. (5)	Convertible debentures	750 units	551,962
Pharmadrug Inc. (1), (6)	Common shares	4,100,000 shares	102,500
Pharmadrug Inc. (1), (6)	Warrants	1,050,000 units	600
			787,997

(1) Keith Li is also the CFO of Pharmadrug Inc. (formerly Aura Health Inc.) and an officer of Harborside Inc. (formerly Lineage Grow Company Ltd.).
(2) Peter Bilodeau is also the Interim CEO and Chairman and a Director of Harborside Inc.
(3) Adam Szweras is also a Director of Harborside Inc.
(4) FLRish Inc. and Lineage Grow Company Ltd. completed an RTO transaction on May 30, 2019 and the resulting issuer was renamed Harborside Inc. All Lineage securities were exchanged into Harborside securities at an exchange ratio of 41.818182.
(5) Adam Szweras is also a Director of Nutritional High International Inc.
(6) Aura Health Inc. changed its name to Pharmadrug Inc. on October 21, 2019.

(Expressed in Canadian Dollars)

12. 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 as follows:

	December 31, 2019	December 31, 2018
	$	$
Net (loss) income before income taxes	**(11,919,190)**	14,544,543
Expected income tax (recovery) expense	**(3,158,585)**	3,854,304
Tax rate changes and other adjustments	**-**	1,020,921
Permanent differences	**214,485**	(69,547)
Changes in tax benefits not recognized	**1,102,529**	(851,930)
Income tax (recovery) expense	**(1,841,571)**	3,953,748

Income taxes

The following table summarizes the major components of income tax expense (recovery):

	December 31, 2019	December 31, 2018
	$	$
Current tax expense	**23,123**	2,089,054
Deferred tax (recovery) expense	**(1,864,694)**	1,864,694
Income tax (recovery) expense	**(1,841,571)**	3,953,748

Deferred tax

The following table summarizes the components of deferred tax:

	December 31, 2019	December 31, 2018
	$	$
Deferred tax assets		
Share issuance costs	**-**	753,008
Deferred tax liabilities		
Marketable securities	**-**	(2,617,702)
Net deferred tax liability	**-**	(1,864,694)

Movement in net deferred tax liabilities

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	**(1,864,694)**	-
Recognized in net income (loss)	**1,864,694**	(1,864,694)
Balance, end of year	**-**	(1,864,694)

12. INCOME TAXES (continued)

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:

	December 31, 2019	December 31, 2018
	$	$
Marketable securities	**2,125,334**	**-**
Share issuance costs	**2,033,525**	**-**

Share issuance costs will be fully amortized in 2022. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

13. RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk that one (1) party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. The risk in cash is managed through the use of major financial institutions which have high credit qualities as determined by rating agencies. The Company's secondary exposure to credit risk is on other receivables. As at December 31, 2019, the Company had recorded an allowance for ECL on a matured convertible debentures investment, which are included in receivables.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company invests from time to time into securities, debentures and loan investments issued and denominated in foreign currencies, notably in US dollars. The Company's primary exposure to foreign exchange risk is that investments in foreign securities may expose the Company to the risk of exchange rate fluctuations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash at variable rates. The fair value of the Company's cash and convertible debentures and loan investments affected by changes in short-term interest rates will be minimal. The Company does not use any derivative instruments to reduce its exposure to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and investments with reputable Canadian financial institutions.

(Expressed in Canadian Dollars)

13. RISK MANAGEMENT (continued)

Liquidity risk (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at December 31, 2019:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	$	$	$	$
Accounts payable and accrued liabilities	119,731	119,731	-	-

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. A 1% change in closing trade price of the Company's investments portfolio would impact net income by $323,776 based upon balances as at December 31, 2019.

14. CAPITAL MANAGEMENT

The Company manages its capital, consisting of shareholders' equity, in a manner consistent with the risk characteristics of the assets it holds.

The Company's objectives when managing capital are:

(a) to maintain sufficient liquidity to allow the Company to pursue business opportunities expeditiously; and
(b) to earn investment returns while managing risk.

The Company's strategy remained unchanged for the years ended December 31, 2019 and 2018.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential investments and acquisitions. Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. There were no changes in its approach to capital management for the years ended December 31, 2019 and 2018.

The Company is not subject to externally imposed capital requirements.

15. OPERATING SEGMENT INFORMATION

Management is responsible for the Company's entire investments portfolio and considers the business to have a single operating segment. The management's investment decisions are based on a single, integrated investment strategy, and the performance is evaluated on an overall basis.

The Company has a single reportable geographic segment, Canada, and all of the Company's management are based in Canada.

The internal reporting provided to management of the Company's assets, liabilities, and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the years ended December 31, 2019 and 2018.

16. SUBSEQUENT EVENTS

Dividends

On January 24, 2019, the Board approved a quarterly dividend of $0.00125 per share. The dividend distribution was paid on February 25, 2020, to shareholders of record on February 4, 2020.

On April 28, 2020, the Board also approved a quarterly dividend of $0.00125 per share. The dividend distribution will be paid on May 29, 2020 to shareholders of record on May 8, 2020.

Warrants expiry

On March 1, 2020, 11,201,517 Warrants exercisable at $0.80 and 1,751,947 broker warrants exercisable at $0.60, expired unexercised.

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. In the first quarter of 2020 through the date of this report, the local and global markets experienced significant losses by the worldwide spread of COVID-19, which may affect the Company’s investment portfolio performance, and its ability to raise funds from the markets.

As of the date of these financial statements, the extent to which the COVID-19 pandemic impacts the Company’s financial results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others.