QUINSAM CAPITAL CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

(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, 2020 and December 31, 2019, and the statements of income (loss) and comprehensive income (loss), 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, 2020 and December 31, 2019, 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 Isabella Lee.

MNP LLP

Mississauga, Ontario

Chartered Professional Accountants

April 28, 2021

Licensed Public Accountants

Quinsam Capital Corporation

Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2020	As at December 31, 2019
	$	$
Assets		
Cash	**1,115,647**	674,266
Receivables (Note 4)	**1,961,298**	1,409,274
Investments (Note 5)	**31,756,698**	32,377,557
Prepaid expenses	**-**	6,042
Total Assets	**34,833,643**	34,467,139
Liabilities		
Margin facility	**-**	699,974
Accounts payable and accrued liabilities (Notes 6 and 11)	**236,178**	119,731
Unearned revenue	**108,466**	-
Income tax payable (Note 12)	**314,808**	888,861
Total Liabilities	**659,452**	1,708,566
Shareholders' Equity		
Share capital (Note 7)	**20,522,155**	21,773,113
Deferred share units reserve (Note 8)	**455,486**	442,521
Share-based payments reserve (Note 9)	**1,892,360**	2,387,201
Warrants reserve (Note 10)	**-**	4,154,857
Retained earnings	**11,304,190**	4,000,881
Total Shareholders' Equity	**34,174,191**	32,758,573
Total Liabilities and Shareholders' Equity	**34,833,643**	34,467,139

Nature of operations (Note 1)
Subsequent events (Note 17)

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 Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
	$	$
Net Investment Revenue		
Net realized loss on disposals of investments (Note 5)	**(2,933,734)**	(594,370)
Net changes in unrealized gains (loss) on investments (Note 5)	**3,316,714**	(12,003,454)
	382,980	(12,597,824)
Other Income		
Interest, advisory services and other income	**2,713,190**	2,560,033
Expenses		
Salaries, bonus and other employment benefits (Note 11)	**370,057**	170,201
Stock-based compensation (Notes 8 and 9)	**347,080**	808,350
Professional fees (Note 11)	**278,587**	538,221
(Reversal) allowance for expected credit loss (Note 4)	**(151,556)**	206,556
Interest expense	**-**	77,868
Transfer agent and filing fees	**39,462**	32,994
General and administrative	**33,886**	41,012
Travel and promotional	**15,201**	2,719
Foreign exchange (gain) loss	**(76,952)**	3,478
	(855,765)	(1,881,399)
Net Income (Loss) Before Tax	**2,240,405**	(11,919,190)
Income tax recovery (expense) – current (Note 12)	**199,602**	(23,123)
Income tax recovery – deferred (Note 12)	**-**	1,864,694
Net Income (Loss) and Comprehensive Income (Loss)	**2,440,007**	(10,077,619)
Net Income (Loss) per Share		
Basic and diluted (Note 7)	**0.02**	(0.09)
Weighted Average Number of Shares Outstanding		
Basic (Note 7)	**109,376,974**	115,516,549
Diluted (Note 7)	**109,376,974**	115,574,993

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, 2020 and 2019
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Deferred Share Units	Share-Based Payments	Warrants	Retained Earnings	Total
	#	$	$	$	$	$	$
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**
Issuance of dividends	-	-	-	-	-	(547,467)	(547,467)
Repurchase of shares (Note 7)	(6,180,587)	(1,250,958)	-	-	-	426,956	(824,002)
Stock-based compensation (Notes 8 and 9)	-	-	12,965	334,115	-	-	347,080
Expiry and cancellation of stock options (Note 9)	-	-	-	(828,956)	-	828,956	-
Expiry of warrants (Note 10)	-	-	-	-	(4,154,857)	4,154,857	-
Net income and comprehensive income	-	-	-	-	-	2,440,007	2,440,007
Balance, December 31, 2020	**104,992,106**	**20,522,155**	**455,486**	**1,892,360**	**-**	**11,304,190**	**34,174,191**

Quinsam Capital Corporation
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
	$	$
Operating Activities		
Net income (loss) for the year	**2,440,007**	(10,077,619)
Adjustments for non-cash items:		
Stock-based compensation (Notes 8 and 9)	**347,080**	808,350
Net realized loss on disposals of investments (Note 5)	**2,933,734**	594,370
Unrealized (gains) loss on investments (Note 5)	**(3,316,714)**	12,003,454
Interest accrued on debenture investments	**(581,821)**	(257,889)
Interest income on debenture investments and other income	**(1,632,472)**	-
(Reversal) allowance for expected credit loss (Note 4)	**(151,556)**	206,556
Foreign exchange gain	**(568,657)**	(247,758)
Income tax (recovery) expense – current (Note 12)	**(199,602)**	23,123
Income tax recovery – deferred (Note 12)	**-**	(1,864,694)
	(730,001)	1,187,893
Changes in non-cash working capital:		
Receivable	**(25,202)**	817,323
Prepaid expenses	**6,042**	(716)
Accounts payable and accrued liabilities (Notes 6 & 11)	**116,447**	(408,819)
Unearned revenue	**108,466**	-
Income tax payable (Note 12)	**(374,451)**	(1,223,316)
	(168,698)	(815,528)
Net additions in investments		
Purchases of investments	**(3,313,681)**	(15,331,364)
Proceeds on disposition of investments	**6,725,204**	15,926,878
(Repayments) draw of funds on margin facility	**(699,974)**	699,974
	2,711,549	1,295,488
Cash Flows provided by Operating Activities	**1,812,850**	1,667,853
Financing Activities		
Repurchase of common shares (Note 7)	**(824,002)**	(1,382,255)
Proceeds from exercise of stock options (Note 7)	**-**	119,800
Issuance of dividends	**(547,467)**	(578,806)
Cash Flows (used in) Financing Activities	**(1,371,469)**	(1,841,261)
Increase (decrease) in cash	**441,381**	(173,408)
Cash, beginning of year	**674,266**	847,674
Cash, end of year	**1,115,647**	674,266

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 the Province of British Columbia. The Company is an investment and merchant banking firm focused on the technology, healthcare, e-sports, and cannabis markets. 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, 2021.

(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 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.

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 recorded on the statements of financial position, including shares, options, 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 options, 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

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax -related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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.

2. Basis of Preparation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Expected credit losses on financial assets (continued)

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 income (loss) and comprehensive income (loss) 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 in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) 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 fair value, gains and losses are recorded in profit or loss.

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.

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 would also include debt instruments whose cash flow characteristics fail the solely principal and interest ("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 and financial liabilities classified in this category are recorded at fair value with changes recognized in profit or loss.

3. Summary of Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

Classification (continued)

<u>Financial assets at fair value through other comprehensive income</u>

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI 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).

<u>Amortized cost</u>

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 SPPI criterion. Financial assets and financial liabilities classified in this category are measured at amortized cost using the effective interest method.

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

Cash	Amortized cost
Receivables	Amortized cost
Investments	FVTPL
Margin facility	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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 profit and loss or other comprehensive income (loss) (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).

Expected credit loss impairment model

Under IFRS 9, the Company recognizes a provision for ECL on financial assets that are measured at amortized costs. 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 to 180 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.

3. Summary of Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

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") 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).

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.

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).

3. Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

Determination of fair value (continued)

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.

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.

3. Significant Accounting Policies (continued)

(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 income (loss) and comprehensive income (loss).

(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, 2020 and 2019, the Company had no material provisions.

(e) Income Taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

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 sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(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.

3. Significant Accounting Policies (continued)

(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 a stock option plan (the "Option Plan"), which is administered by the Board. 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 grant date 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 Earnings (Loss) per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing the comprehensive income (loss) 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.

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 earnings (loss) 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.

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(k) Changes in Accounting Policies

The Company adopted the following amendments, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

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. There was no material impact upon adoption of the amendments 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 certain pronouncements that are mandatory for the Company’s accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management’s expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity’s financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity’s loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

4. Receivables

	December 31, 2020	December 31, 2019
	$	$
Interest receivable (i)	**1,756,288**	1,348,330
Other receivables (ii)	**205,010**	60,944
Total receivables	**1,961,298**	1,409,274

(i) As at December 31, 2020, the Company has accrued interest income of $1,756,288 (December 31, 2019 – $1,348,330), from its convertible debentures and loan investments.

(Expressed in Canadian Dollars)

4. Receivables (continued)

(ii) During the year ended December 31, 2020, the Company held certain debt private placements of an investee company which had matured. An amount of $110,000 was due from such investee company. As the proceeds were more than 30 days past due maturity, an allowance for ECL of $55,000 was recorded by the Company on the investment. Also included in other receivables as at December 31, 2020, is an amount of $150,000 of consulting fees from an investee company. The Company fully expects to be paid on this amount.

During the 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 was 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, 2020, the Company settled the full amount in exchange for units of the investee company, and the full ECL amount of $206,556 was reversed upon settlement.

5. Investments

The Company's investments portfolio consisted of the following securities as at December 31, 2020:

		Fair Value			
Investments	**Cost**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	$	**$**	**$**	**$**	**$**
Equities	14,566,206	6,608,858	-	10,786,074	17,394,932
Warrants	1,463,671	584	1,066,339	573,183	1,640,106
Convertible debentures	6,919,232	-	4,058,635	2,894,324	6,952,959
Loans	5,802,676	-	-	5,768,701	5,768,701
Total investments	**28,751,785**	**6,609,442**	**5,124,974**	**20,022,282**	**31,756,698**

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**

During the year ended December 31, 2020, the Company recorded a write-down of $359,879 (2019 – $nil) on certain of its investments, as management considered company-specific information of such investees in addition to trends in general market conditions. Management had assessed that the investments are not recoverable and had proceeded to write-down those investments. The amount of write-downs has been included in the net changes in unrealized gains on investments.

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 income (loss) and comprehensive income (loss).

(Expressed in Canadian Dollars)

5. Investments (continued)

Level 3 fair value hierarchy (continued)

	Opening balance	Purchases / loans	Transfers / (conversion)	Proceeds	Net realized gains (loss)	Net unrealized gains (loss)	Ending balance
	$	$	$	$	$	$	$
December 31, 2020	22,205,835	1,522,000	(587,156)	(10)	(1,222,500)	(1,895,887)	20,022,282
December 31, 2019	30,838,932	7,483,041	(13,862,229)	(1,550,000)	(404,798)	(299,111)	22,205,835

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. When a private company investment changes its status to a publicly-listed investment which meets Level 1 or Level 2 criteria, the investment is transferred out of the Level 3 fair value hierarchy. A transfer is recorded upon the occurrence of a liquidity transaction for an investee company, which includes, but is not limited to, a business combination between the entity and a public corporation pursuant to a reverse takeover, merger, amalgamation, arrangement, take-over bid, or an initial public offering of the entity. The transfers are recorded on the date that such a liquidity transaction is completed.

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, 2020:

Investments	Total fair value	Method	Unobservable inputs	Range of inputs
	$			
Equities	10,786,074	Transaction price	Recent purchase price	N/A
Warrants	573,183	Black-Scholes	Market prices, volatility, discount rate	100% – 125% volatility
Convertible debentures	2,894,324	Black-Scholes	Market prices, volatility, discount rate	100% – 125% volatility, 20.5% discount rate
Loans	5,768,701	Discounted cash flows	Discount rate	8% – 12%
	20,022,282			

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, 2020 and 2019. 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 +/- $2,002,228 (December 31, 2019 +/- $2,220,584) 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, 2020	December 31, 2019
	$	$
Trade payables	**11,178**	41,961
Accrued liabilities (Note 11)	**225,000**	77,770
Total accounts payable and accrued liabilities	**236,178**	119,731

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

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 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, 2020 are as follows:

	Number of common shares	**Amount**
	#	**$**
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**
Repurchase of common shares	(6,180,587)	(1,250,958)
Balance, December 31, 2020	**104,992,106**	**20,522,155**

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 a 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.

(Expressed in Canadian Dollars)

7. Share Capital (continued)

Share capital transactions for the year ended December 31, 2019 (continued)

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, 2020

On August 28, 2020, the Company commenced a new Bid, which will terminate on August 27, 2021, or on an earlier date in the event the number of common shares sought in the Bid has been repurchased. The Company also reserves the right to terminate the Bid earlier if it feels that it is appropriate to do so.

During the year ended December 31, 2020, a total of 6,180,587 common shares repurchased for $824,002 were cancelled and returned to the Treasury.

Basic and diluted income per share

The calculations of basic and diluted EPS for the year ended December 31, 2020 were based on the net income from operations attributable to common shareholders of $2,440,007 (2019 – net loss of $10,077,619) and the weighted average number of basic common shares outstanding of 109,376,974 (2019 – 115,516,549) and diluted common shares of 109,376,974 (2019 – 115,574,993).

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

	2020	2019
	$	$
Net Income (Loss) and Comprehensive Income (Loss)	**2,440,007**	(10,077,619)
	#	#
Basic weighted-average number of shares outstanding	**109,376,974**	115,516,549
Assumed conversion of dilutive stock options and warrants	**-**	58,444
Diluted weighted-average number of shares outstanding	**109,376,974**	115,574,993
	$	$
Basic EPS	**0.02**	(0.09)
Diluted EPS	**0.02**	(0.09)

8. Deferred Share Units Reserve

On April 29, 2019, the Company established the DSU Plan, under which, one DSU is equivalent in value to one 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 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.

Any vesting conditions for DSUs are 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.

8. Deferred Share Units Reserve (continued)

All DSUs credited under the DSU Plan shall remain in the 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.

DSU issuances for the year ended December 31, 2019

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 granted 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.

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 granted 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.

DSU issuances for the year ended December 31, 2020

On February 25, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on February 4, 2020. On distribution of the cash dividends, the Company granted 33,530.96 DSUs at a price of $0.095 to certain of its officers. These DSUs were valued at $3,186 and recorded as stock-based compensation.

On May 29, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on May 8, 2020. On distribution of the cash dividends, the Company granted 25,818.84 DSUs at a price of $0.125 to certain of its officers. These DSUs were valued at $3,227 and recorded as stock-based compensation.

On August 26, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on August 10, 2020. On distribution of the cash dividends, the Company granted 26,077.03 DSUs at a price of $0.125 to certain of its officers. These DSUs were valued at $3,260 and recorded as stock-based compensation.

On November 25, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on November 4, 2020. On distribution of the cash dividends, the Company granted 32,922.25 DSUs at a price of $0.10 to certain of its officers. These DSUs were valued at $3,292 and recorded as stock-based compensation.

As at December 31, 2020, the Company had granted a total of 2,666,702.12 DSUs (December 31, 2019 – 2,548,353.04 units) under the DSU Plan.

9. Share-Based Payments Reserve

The Company maintains the Option 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, 2020, the Company had 2,992,210 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 years and vesting periods are determined by the Board.

(Expressed in Canadian Dollars)

9. Share-Based Payments Reserve (continued)

The following summarizes the stock option activity for the year ended December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**7,800,000**	**0.49**	8,998,000	0.44
Granted	**2,500,000**	**0.13**	-	-
Expired	**(200,000)**	**0.13**	-	-
Cancelled	**(2,600,000)**	**0.46**	-	-
Exercised	**-**	**-**	(1,198,000)	0.10
Outstanding, end of year	**7,500,000**	**0.40**	7,800,000	0.49
Exercisable, end of year	**5,041,667**	**0.51**	5,143,426	0.49

Option activities for the year ended December 31, 2019

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

Option activities for the year ended December 31, 2020

On August 25, 2020, the Company granted 2,500,000 stock options to various officers and directors. The options are exercisable at $0.13 per share and vest quarterly over a period of three years. The options were valued using Black-Scholes, with the following assumptions: expected volatility of 103% based on the historical volatility of the Company, expected dividend yield of 3.85%, risk-free interest rate of 0.40%, estimated forfeiture rate of 20%, and an expected life of five years. The grant date fair value attributable to these options was $195,479, of which $51,239 was recorded as stock-based compensation in connection with the vesting of these options during the year ended December 31, 2020.

During the year ended December 31, 2020, the Company also recorded stock-based compensation of $282,876 in connection with the vesting of options which were granted prior to 2020.

During the year ended December 31, 2020, 2,600,000 stock options were cancelled as a result of resignations of certain directors. An amount of $828,956 of stock-based compensation previously recorded on these options had been reallocated to retained earnings.

The following table summarizes information of stock options outstanding and exercisable as at December 31, 2020:

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**
December 22, 2022	3,000,000	0.48	3,000,000	0.48	1.98
March 19, 2023	2,000,000	0.60	1,833,333	0.60	2.21
August 25, 2025	2,500,000	0.13	208,333	0.13	4.65
	7,500,000	**0.40**	**5,041,666**	**0.51**	**2.93**

(Expressed in Canadian Dollars)

10. Warrants Reserve

The following summarizes the warrant activity for the years ended December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**20,102,217**	**0.60**	51,289,156	0.46
Expired	**(11,201,517)**	**0.80**	(7,164,998)	0.30
Expired	**(1,751,947)**	**0.60**	(482,441)	0.15
Expired	**(4,000,000)**	**0.30**	(23,539,500)	0.40
Expired	**(2,844,705)**	**0.25**	-	-
Expired	**(304,048)**	**0.40**	-	-
Outstanding, end of year	**-**	**-**	20,102,217	0.60

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, 2020 and 2019 were as follows:

	2020	2019
	$	$
Salaries, bonus and other benefits	**370,057**	170,201
Professional fees	**114,130**	231,820
Stock-based compensation (Notes 8 and 9)	**326,346**	755,997
	810,533	1,158,018

During the year ended December 31, 2020, officers and directors of the Company were paid compensation benefits of $370,057 (2019 – $170,201) for services rendered, including a provision for management bonus of $150,000 (2019 – $nil), based on 5% of net investment income on a quarterly basis), which was charged to salaries, bonus and other benefits. As at December 31, 2020, accrued management bonus of $150,000 (December 31, 2019 – $nil) was included in accounts payable and accrued liabilities.

During the year ended December 31, 2020, Roger Dent, the Chief Executive Officer ("CEO"), and Eric Szustak, the Chairman of the Company, were issued 112,431.62 and 5,917.45 DSUs (2019 – 45,935.39 and 2,417.65 DSUs), respectively, upon distribution of the cash dividends paid (see Note 8), as adjustments in accordance with the terms of the DSU Plan. These DSUs were valued at $12,965 (2019 – $6,271) and recorded as stock-based compensation. During the year ended December 31, 2019, Mr. Dent and Mr. Szustak were also 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.

During the year ended December 31, 2020, Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, were paid professional fees of $108,480 (2019 – $196,620), 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, 2020, no balance was owed to Branson and the CFO (December 31, 2019 – $nil and $40), respectively.

(Expressed in Canadian Dollars)

11. Related Party Transactions and Balances (continued)

Key management personnel compensation (continued)

During the year ended December 31, 2020, Peter Bilodeau, the former President and a former director of the Company who resigned on May 26, 2020, was paid $5,650 (2019 – $33,900) for consulting services provided to the Company, which are included in professional fees. As at December 31, 2020, no balance was owed to Mr. Bilodeau (December 31, 2019 – $nil).

During the year ended December 31, 2020, officers and directors of the Company received stock-based compensation of $313,381 (2019 – $749,726) on vesting of options granted.

During the year ended December 31, 2019, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras, a former director of the Company, is also a partner, provided $1,300 of legal services to the Company, which are included in professional fees. As at December 31, 2020, no balance was owed to Fogler (December 31, 2019 – $nil).

Investments on companies with common management personnel

As at December 31, 2020, the Company held investment positions in the following issuers with common officers and directors:

	Investments	Holdings	Fair Value
		#	$
California Nanotechnologies Inc. (1)	Common shares	1,112,000 shares	111,200
Deveron Corp. (1)	Common shares	500,000 shares	210,000
Peak Health Ontario Inc. (1)	Common shares	18 shares	180,000
Pharmadrug Inc. (2)	Warrants	1,275,000 units	24,608
Vitalhub Corp. (1)	Common shares	84,000 shares	239,400
			765,208

(1) Roger Dent is also a Director of California Nanotechnologies Inc., Deveron Corp. Peak Health Ontario Inc., and Vitalhub Corp.
(2) Keith Li is also the CFO of Pharmadrug Inc.

12. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate as follows:

	December 31, 2020	December 31, 2019
	$	$
Net income (loss) before income taxes	**2,240,405**	(11,919,190)
Expected income tax (recovery) expense	**593,707**	(3,158,585)
Permanent differences	**92,108**	214,485
Changes in tax benefits not recognized	**(885,417)**	1,102,529
Income tax recovery	**(199,602)**	(1,841,571)

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	**(199,602)**	23,123
Deferred tax (recovery) expense	**-**	(1,864,694)
	(199,602)	(1,841,571)

(Expressed in Canadian Dollars)

12. Income Taxes (continued)

Deferred tax

The following table summarizes the components of deferred tax:

	December 31, 2020	December 31, 2019
	$	$
Deferred tax assets		
Operating tax losses carried forward	**315,716**	-
Deferred tax liabilities		
Marketable securities	**(315,716)**	-
Net deferred tax liability	**-**	-

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.

Movement in net deferred tax liabilities

	December 31, 2020	December 31, 2019
	$	$
Balance, beginning of year	**-**	(1,864,694)
Recognized in net income (loss)	**-**	1,864,694
Balance, end of year	**-**	-

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, 2020	December 31, 2019
	$	$
Share issuance costs	**1,215,065**	2,125,334
Marketable securities	**-**	2,033,525
Operating tax losses carried forward	**589,728**	-
	1,804,793	4,158,859

The Canadian operating tax loss carry forwards expire as noted in the table below.

Share issuance costs will be fully amortized in 2022.

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.

The Company's Canadian non-capital income tax losses expire as follows:

	$
2040	589,730

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 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, 2020, the Company had recorded an allowance for ECL of $55,000 (2019 – $206,566) on an overdue amount of $110,000 on a 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 United States 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. Due to the low number of investments issued and denominated in foreign currencies, management believes that the foreign exchange risk with respect to investments is low.

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.

In December 2019, the novel coronavirus ("COVID-19") surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout Europe and the Middle East and there have been cases of COVID-19 in Canada and the United States, and has continued to cause companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. The duration of the business disruptions internationally and related financial impact to the global economy remains highly uncertain at this time, as COVID-19 continues to evolve.

To date, the outbreak has not had a material adverse impact on the Company's operations. As Quinsam has operated on a "virtual basis" for a number of years, restrictions and the general closure of non-essential businesses in response to the COVID-19 outbreak has not significantly impacted the Company's day-to-day operations. However, the future impact of the outbreak remains potentially and highly uncertain for certain of Quinsam's investee companies, and may not be predicted. Until economies stabilize and that the vaccine rollout will be complete, there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain COVID-19.

(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, 2020:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	$	$	$	$
Accounts payable and accrued liabilities	236,178	236,178	-	-

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 $318,000 based upon balances as at December 31, 2020.

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 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, 2020 and 2019.

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, 2020 and 2019.

16. Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation on the statements of loss and comprehensive loss. Net loss and comprehensive loss reported in the comparative period has not been affected by these reclassifications.

17. Subsequent Events

On January 20, 2021, the Board approved a quarterly dividend of $0.00125 per share. The dividend distribution was paid on February 25, 2021, to shareholders of record on February 4, 2021.

On April 28, 2021, the Board also approved a quarterly dividend of $0.00125 per share. The dividend distribution will be paid on May 28, 2021, to shareholders of record on May 7, 2021.