MATICA ENTERPRISES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Matica Enterprises Inc.

Opinion

We have audited the financial statements of Matica Enterprises Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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 of the audit resulting in this independent auditor's report is Koko Yamamoto.

UHY McGovern Hurley LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 29, 2019

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Notes	2018	2017
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	10	**5,314,938**	3,813,666
Marketable securities	4,10,15(f)	**1,811,250**	1,050,000
Accounts receivable		**16,244**	6,941
Prepaid expenses		**77,433**	30,885
Short term loans	5(d),10,15(g)	**105,250**	-
Total current assets		**7,325,115**	4,901,492
Investment in RoyalMax	5(b)	**6,421,355**	3,805,064
Investment in Yunify	5(a),10,15(h)	**1**	-
Long term loans	5(c)	**982,193**	-
TOTAL ASSETS		**14,728,664**	8,706,556
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	10	**98,209**	65,229
Due to related parties	8,10	**121,476**	13,719
Flow-through renunciation obligations	12,15(j)	**63,683**	150,152
Total current liabilities		**283,368**	229,100
SHAREHOLDERS' EQUITY			
Share capital	7	**24,470,592**	16,525,123
Contributed surplus	7	**6,075,982**	3,712,574
Deficit		**(16,101,278)**	(11,760,241)
Total shareholders’ equity		**14,445,296**	8,477,456
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**14,728,664**	8,706,556

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)
SUBSEQUENT EVENTS (Note 15)

APPROVED ON BEHALF OF THE BOARD ON APRIL 29, 2019:

/s/ “Boris Ziger”
Boris Ziger, Director

/s/ “George A. Brown”
George A. Brown, Director

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

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Notes	2018	2017
		$	$
GENERAL AND ADMINISTRATIVE EXPENSES			
Management and directors' fees	8	**276,000**	148,500
Office and miscellaneous		**64,344**	26,098
Professional fees		**226,425**	61,938
Rent	13	**43,297**	43,753
Share-based compensation	7(d), 8	**4,618,916**	4,632,300
Transfer agent and filing fees		**25,194**	32,342
Travel, marketing and promotion		**225,897**	78,428
Total general and administrative expenses		**5,480,073**	5,023,359
OTHER INCOME (EXPENSES)			
Other income		**83,328**	1,400
Realized gain on marketable securities	4	**-**	27,600
Unrealized gain on marketable securities	4	**761,250**	350,000
Write-down of investment in Yunify	5(a),15(h)	**(655,999)**	-
Gain on settlement of debt		**-**	46,441
Gain on settlement of THCD civil suit	4	**-**	700,000
Part XII taxes and interest related to flow-through shares		**30,032**	(5,000)
Total other income (expenses)		**218,611**	1,120,441
NET (LOSS) AND COMPREHENSIVE (LOSS)		**(5,261,462)**	(3,902,918)
LOSS PER SHARE - BASIC AND DILUTED		**(0.02)**	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		**292,155,786**	191,540,547

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Notes	Common shares Shares	Common shares Amount	Contributed Surplus	Deficit	Shareholders' Equity (Deficiency)
		#	$	$	$	$
Balance, December 31, 2016		139,241,691	7,460,260	294,417	(7,876,264)	(121,587)
Private placement units issued for cash, net of issue costs	7(b)	50,466,000	2,271,436	117,000	-	2,388,436
Options exercised	7(d)	39,900,000	3,967,702	(1,312,202)	-	2,655,500
Warrants exercised	7(b)(c)	21,439,500	2,375,725	-	-	2,375,725
Shares issued for properties	5(b)	6,000,000	270,000	-	-	270,000
Units and shares issued for services and settlement of debts	7(b)	7,800,000	180,000	-	-	180,000
Share-based compensation	7(d)	-	-	4,632,300	-	4,632,300
Options cancelled/expired	7(d)	-	-	(18,941)	18,941	-
Net loss		-	-	-	(3,902,918)	(3,902,918)
Balance, December 31, 2017		264,847,191	16,525,123	3,712,574	(11,760,241)	8,477,456
Private placement units issued for cash, net of issue costs	7(b)	5,620,000	1,025,000	-	-	1,025,000
Options exercised	7(b)(d)	6,800,000	4,227,083	(1,335,083)	-	2,892,000
Options expired/cancelled	7(d)	-	-	(920,425)	920,425	-
Warrants exercised	7(b)(c)	22,525,667	2,509,386	-	-	2,509,386
Shares issued for services	7(b)	648,051	184,000	-	-	184,000
Share-based compensation	7(d)	-	-	4,618,916	-	4,618,916
Net loss		-	-	-	(5,261,462)	(5,261,462)
Balance, December 31, 2018		300,440,909	24,470,592	6,075,982	(16,101,278)	14,445,296

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Note	2018	2017
		$	$
OPERATING ACTIVITIES			
Net loss		**(5,261,462)**	(3,902,918)
Items not involving cash			
Realized (gain) on marketable securities		**-**	(27,600)
Unrealized (gain) on marketable securities		**(761,250)**	(350,000)
Write-down of investment in Yunify		**655,999**	-
(Gain) on settlement of debt		**-**	(46,441)
(Gain) on settlement of THCD civil suit		**-**	(700,000)
Share-based compensation		**4,618,916**	4,632,300
Shares issued for services		**184,000**	180,000
Interest income		**(83,329)**	-
		(647,126)	(214,659)
Changes in non-cash working capital items:			
Accounts receivable		**(9,303)**	12,299
Prepaid expenses		**(46,548)**	(13,497)
Accounts payable and accrued liabilities		**32,980**	(12,491)
Interest and penalty accrual on flow-through shares		**(86,469)**	5,000
Cash Used in Operating Activities		**(756,466)**	(223,348)
INVESTING ACTIVITIES			
Convertible debenture	5(a)	**(600,000)**	-
Investment in RoyalMax	5(b)	**(2,616,291)**	(3,535,064)
Secured and unsecured loans	5(c)(d)	**(1,060,114)**	-
Sale of marketable securities		**-**	121,600
Cash Used in Investing Activities		**(4,276,405)**	(3,413,464)
FINANCING ACTIVITIES			
Units issued for cash	7(b)	**1,025,000**	2,388,436
Exercise of options	7(b)(d)	**2,892,000**	2,655,500
Exercise of warrants	7(b)(c)	**2,509,386**	2,375,725
Due to related parties		**107,757**	(6,337)
Repayment of note payable		**-**	(10,000)
Cash Provided by Financing Activities		**6,534,143**	7,403,324
INCREASE IN CASH AND CASH EQUIVALENTS		**1,501,272**	3,766,512
CASH AND CASH EQUIVALENTS, BEGINNING		**3,813,666**	47,154
CASH AND CASH EQUIVALENTS, ENDING		**5,314,938**	3,813,666
NON-CASH TRANSACTIONS:			
Shares issued for investment in RoyalMax	5(b)	**-**	270,000
Shares issued for related parties debt settlement	7(b)	**136,000**	144,000
Shares received for THCD settlement	4	**-**	700,000
Shares issued for vendors debt settlement	7(b)	**48,000**	36,000
Units issued as finder's fee	7(b)	**42,000**	-
SUPPLEMENTAL INFORMATION:			
Interest paid		**-**	-
Income taxes paid		**-**	-

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

1. NATURE OF BUSINESS AND GOING CONCERN

Matica Enterprises Inc. ("Matica" or the "Company") was incorporated pursuant to the British Columbia Business Corporation Act in November 2007 under the name of Cadman Resources Inc., a capital pool Company as defined in the policies of the TSX Venture Exchange (the "Exchange"). In December 2010 the Company was transferred to the NEX Board. In July 2012, the Company listed on the Canadian Stock Exchange ("CSE") and voluntarily delisted from the NEX Board.

In April 2014, the Company changed its name to Matica Graphite Inc. and traded under the symbol GRF. In July 2014, the Company changed its name to Matica Enterprises Inc. and the Company's shares were also accepted for trading on the Frankfurt Stock Exchange. The Company then completed a change of business with a primary focus in the life sciences focused on the medical marijuana industry and in November 2014 the shares resumed trading on the CSE under the symbol MMJ (see Note 15(i)).

The executive offices of the Company are at Suite 1102, 44 Victoria Street, Toronto, ON M5C 1Y2, Canada.

The Company no longer holds any mineral property titles, however, it continues to hold a royalty interest in a Nevada lithium property (see Note 6). The business of exploring for minerals involved a high degree of risk and there could be no assurances that exploration programs would result in profitable operations.

The Company has a net loss of $5,261,462 for the year ended December 31, 2018 (December 31, 2017 - $3,902,918), an accumulated deficit of $16,167,738 (December 31, 2017 - $11,760,241) and working capital of $7,041,747 (December 31, 2017 - $4,672,392) which has been funded primarily by the issuance of equity. The Company does not yet generate cash flows from operations and accordingly the Company may need to raise additional funds through future issuance of securities or debt financing (see Note 15). Although the Company has raised funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will ever attain a profitable level of operations.

The Company's ability to continue as a going concern is uncertain and is dependent upon developing a Health Canada approved facility for growing and selling medical marijuana and maintaining continued support from its shareholders and creditors. The outcome of these matters cannot be predicted at this time and in the event that they do not occur, the carrying value of the Company's assets may be adversely affected.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 29, 2019.

2. BASIS OF PRESENTATION (continued)

(b) Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis except for cash flow information and are based on historical costs, except for specific financial instruments carried at fair value where applicable. The consolidated financial statements are presented in Canadian dollars.

(c) Consolidation

These consolidated financial statements for the years ended December 31, 2018 and 2017 include the accounts of Matica, and its 100% wholly owned subsidiaries Ravenline Exploration Ltd. ("Ravenline"); Nevada subsidiary Ravenline USA Ltd. ("Ravenline USA"); 1022607 B.C. Ltd.; 1022608 B.C. Ltd.; and 1024250 B.C. Ltd. The Company previously held mineral claims to Nevada properties through Ravenline USA.

The three British Columbia numbered subsidiaries were formed to accomplish an arrangement which was terminated in August 2015 under which assets would have been transferred to four subsidiaries, and shares of the subsidiaries would have been distributed to the Company's shareholders. These three numbered subsidiaries were inactive and were dissolved in November 2017.

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 de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement basis

These consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. All amounts are expressed in the Company's functional currency which is the Canadian dollar unless otherwise stated.

(b) Cash and cash equivalents

The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible into specific amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents. As at December 31, 2018 and 2017, the Company did not have any cash equivalents.

(c) Marketable securities

The Company classifies its marketable securities as fair value through profit or loss ("FVTPL") which are reported at the fair market value based on bid prices with unrealized gains or losses included in earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Reclamation and restoration

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period it is incurred with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization of the related asset. As at December 31, 2018 and 2017, the Company did not have any material reclamation and restoration obligations.

(e) Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication of impairment. If any indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

An impairment loss is recognized in operations if the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(g) Share issuance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of long-lived assets

Long-lived assets are reviewed by management for possible impairment annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition.

(i) Foreign currency translation

The reporting currency of the Company is the Canadian dollar. The functional currency of the Company's wholly owned subsidiaries is also the Canadian dollar.

In preparing the financial statements, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value is determined. Gains or losses on translation are recorded in operations.

(j) Financial instruments

<u>Accounting policy under IFRS 9 applicable from January 1, 2018</u>

Financial assets

Initial recognition and measurement
Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVTPL or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVTPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement – financial assets at amortized cost
Financial instruments that are held for the purpose of collecting contractual cash flows that are solely payments of principal and interest are classified as amortized cost and are initially recognized at their fair value and are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVTPL or at amortized cost. Cash, amounts receivable held for collection of contractual cash flows and loan receivable are measured at amortized cost. Transaction costs of financial instruments classified as amortized cost are capitalized and amortized in profit or loss on the same basis as the financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement – financial assets at FVTPL
Financial instruments that are not held for the sole purpose of collecting contractual cash flows are classified as FVTPL and are initially recognized at their fair value and are subsequently measured at fair value at each reporting date. Financial assets measured at FVTPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVTPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss. The Company measures its cash and cash equivalents, marketable securities and convertible debenture at FVTPL.

Subsequent measurement – financial assets at FVOCI
Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss. The Company does not measure any of its financial assets at FVOCI.

Impairment of financial assets
A provision for impairment on the lending portfolio is established based on the general approach Expected Credit Loss ("ECL") model. Under the general approach ECL model, the Company estimates possible default scenarios for the next 12 months on its loans receivable at each reporting period. The Company established a provision matrix that considers various factors including the borrower's credit risk, term to maturity, status of the underlying project and market risk. The results of the general approach ECL model are used to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized in the consolidated statements of comprehensive loss. If a significant increase in credit risk occurs on a loan investment, an estimate of default is considered over the entire remaining life of the assets. In circumstances when an entity acquires a loan investment that is credit impaired at the date of initial recognition the credit adjusted approach ECL model will be applied. The credit adjusted approach ECL model results in expected credit losses calculated considering an estimate of default over the life of the asset. The Company recognizes interest and other income from the loans receivable in the consolidated statements of comprehensive loss using the effective interest rate method for the general or simplified approach ECL model, regardless if evidence of impairment exists. If the credit adjusted approach ECL model is used, then a credit adjusted effective interest rate is used in calculating the applicable interest, lender fees and other income. The effective interest rate method discounts the future cash payments and receipts through the expected life of the loan to its carrying amount before any allowance for expected credit losses. Under the general and simplified approach, if no evidence of impairment exists, interest income is calculated on the carrying amount at the beginning of the period before any allowance for expected credit loss otherwise interest income is calculated after an allowance for expected credit loss.

The Company uses unbiased, probability-weighted loss scenarios which consider multiple loss scenarios based on reasonable and supportable forecasts in order to calculate the expected credit losses.

Derecognition
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement
Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVTPL. The Company's financial liabilities include accounts payable and accrued liabilities, due to related parties and flow-through renunciation obligations, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value.

Subsequent measurement – financial liabilities at amortized cost
After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

<u>Accounting policy under IAS 39 applicable prior to January 1, 2018</u>

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at FVTPL. Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value less directly attributable transaction costs and classified as either at FVTPL or other financial liabilities.

Financial instruments comprise of cash and cash equivalents, accounts payable, due to related parties and flow-through renunciation obligations. At initial recognition management has classified financial assets and liabilities as follows:

(i) Financial assets

The Company has classified its cash and cash equivalents, and marketable securities as FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

(ii) Financial liabilities

The Company has classified its accounts payable and accrued liabilities, due to related parties and flow-through renunciation obligations as other financial liabilities. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

Publicly-traded investments
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 10).

ii. For options and warrants 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; if no such market inputs are available or reliable, the options and warrants are valued at intrinsic value, which is equal to the higher of the closing trade price at the end of the reporting period of the underlying security less the exercise price of the options or warrants, and zero. These are included in Level 2 of the fair value hierarchy.

Private company investments
All privately-held investments (other than warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at the end of each financial 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 10). Warrants of private companies are carried at their intrinsic value.

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.

Use of the valuation approach 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 exploration 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 disposed of currently may differ from the carrying value assigned.

(l) Share-based payments

The Company accounts for share-based payments awards granted to employees, directors and consultants at the fair value of the equity instruments at grant date. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is estimated at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period. The consideration received from private placement units is allocated to the common shares. No value is allocated to the warrants issued as part of a private placement unit that are characterized as equity instruments.

(m) Flow-through shares

The proceeds from offering of flow-through shares are allocated between the shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the market value of the shares and the amount the investors pay for the flow-through shares. A liability is recognized for the premium paid by the investors and is then recognized in the results of operations in the period the eligible exploration expenditures occurred. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through shares premium liability will be reversed. In instances where the Company has sufficient deductible temporary differences available to offset the deferred income tax liability created from renouncing qualifying expenditures, the realization of the deductible temporary differences will be shown as a recovery in profit or loss in the period of renunciation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Current and deferred income taxes

Income tax expense comprises current and deferred tax and is recognized in operations except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences in assets and liabilities arising in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, transactions relating to investments in jointly controlled entities to the extent that they will not reverse in the foreseeable future, and transactions arising on the initial recognition of goodwill. Deferred tax is recognized at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax assets is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Loss per share

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive. The weighted average number of common shares outstanding is adjusted retrospectively for changes in capitalization such as share splits, reverse splits, or cancellations without consideration.

Loss per share for the periods presented exclude the impact of issued and outstanding stock options and warrants as their effect would be anti-dilutive.

(p) Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

Impairment
The Company assesses the possibility and amount of any impairment loss or write-down as it relates to its investment in RoyalMax and loans receivable. Such estimates and assumptions primarily relate to the timing and amount of future cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9, "Financial Instruments", requires management to use judgment in determining whether the Company 's financial assets require a provision for impairment. The Company's financial assets are subject to the ECL model whereby the Company estimates on a forward looking basis possible default scenarios and establishes a provision matrix that considers various factors including industry and sector performance, economic and technological changes and other external market indicators.

IAS 36, "Impairment of Assets", requires management to use judgment in determining the recoverable amount of non-financial assets tested for impairment. Judgment is involved in estimating the fair value less the cost to sell or value-in-use of the cash generating units ("CGUs"), including estimates of growth rates, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

Valuation of Financial Instruments
The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its investment in convertible debenture, investments in securities not quoted in an active market or private company investments, and loans receivable. The fair values 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.

There are no quoted prices in an active market for the loans receivable or convertible debenture. The Company determines fair value based on its assessment of the current lending market for investments having the same or similar terms, and other available information. The critical assumptions underlying the fair value measurements and disclosures include the market interest rates for similar loans and convertible debentures. The market interest rates were determined taking into consideration similar instruments with corresponding maturity dates, plus a credit adjustment in accordance with the borrower's creditworthiness as well as considering the risk characteristic of the underlying development and the value of the properties that the loans are secured by.

The secured loan carried at amortized cost has low credit risk and the expected credit loss has been assessed to be nominal due to the value of the collateralized properties.

For certain financial instruments, including amounts receivable, accounts payable and accrued liabilities, due to related parties and flow-through renunciation obligations, the carrying amounts approximate fair values due to their immediate or short-term maturity.

<u>Decommissioning Liabilities</u>
The Company's provision for decommissioning liabilities represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of an asset's life. The provision reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

<u>Share-Based Payments</u>
Management uses valuation techniques in estimating the fair value of share options granted. The fair value is determined using the Black-Scholes option pricing model which requires management to make certain estimates, judgements, and assumptions in relation to the expected life of the share options, expected volatility, expected risk-free rate, and expected forfeiture rate. Changes to these assumptions could have a material impact on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

The Company estimates the amount of contingencies due to the non-compliance of the expenditure obligation on the flow-through shares issued. Consequently, the Company is subject to the interest and penalties from Canada Revenue Agency. In addition, the Company estimates the costs of indemnification from flow-through share subscribers for taxes and penalties that may arise from their personal tax returns as a result of the Company not meeting its renounciation obligations.

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments with a significant risk of material adjustment in the next year.

Income, Value Added, Withholding and Other Taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Going Concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

Adoption of new pronouncements

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments,* which resulted in changes in accounting policies as described below. In accordance with the transitional provisions, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of these policies.

IFRS 9 replaces International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) FVTPL or FVOCI; establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets. The standard is applied only to financial instruments held as at January 1, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table presents the types of financial instruments held by the Company as at January 1, 2018 within each financial instrument classification under IAS 39 and IFRS 9:

	Financial instrument classification	
	Under IAS 39	**Under IFRS 9**
Financial assets		
Cash	FVTPL	FVTPL
Cash equivalents	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Loans	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Flow-through renunciation obligations	Other financial liabilities	Amortized cost

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

The following standards will be effective for annual periods beginning on or after January 1, 2019:

IFRS 10 *Consolidated Financial Statements ("IFRS 10")* and IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") - IFRS 10 and IAS 28 were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 16 - Leases ("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 twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise 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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

4. MARKETABLE SECURITIES

In July 2016, the Company received 4,700,000 common shares of Spearmint Resources Inc. valued at $188,000 based on a quoted market price of $0.04 per share for the sale of the Clayton Valley properties (see Note 6). During 2017, the Company sold all 4,700,000 common shares for proceeds of $121,600 net of commissions and realized a gain of $27,600.

In May 2017, the Company received 350,000 common shares of Cultivator Catalyst Corp. ("CCC"), a private company, at a deemed value of $350,000 based upon a $1.00 per share financing completed by CCC. This represented 50% of the agreed to $700,000 third party settlement of the Company's legal claims against THC Dispensaries Canada Inc. ("THCD"). In December 2017, an additional 175,000 shares of CCC were received at a deemed value of $350,000 based upon a $2.00 per share financing completed by CCC in December 2017. As at December 31, 2017, the 525,000 shares were valued at $1,050,000 based on the aforementioned December 2017 financing. The 525,000 shares were exchanged for 2,625,000 shares of Biome Grow Inc. which became listed and trading on the CSE on October 9, 2018. The value of these 2,625,000 shares was adjusted to $1,811,250 to reflect the quoted market value at December 31, 2018 (see Note 15(f)).

5. OTHER INVESTMENTS

(a) Yunify Natural Technologies

In March 2018, the Company signed a definitive agreement with Yunify Natural Technologies ("Yunify"), a privately held, Quebec based health and personal care research and innovation technology company. The Company has subscribed for a $2,000,000 ($600,000 paid on signing) convertible debenture bearing interest at 12% per annum. The next $400,000 may be drawn upon submission by Yunify of a listing agreement to a recognized stock exchange. The final $1,000,000 may be drawn upon the common shares of Yunify being listed for trading on a recognized stock exchange. The debenture is convertible into units of Yunify at a $0.225 exercise price. Each unit will be comprised of one common share, one-half of one common share purchase warrant of which one full warrant will entitle the holder to purchase one common share of Yunify for a period of 36 months from the conversion date at an exercise price of $0.35 per warrant, and one-half common share purchase warrant of which one full warrant will entitle the holder to purchase one common share of the Company for a period of 36 months from the conversion date at an exercise price of $0.50 per warrant. By fully exercising the warrants, the Company may acquire up to a 40% interest in Yunify (see Note 15(h)). As at December 31, 2018, the Company has accrued $56,000 in interest. The investment is being reported at a $1 nominal value based on management's estimate of its fair value.

(Expressed in Canadian Dollars)

5. OTHER INVESTMENTS (continued)

(b) RoyalMax Biotechnology Canada Inc.

In March 2017, the Company signed a letter of intent ("LOI") with RoyalMax Biotechnology Canada Inc. "RoyalMax", an arm's length applicant under the Access to Cannabis for Medical Purposes Regulation ("ACMPR"). Pursuant to the agreement, the $50,000 due on signing the LOI was paid and an additional $135,000 was paid on signing a definitive agreement in April 2017. The Company issued 6,000,000 common shares (fair value on date of issue at $270,000) upon receipt of due diligence disclosure materials. The Company may earn a 65% interest in RoyalMax for funding a cumulative minimum amount of $2,200,000 for the build out of a medical marijuana growing facility up to and including receiving a licence from Health Canada. The Company will then be issued an additional 5% interest In Trust for making a payment of $400,000 (paid in advance in 2018) within 30 days of notification of licensing by Health Canada. This additional 5% In Trust will be released upon the final payment of $400,000 which will become due after twelve months of production at the facility.

In October 2018, the Dorval facility received a cultivation licence from Health Canada. Upon receipt of a selling license, the Company will receive the initial 65% interest in RoyalMax.

	RoyalMax, Quebec
	$
Balance, December 31, 2016	-
Acquisition costs	455,000
Funding of facility build out	3,350,064
Balance, December 31, 2017	3,805,064
Funding of facility build out	2,616,291
Balance, December 31, 2018	6,421,355

(c) Secured loan to 93802601 Quebec Inc.

In June 2018, the Company made available to a private Quebec corporation a $1,500,000 revolving line of credit secured by a mortgage against a 181-acre agricultural property purchased by the Quebec corporation using line of credit funds. The loan accrues interest at 5% per annum. The proceeds of the line of credit are to be used to develop the agricultural property. The payable on demand balance at December 31, 2018 was $982,193.

The two shareholders of the Quebec corporation are related to Matica's director and interim CFO. Both shareholders are residents of Quebec which is a requirement to purchase agricultural land. Matica's director and CEO was appointed a director and secretary of the Quebec corporation to represent the interests of Matica in the development of the property.

(d) Unsecured loan to Capital NX Phase Inc.

In September 2018, the Company made a $100,000 unsecured loan to Capital NX Phase Inc. ("Capital NX"), with a March 14, 2019 maturity date. The loan bears interest at 18% per annum (see Note 15(g)). As at December 31, 2018, the Company has accrued $5,250 in interest. At the time of the loan, Capital NX were the target listing for Yunify. An independent director of Matica is a shareholder of Capital NX.

6. EXPLORATION AND EVALUATION ASSETS

Clayton Valley, Nevada

In February 2016, the Company acquired a lithium property in the Clayton Valley, Nevada. The property was subject to a 3.75% net smelter return ("NSR"). In July 2016, the Company agreed to sell the Clayton Valley properties to Spearmint Resources Inc. ("Spearmint") for 4,700,000 common shares of Spearmint issued in July 2016. As a result of the sale, the Company wrote off the remaining carrying value of the property. The Company continues to hold a 2% NSR on one of the properties. Spearmint may purchase half of the 2% NSR for US$500,000.

7. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued and outstanding

Shares issued for the year ended December 31, 2017:

In January 2017, the Company issued 4,600,000 common shares to two directors and officers in lieu of $69,000 of their 2017 compensation (based on the quoted market price on the date of issuance). The Company also issued 200,000 common shares to a service provider as settlement of $5,691 of debt.

In May 2017, the Company issued 2,142,857 common shares to three directors and/or officers in lieu of their remaining $75,000 of 2017 compensation. The Company also issued 857,143 common shares to a service provider valued at $30,000 (based on the quoted market price on the date of issuance).

In July 2017, the Company closed a private placement of 50,466,000 units at $0.05 for gross proceeds of $2,523,300. Each unit consists of a common share and a share purchase warrant exercisable at $0.10 for 18 months following the closing date. The Company issued 1,356,960 broker share purchase warrants exercisable at $0.05 for 18 months from the closing date and paid $134,864 in finders fees.

For the year ended December 31, 2017, 21,439,500 common shares were issued on exercise of warrants for cash proceeds of $2,375,725.

For the year ended December 31, 2017, 39,900,000 common shares were issued on exercise of stock options for cash proceeds of $2,655,500.

Shares issued for the year ended December 31, 2018:

For the year ended December 31, 2018, 22,525,667 common shares were issued on exercise of warrants for cash proceeds of $2,509,386.

For the year ended December 31, 2018, 6,800,000 common shares were issued on exercise of stock options for cash proceeds of $2,892,000.

In January 2018, the Company issued 171,429 common shares (valued at $72,000) to two directors and officers in lieu of a portion of their 2018 compensation. The Company also issued 35,714 common shares to a service provider as settlement of $15,000 of debt (based on the quoted market price on the date of issuance).

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

In April 2018, the Company closed a private placement for 1,500,000 units at $0.35 for net proceeds of $525,000. Each unit consists of a common share and a share purchase warrant exercisable at $0.45 for two years following the closing date. The Company issued an additional 120,000 units in finders fees, with a value of $42,000.

In May 2018, the Company issued 290,908 common shares (valued at $64,000) to two directors and officers in lieu of their remaining 2018 compensation. The Company also issued 150,000 common shares to a service provider as settlement of $33,000 of debt (based on the quoted market price on the date of issuance).

In October 2018, the Company closed a private placement for 4,000,000 units at $0.125 for gross proceeds of $500,000. Each unit consists of a common share and a share purchase warrant exercisable at $0.205 for five years following the closing date.

(c) Share purchase warrants

A summary of the changes in the Company's warrants for the years ended December 31, 2018 and 2017 is presented below:

	Number of warrants	Weighted average exercise price
		$
Balance, December 31, 2016	25,866,025	0.11
Issued	51,822,960	0.10
Exercised	(21,439,500)	(0.11)
Expired or cancelled	(11,120,750)	(0.06)
Balance, December 31, 2017	45,128,735	0.11
Issued	5,620,000	0.28
Exercised	(22,525,667)	(0.11)
Expired or cancelled	(74,000)	(0.15)
Balance, December 31, 2018	28,149,068	0.13

In January 2017, 7,270,000 warrants exercisable at $0.07 expired unexercised.

In April 2017, 3,850,750 warrants exercisable at $0.05 expired unexercised.

In July 2017, 50,466,000 warrants exercisable at $0.10 and 1,356,960 broker warrants exercisable at $0.05 were issued in relation to a private placement. These warrants expire after 18 months in January 2019. See Note 7(b).

In March 2018, 74,000 warrants exercisable at $0.15 expired unexercised.

The following table summarizes the share purchase warrants outstanding and exercisable as at December 31, 2018:

Exercise price	Expiry date	Number of warrants
$ 0.10	01/10/2019*	22,171,500
$ 0.05	01/10/2019*	357,568
$ 0.45	04/11/2020	1,620,000
$ 0.205	10/19/2023	4,000,000
		28,149,068

*See Note 15(a)(b)

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

As at December 31, 2018, 28,149,068 warrants (2017 - 45,128,735 warrants) with a weighted average remaining contractual life of 0.78 years (2017 – 0.92 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each whole warrant held.

(d) Stock options

The Company has an incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, the exercise price of an option shall not be less than the market price at the time of granting, or as permitted by the policies of the Exchange.

Options granted are non-transferable and may not exceed a term of five years from the grant date. Vesting is as determined by the directors at the time of grant.

A summary of the changes in the Company's stock options for the years ended December 31, 2018 and 2017 is presented below:

	Number of options	Weighted average exercise price
		$
Balance, December 31, 2016	11,325,000	0.025
Options granted	47,050,000	0.17
Options exercised	(39,900,000)	(0.07)
Options cancelled or expired	(225,000)	(0.05)
Balance, December 31, 2017	18,250,000	0.30
Options granted	26,400,000	0.30
Options exercised	(6,800,000)	(0.43)
Options cancelled or expired	(7,850,000)	(0.38)
Balance, December 31, 2018	30,000,000	0.25

In February 2017, the Company granted 6,000,000 stock options to three consultants. The options were exercisable at a price of $0.03 per share for a period of six months expiring in August 2017.

In March 2017, the Company granted 4,500,000 stock options to three consultants. The options were exercisable at a price of $0.045 per share for a period of six months expiring in September 2017.

In March 2017, the Company granted 1,800,000 stock options to two directors and two consultants. The options are exercisable at a price of $0.045 per share for a period of two years expiring in March 2019.

In March 2017, the Company granted 500,000 stock options to a consultant. The options are exercisable at a price of $0.045 per share for a period of 2.5 years expiring in September 2019.

In July 2017, the Company granted 10,000,000 stock options to four directors and two consultants of the Company. The options are exercisable at a price of $0.11 per share for a period of two years expiring in July 2019.

In July 2017, the Company granted 4,500,000 stock options to three consultants. The options were exercisable at a price of $0.11 per share for a period of six months expiring in January 2018.

7. SHARE CAPITAL (continued)

In August 2017, the Company granted 2,000,000 stock options to a consultant. The options were exercisable at a price of $0.10 per share for a period of six months expiring in February 2018.

In November 2017, the Company granted 2,000,000 stock options to a consultant. The options were exercisable at a price of $0.095 per share for a period of five months expiring in April 2018.

In November 2017, the Company granted 4,500,000 stock options to three consultants. The options were exercisable at a price of $0.16 per share for a period of five months expiring in April 2018.

In November 2017, the Company granted 250,000 stock options to a consultant. The options are exercisable at a price of $0.16 per share for a period three years expiring in November 2020.

In December 2017, the Company granted 4,000,000 stock options to two consultants. The options were exercisable at a price of $0.42 per share for a period of six months expiring in June 2018.

In December 2017, the Company granted 7,000,000 stock options to four directors and one consultant. The options are exercisable at a price of $0.42 per share for a period of three years expiring in December 2020.

In January 2018, the Company granted 2,500,000 stock options to two consulting companies. The options were exercisable at a price of $0.58 for a period of six months expiring on July 8, 2018.

In February 2018, the Company granted 4,000,000 stock options to two consulting companies. The options were exercisable at a price of $0.32 per share for a period of six months expiring on August 3, 2018.

In March 2018, the Company granted 7,750,000 stock options to four directors and/or officers, two consultants and a consulting company. The options are exercisable at $0.35 of which 7,250,000 expire on March 23, 2021, and 500,000 expired on September 23, 2018.

In July 2018, the Company granted 2,000,000 stock options exercisable at $0.35 to a consultant. The options were cancelled in October 2018 due to the termination of the consulting agreement.

In August 2018, the Company granted 8,200,000 stock options to four directors and/or officers and five consultants. The options are exercisable at $0.175 of which 7,000,000 expire on August 23, 2021, and 1,200,000 expire on January 23, 2019.

In October 2018, the Company granted 1,450,000 stock options to two consulting companies. The options are exercisable at $0.195 per share for a period of seven months expiring on May 15, 2019.

In December 2018, the Company granted 500,000 stock options to a consulting company. The options are exercisable at $0.10 per share for a period of seven months expiring on July 30, 2019. The options vested 50% on the date of grant; 25% in three months; and the remaining 25% in six months.

All options granted above vested immediately on the date of grant unless noted otherwise.

The weighted average grant date fair value of stock options granted during the year ended December 31, 2018 was $0.16 (2017 - $0.10).

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

For purposes of the calculation, the following assumptions were used under the Black-Scholes model:

Issue date	December 11, 2018	October 15, 2018	August 23, 2018	August 23, 2018	July 3, 2018	March 23, 2018
Share price	$0.10	$0.195	$0.175	$0.175	$0.35	$0.35
Risk free interest rate	2.06%	2.26%	2.14%	2.16%	1.90%	1.80%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	140%	105%	140%	166%	115%	140%
Expected life	0.6 years	0.6 years	0.5 years	3 years	0.2 years	0.5 years

Issue date	March 23, 2018	February 3, 2018	January 3, 2018	December 22, 2017	December 22, 2017	November 24, 2017
Share price	$0.35	$0.32	$0.58	$0.42	$0.42	$0.16
Risk free interest rate	1.92%	1.81%	1.73%	1.71%	1.66%	1.48%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	163%	159%	140%	142%	140%	166%
Expected life	3 years	0.5 years	0.5 years	3 years	0.5 years	3 years

Issue date	November 24, 2017	November 24, 2017	August 11, 2017	July 11, 2017	July 11, 2017	March 15, 2017
Share price	$0.16	$0.095	$0.10	$0.11	$0.11	$0.045
Risk free interest rate	1.41%	1.44%	1.23%	1.19%	1.19%	0.80%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	175%	121%	166%	164%	135%	130%
Expected life	0.42 years	0.42 years	0.5 years	0.5 years	2 years	2.5 years

Issue date	March 15, 2017	March 15, 2017	February 27, 2017	February 24, 2017
Share price	$0.045	$0.045	$0.03	$0.03
Risk free interest rate	0.80%	0.80%	0.76%	0.76%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	130%	134%	163%	211%
Expected life	2 years	0.5 years	0.5 years	0.5 years

The following table summarizes the options outstanding and exercisable as at December 31, 2018:

Exercise price	Expiry date	Number of options
$ 0.11	07/11/2019	6,500,000
$ 0.16	11/24/2020	100,000
$ 0.42	12/24/2020	6,000,000
$ 0.35	03/23/2021	7,250,000
$ 0.175	01/23/2019	1,200,000
$ 0.175	08/23/2021	7,000,000
$ 0.195	05/15/2019	1,450,000
$ 0.10	07/30/2019	500,000
		30,000,000

*See Note 15(c)(d)(e)

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

As at December 31, 2018, 30,000,000 options (2017 - 18,250,000) with a weighted average remaining contractual life of 1.70 years (2017 - 1.84 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each option held.

8. RELATED PARTY TRANSACTIONS

The following is a summary of transactions with directors and officers, and companies controlled by directors of the Company:

Due to related parties comprised amounts owed to directors and officers as at December 31, 2018 of $121,476 (December 31, 2017 - $13,719). These amounts are unsecured, due on demand and non-interest bearing.

During the year ended December 31, 2017, the Company issued 6,742,857 common shares valued at $144,000 to three directors and/or officers in lieu of their 2017 compensation.

During the year ended December 31, 2018, the Company issued 462,337 common shares valued at $136,000 to two directors and/or officers in lieu of their 2018 compensation.

Key Management Compensation:

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-terms benefits and termination benefits were made during the years ended December 31, 2018 and 2017. Short-term key management compensation for the years ended December 31, 2018 and 2017 are as follow:

	2018	2017
	$	$
Director fees	32,000	7,500
Management fees, paid to officers and directors	244,000	141,000
Share-based compensation to officers and directors	2,677,200	2,632,383
Total key management compensation	2,953,200	2,780,883

See Note 5(c)(d).

9. MANAGEMENT OF CAPITAL

The Company's objective for capital management is to safeguard its ability to support the Company's normal operating requirement on an ongoing basis and continue the development of its investment in RoyalMax.

The Company seeks to manage capital to provide adequate funding for its projects while minimizing dilution for its existing shareholders. As the Company has no practical ability presently to raise money by long term or other debt, all of its capital management is directed towards management of its equity, warrant and option issuances. There is thus very limited flexibility in its capital management. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS AND RISK

Classification

Financial instruments are classified into one of five categories: FVTPL, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and accounting for changes in the values of these investments will depend on their initial classification as follows: FVTPL financial assets are measured at fair value with changes in fair value recognized in operations. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the change in value is realized or the instrument is derecognized or permanently impaired.

The Company has classified its cash and cash equivalents, and marketable securities as FVTPL. Accounts payable and accrued liabilities, and due to related parties are classified as other financial liabilities.

The following table summarizes the carrying values of the Company's financial instruments:

	2018	2017
	$	$
FVTPL (i)	7,126,188	4,863,666
Short-term loans	105,250	-
Other financial liabilities (ii)	283,368	150,152

(i) Cash and cash equivalents, and marketable securities
(ii) Accounts payable and accrued liabilities, flow-through renunciation obligations and due to related parties

Fair value

As at December 31, 2018, the Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and accrued liabilities, and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

The Company's financial instruments measured at fair value on a recurring basis at are as follows:

At December 31, 2018:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	5,314,938	-	-	5,314,938
Marketable securities	1,811,250	-	-	1,811,250
Convertible debenture	-	-	1	1

At December 31, 2017:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	3,813,666	-	-	3,813,666
Marketable securities	-	-	1,050,000	1,050,000

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS AND RISK (continued)

Financial instruments classified as Level 3 are measured at fair value utilizing non-observable market inputs. The net realized gains (losses) and net change in unrealized gains (losses) are recognized in the consolidated statements of loss.

A summary of the changes in financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 is presented below:

	2018	2017
	$	$
Opening balance	1,050,000	-
Additions	656,000	1,050,000
Fair value adjustment	(655,999)	
Transfers out	(1,050,000)	-
Ending balance	1	1,050,000

Within Level 3, the Company included private company investments 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 fair value, categorized by key valuation techniques and the unobservable inputs used within Level 3 of the fair value hierarchy:

		December 31, 2017
Based upon recent financings	$	1,050,000

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, 2017. A 10% change in the fair value of these investments would result in a corresponding +/- $105,000 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.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with a financial institution.

Liquidity risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed commercial paper or similar instruments.

10. FINANCIAL INSTRUMENTS AND RISK (continued)

Foreign exchange risk

The Company has minimal foreign exchange risk as most of its transactions are in Canadian dollars. Foreign currency transactions are recorded in Canadian dollars based on exchange rates as at the time of the transaction.

Interest rate risk

The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions. The Company does not have any non-fixed rate debt.

11. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2018	2017
Combined statutory tax rate	26.5%	26.5%
	$	$
Income tax recovery at combined statutory rate	1,394,000	1,034,000
Non-deductible items	(1,305,000)	(1,229,000)
Other	112,000	117,000
Amounts not recognized	(201,000)	78,000
Income tax expense	–	–

At December 31, 2018 and 2017, the amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position is as follows:

	2018 Temporary Difference	2017 Temporary Difference
	$	$
Non-capital losses	5,903,000	5,031,000
Mineral properties	1,175,000	1,175,000
Share issue costs	434,000	278,000
Marketable securities and capital losses	218,000	539,000
	7,730,000	7,023,000

(Expressed in Canadian Dollars)

11. INCOME TAXES (continued)

As at December 31, 2018, the Company had non-capital losses carried forward of approximately $5,903,000 (2017 - $5,031,000) which may be applied to reduce future years' taxable income, expiring as follows:

	$
2030	154,000
2031	365,000
2032	492,000
2033	480,000
2034	1,695,000
2035	1,368,000
2036	477,000
2037	-
2038	872,000
	5,903,000

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

12. CONTINGENCIES

On December 22, 2012, the Company closed a non-brokered private placement of 2,003,333 flow-through units at a price of $0.06 per unit for gross proceeds of $120,200. The Company was committed to incur on or before December 31, 2013 a total of $43,200 of qualifying Canadian Exploration Expenses ("CEE") as described in the Income Tax Act of Canada. As at December 31, 2018, the Company had unfulfilled CEE obligations of $42,770 (2017 - $42,770). As the Company did not fulfill the expenditure obligation, the Company paid $56,437 as at December 31, 2018 (2017 – accrued $31,947) related to Part XII.6 tax and related penalties and interests on the unfulfilled commitments. Furthermore, the Company may also have to indemnify shareholders for taxes and related amounts in respect of the unspent portion of the commitment. As at December 31, 2018, an estimated amount accrued relating to the indemnification on the unfulfilled commitments totalled $63,683 (2017 - $85,277). The outcome of the amount of actual claims and penalties, if any, is contingent on assessments by the Canada Revenue Agency and any subsequent claims by subscribers against the Company (see Note 15(j)).

The Company may become party to legal proceedings and other claims in the ordinary course of its operations. Litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision is recorded in the consolidated financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of any such matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

13. COMMITMENTS

The Company entered into a rental agreement for its office space in Toronto for the period from November 1, 2014 to January 31, 2020. The remaining rental commitment is $61,558 for 2019, and $5,130 for 2020.

14. SEGMENT DISCLOSURE

Geographic Information

The Company's assets at December 31, 2018 and 2017 were based solely in Canada.

Operating Segments

During the year ended December 31, 2018, the Company operates in the health related sector and is investing in an ACMPR applicant in Quebec, Canada (see Note 5(b)). The Company continues to hold a royalty on a Nevada Lithium property carried at $nil value as at December 31, 2018 (see Note 6).

15. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2018, 10,625,068 warrants were exercised for proceeds of $1,049,628.

b) Subsequent to December 31, 2018, 11,904,000 warrants expired unexercised.

c) Subsequent to December 31, 2018, the Company granted 1,750,000 stock options to five consultants. The options are exercisable at a price of $0.13 per share for a period of one year expiring in February 2020.

d) Subsequent to December 31, 2018, the Company granted 100,000 stock options to two consultants. The options are exercisable at a price of $0.11 per share for a period of one year expiring in March 2020.

e) Subsequent to December 31, 2018, 1,700,000 options were cancelled/expired unexercised.

f) Subsequent to December 31, 2018, the Company sold 1,515,000 shares of Biome Grow Inc. for net proceeds of $976,480.

g) In March 2019, the Company granted a six-month loan extension to NX Phase in exchange for an interest rate increase from 1% per month to 1.5% per month (18% per annum) retroactive to September 2018.

h) In March 2019, the Company granted a one-year extension on the debenture maturity with Yunify in exchange for an interest increase from 0.5% per month to 1% per month (12% per annum) retroactive to March 2018.

i) In March 2019, the Company common shares were approved for trading on the OTCQB under the symbol MMJFF.

j) Subsequent to December 31, 2018, the Company made payments of $23,114 to several individuals for unfulfilled flow-through renunciations, including assessed penalties and interest.

k) Subsequent to December 31, 2018, the Company issued 3,588,888 common shares to management for 2019 compensation and 2018 accrued fees.