



MATICA

MATICA ENTERPRISES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

Date of Report: May 29, 2020

The following Management Discussion and Analysis (“MD&A”) provides analysis of financial results of Matica Enterprises Inc. (“the Company”) for the year ended December 31, 2019 with comparisons to 2018. This MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019. Additional information relevant to the Company is available for review on SEDAR at www.sedar.com.

All financial results presented in this MD&A are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Information

Certain information included in this discussion may constitute forward-looking statements.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, or continue (or the negatives thereof) or variations thereon or similar terminology. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. These factors include the inherent risks involved in the completion of a medical marijuana facility that is subject to third party approvals, the possibility of project cost overruns or unanticipated operating costs and expenses, uncertainties related to the necessity of financing, the availability of and costs of financing needed in the future, and other factors identified by the Company as risk factors. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. The reader is cautioned not to place undue reliance on forward-looking statements.

DESCRIPTION OF BUSINESS

The Company was incorporated pursuant to the Business Corporation Act (British Columbia) in November 2007 under the name of Cadman Resources Inc. The Company was initially listed in July 2008 as a capital pool company (“CPC”), as defined in the policies of the TSX Venture Exchange (the “Exchange”). In December 2010, the listing of the Company’s shares was transferred to the NEX Board. In July 2012, the Company began trading on the Canadian Stock Exchange (“CSE”) under the symbol “CUZ” and voluntarily delisted from the NEX board.

In April 2014, the Company changed its name to Matica Graphite Inc. and began trading under the new symbol “GRF”. In July 2014, the Company changed its name to Matica Enterprises Inc. In July 2014, the Company’s shares were accepted for trading on the Frankfurt Stock Exchange.

In 2014, the Company completed a change of business with a primary focus in the medical marijuana industry. As a result of the change in business focus, trading of Matica shares was halted in August 2014 and resumed trading in November 2014 as “MMJ”. The Company had retained an exploration property portfolio. In March 2019, the Company began trading on the OTCQB under the new symbol MMJFF.

The Company has continued to acquire, evaluate and dispose of opportunities to invest in parties that are applicants under the Health Canada Access to Cannabis for Medical Purposes Regulation (“ACMPR”).

HIGHLIGHTS OF COMPANY ACTIVITIES

Corporate Activities:

In March 2017, the Company signed a letter of intent (“LOI”) with RoyalMax Biotechnologies Canada Inc. (“RoyalMax”), an applicant under the Access to Cannabis for Medical Purposes Regulation (“ACMPR”) and the \$50,000 due on signing the LOI was paid. In April 2017, the \$135,000 due on signing of a definitive agreement was also paid. In June 2017, the Company issued 6,000,000 common shares (valued at \$270,000 on the date of grant) upon receipt of all due diligence disclosure materials. In February 2020, RoyalMax received a Standard Processing License and a Sales For Medical Purposes Licence from Health Canada. As a result, Matica completed its acquisition of RoyalMax and received the 70% of shares held in trust.

In May 2017, the Company reached a third party settlement in regards to its legal action against THCD and other related parties. Matica received shares of Cultivator Catalyst Corp. (“CCC”), the third party, at a deemed value of \$700,000 in two tranches of \$350,000 each during the year ended December 31, 2017. The first tranche of 350,000 shares was accepted at a deemed value of \$1.00 per share (\$350,000) based on the price of a private placement by CCC at the time of the share issue. The second tranche of 175,000 shares was accepted at a deemed value of \$2.00 per share (\$350,000) also based on the price of a CCC private placement occurring at the time of the share issue. In October 2018, the CCC shares were exchanged for 2,625,000 shares of Biome Grow Inc. which were listed on the CSE in October 2018. During the year ended December 31, 2019, the Company sold 1,694,000 shares for net proceeds of \$1,079,395. The value of the remaining 931,000 shares was adjusted to \$148,960 to reflect the quoted market value at December 31, 2019.

In March 2018, the Company signed a definitive agreement with Yunify Natural Technologies (“Yunify”), a Quebec based health and personal care research and innovation technology company. Yunify will create proprietary cannabinoid-based topical products using its mineral and plant-based suspension technologies. As per the terms of the agreement, the Company may acquire up to a 40% interest in Yunify. The Company has subscribed to a \$2,000,000 convertible debenture bearing interest at 12% per annum as amended in March 2019 and has advanced the first \$600,000 under this debenture. The second \$400,000 may be drawn upon submission of a listing agreement to a recognized stock exchange. The final \$1,000,000 may be drawn upon the common shares of Yunify being accepted for trading on a recognized stock exchange. The \$2,000,000 plus accrued interest will be convertible into shares of Yunify, the listed company. In March 2019, the debenture agreement was amended to be extended by 12 months to March 2020 and to increase the interest rate from 6% to 12% per annum retroactive to March 2018. In March 2020, the debenture agreement was extended by another 12 months to March 2021 at an interest rate of 12% per annum.

In May 2019, the Company issued 1,086,957 shares with a fair value of \$97,826 as part of the \$500,000 purchase of a 100% interest in Trichome Treats Inc. and 10406619 Canada Inc. (together “Trichome”). The second instalment of 1,086,957 shares with a fair value of \$65,217 were issued in August 2019. An additional 2,173,912 shares are due in two future installments based upon completion of milestones.

In April 2019, Mr. Denis Bouchard resigned as a director.

In May 2019, Mr. Meissam Hagh Panah joined the board of directors.

In October 2019, Mr. George A. Brown retired as interim CFO and director, and Mr. Gurcharn Deol was appointed as interim CFO.

In December 2019, Mr. Roopinder Singh Mundi joined the board of directors.

OUTLOOK

Matica had completed the required build out of a 10,000 square foot cannabis cultivation facility in Dorval, Quebec and had began growing operations after RoyalMax was granted a Standard Cultivation Licence in November 2018. In February 2020, with RoyalMax receiving both a Standard Processing License and Sales For Medical Purposes Licence, Matica completed the 70% acquisition of RoyalMax. The Company is now able to explore sale opportunities and hopes to become a revenue generating cannabis company within 2020.

In June 2018, the Company made available to a private Quebec corporation ("Quebec Co.") a \$1,500,000 revolving line of credit secured by a mortgage against a 181 acre agricultural property purchased by the Quebec Co. using line of credit funds. The loan accrues interest at 5% per annum and is payable on demand. The proceeds of the line of credit are to be used to develop the agricultural property. The line of credit was subsequently increased to \$3,000,000 in May 2020 with an updated mortgage of \$3,000,000 against the same agricultural property.

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 on behalf of Matica.

Inhuis Contrived Inc. has been designing a 200,000 square foot greenhouse as phase 1 of a planned 1,000,000 square foot greenhouse project on the Hemmingford property in conjunction with the architect, Latimer Hu, the general contractors, Groupe Icore, and the project engineers, SNC Lavalin.

The marijuana market has evolved rapidly since the legalization of recreational marijuana in October 2018. The estimated retail market of recreational marijuana is projected to be in the billions. The Company continues to evaluate projects in the medical marijuana sector, including, but not limited to, the agricultural, medical, technological, and property development sectors of the industry.

OVERALL PERFORMANCE

As at December 31, 2019, the Company had cash and other current assets totalling \$3,417,210 (December 31, 2018 - \$7,325,115) and working capital of \$3,301,658 (December 31, 2018 - \$7,041,747). For the year ended December 31, 2019, the Company incurred \$1,378,413 (2018 - \$5,480,073) in general and administrative expenses.

Selected Annual Information

The following table shows the financial results derived from the Company's financial statements for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
	\$	\$	\$
Total Revenues	-	-	-
Net (Loss)	(1,976,306)	(5,261,462)	(3,902,918)
Basic and diluted loss per share	(0.01)	(0.02)	(0.02)
Total Assets	14,972,461	14,728,664	8,706,556
Total Long Term Liabilities	167,447	-	-

FINANCIAL RESULTS**Summary of Quarterly Results**

The following table sets out selected unaudited quarterly financial information of the Company.

Quarterly Information	Revenue \$	Net Income (Loss) \$	Basic and diluted income (loss) per common share \$
December 31, 2019	-	(300,632)	(0.00)
September 30, 2019	-	(859,177)	(0.00)
June 30, 2019	-	(379,198)	(0.00)
March 31, 2019	-	(437,299)	(0.00)
December 31, 2018	-	(2,089,914)	(0.01)
September 30, 2018	-	(620,078)	(0.00)
June 30, 2018	-	186,353	0.00
March 31, 2018	-	(2,737,821)	(0.01)

Comparison of operating results**Quarterly Information**

	Three Months Ended December 31,	
	2019 \$	2018 \$
General and administrative expenses		
Depreciation	34,231	-
Management and director's fees (recovery)	(13,145)	159,000
Office and general	(6,669)	20,044
Professional fees (recovery)	(31,071)	66,700
Share-based compensation	106,000	454,516
Transfer agent and filing fees	9,644	4,332
Travel, marketing and promotion (recovery)	(44,498)	5,042
Total general and administrative expenses	54,492	709,634

Comparison of results for the three months ended December 31, 2019 and 2018:

The Company's general and administrative expenses decreased by \$655,142 in 2019. This is mainly due to a decrease of \$348,516 in share-based compensation expense. In 2018, options were valued higher due to the higher share price at the time of grant using the Black-Scholes Model.

Other costs decreased as the Company will recover from RoyalMax, \$240,000 in overhead and other costs incurred to manage the operations of RoyalMax.

Annual Information

General and administrative expenses	Years Ended December 31,	
	2019	2018
	\$	\$
Depreciation	34,231	-
Management and director's fees	183,855	276,000
Office and general	93,614	107,641
Professional fees	112,629	226,425
Share-based compensation	762,800	4,618,916
Transfer agent and filing fees	56,049	25,194
Travel, marketing and promotion	135,235	225,897
Total general and administrative expenses	1,378,413	5,480,073

Comparison of results for the year ended December 31, 2019 and 2018:

The Company's general and administrative expenses decreased by \$4,101,660 in 2019. This is mainly due to a decrease of \$3,856,116 in share-based compensation expense. The Company granted 26,400,000 options during the year ended December 31, 2018 compared to 13,900,000 options in 2019. These options were valued using the Black-Scholes Model.

Professional fees were higher in 2018 by \$113,796 due to legal fees in relation to the agreement with Yunify.

Transfer agent and filing fees increased by \$30,855 as the Company was listed on the OTCQB in March 2019.

Liquidity and Capital Resources

As of December 31, 2019, the Company reported cash and cash equivalents of \$1,595,110 (December 31, 2018 - \$5,314,938) and working capital of \$3,301,658 (December 31, 2018 - \$7,041,747).

Given the nature of the Company's operations, which consists of investing in applicants for medical marijuana licences, the most relevant financial information relates primarily to current liquidity, solvency, and planned expenditures. The Company's financial success is dependent upon the ability to make sales and generate revenue in the future.

LATEST OUTSTANDING SHARE DATA

The following is the latest share data as of May 29, 2020.

Common shares at December 31, 2019	315,956,557
Plus shares issued subsequent to December 31, 2019	<u>2,657,143</u>
Common shares outstanding at May 29, 2020	<u>318,613,700</u>
Stock options at December 31, 2019	31,050,000
Less stock options expired subsequent to December 31, 2019	<u>(1,750,000)</u>
Stock options outstanding at May 29, 2020	<u>29,300,000</u>
Warrants outstanding at December 31, 2019	5,620,000
Less warrants expired subsequent to December 31, 2019	<u>(1,620,000)</u>
Warrants outstanding at May 29, 2020	<u>4,000,000</u>
Fully diluted at December 31, 2019	<u>352,626,557</u>
Fully diluted at May 29, 2020	<u>351,913,700</u>

OFF BALANCE SHEET TRANSACTIONS

The Corporation has not entered into any off balance sheet agreements.

RELATED PARTY TRANSACTIONS

The following is a summary of transactions with directors and/or officers:

Years ended December 31,	2019	2018
	\$	\$
Director fees – Mr. Deol, Director	9,000	16,000
Director fees – Mr. Panah, Director	7,000	-
Director fees – Mr. Bouchard, Former Director	4,000	16,000
Management fees – Mr. Ziger, CEO	72,000	161,000
Management fees – Mr. Deol, Interim CFO	16,000	-
Management fees – Mr. Brown, Former Interim CFO	75,855	83,000
Share-based compensation – Mr. Ziger, Director and CEO	232,773	892,400
Share-based compensation – Mr. Deol, Director and Interim CFO	-	446,200
Share-based compensation – Mr. Panah, Director	66,507	-
Share-based compensation – Mr. Bouchard, Former Director	-	446,200
Share-based compensation – Mr. Brown, Former Director and Interim CFO	199,520	892,400
Total key management compensation	682,655	2,953,200

Due from related parties	As at December 31,	
	2019	2018
	\$	\$
Expense advance – Mr. Ziger, Director and CEO	2,000	2,000

Due to related parties	As at December 31,	
	2019	2018
	\$	\$
Directors fees – Mr. Deol, Director	-	10,000
Directors fees – Mr. Bouchard, Director	-	10,000
Management fees and incurred expenses – Mr. Ziger, Director and CEO	-	66,476
Incurred expenses – Mr. Brown, Former Director and Interim CFO	-	35,000

The following are related party details for shares issued for debt during the year ended December 31, 2019:

	Shares	Average Unit Price	Fair Value
	#	\$	\$
Management fees – Mr. Ziger, Director and CEO	1,522,222	0.09	137,000
Director fees – Mr. Deol, Director	111,111	0.09	10,000
Director fees – Mr. Bouchard, Former Director	111,111	0.09	10,000
	1,744,444		157,000

The following are related party details for shares issued for debt during the year ended December 31, 2018:

	Shares	Average Unit Price	Fair Value
	#	\$	\$
Management fees – Mr. Ziger, Director and CEO	296,104	0.30	88,000
Management fees – Mr. Brown, Former Director and Interim CFO	166,233	0.29	48,000
	462,337		136,000

Due to related parties include payables to directors and/or officers in the amount of \$nil (December 31, 2018 - \$121,476). These amounts are unsecured and non-interest bearing.

In addition to the key management compensation identified above, below is a summary of all the other related party transactions during the years ended December 31, 2019 and 2018:

During the year ended December 31, 2019, the Company issued 3,733,333 common shares valued at \$288,000 to four directors and/or officers in lieu of a portion of their 2019 compensation and settlement of 2018 bonuses. During the same year, 1,988,889 share issued for debt owing to the former Director and Interim CFO were returned to treasury and the original debt of \$131,000 was settled in cash.

During the year ended December 31, 2019, the Company recognized a share-based compensation of \$46,990 for the 1,250,000 options issued to the related consultant. During the year ended December 31, 2018, no options were issued to the related consultant and therefore \$nil share-based compensation was recognized.

During the year ended December 31, 2019, the Company advanced additional \$1,898,500 in principle to Quebec Co. (2018 - \$960,114). As at December 31, 2019, the Company had an outstanding principal of \$2,858,614 receivable from Quebec Co, (December 31, 2018 - \$960,114).

During the year ended December 31, 2019, the Company provided total funding of \$1,819,504 to RoyalMax (2018 - \$200,000). As at December 31, 2019, the Company had a total advances receivable of \$2,019,504 from RoyalMax (December 31, 2018 - \$200,000).

TRANSACTIONS RELATED TO SHARE ISSUES AND POTENTIAL SHARE ISSUES

In January 2019, 3,588,888 common shares valued at \$0.09 were issued as settlement of 2018 bonuses and 6 months of 2019 compensation to four directors, two of whom are officers, and one consultant. During the period, 922,222 of these shares were returned to treasury and the debt was settled in cash.

In January 2019, 10,625,068 warrants were exercised for proceeds of \$1,049,629.

In January 2019, 11,804,000 warrants exercisable at \$0.10 and 100,000 warrants exercisable at \$0.05 expired unexercised.

In February 2019, the Company granted 1,750,000 stock options to five consultants, among which 250,000 was issued to a consultant related to the Company through her shareholding of the Company and being a close family of a senior officer and director. The options are exercisable at a price of \$0.13 per share for a period of one year expiring on February 4, 2020.

In March 2019, 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 on March 11, 2020.

In May 2019, the Company issued 1,086,957 shares valued at \$97,826 as part of the purchase of 100% of Trichome.

In May 2019, the Company also issued 50,000 common shares to a service provider as settlement of \$5,000 of debt.

In July 2019, the Company granted 7,500,000 and 1,050,000 stock options to three directors and/or officers and three consultants, respectively. The options are exercisable at a price of \$0.075 per share of which 7,500,000 expire on July 12, 2024, and 1,050,000 on July 12, 2020.

In August 2019, the Company issued the second installment of 1,086,957 shares valued at \$97,826 as part of the Trichome acquisition. An additional 2,173,913 shares are due in two future installments based upon completion of milestones.

In August 2019, 1,066,667 common shares valued at \$0.045 were issued as settlement 2019 compensation to an officer of the Company. These shares were subsequently returned to treasury and the debt was settled in cash.

In October 2019, the Company granted 2,250,000 stock options to three consultants, among which 1,000,000 was issued to the aforementioned related consultant. The options are exercisable at \$0.035 and expire on October 31, 2024.

In November 2019, the Company granted 1,250,000 stock options to two consultants. The options are exercisable at a price of \$0.04 per share of which 250,000 expire on November 29, 2024, and 1,000,000 on November 29, 2021.

During the year ended December 31, 2019, 12,850,000 options expired unexercised.

EVENTS SUBSEQUENT TO DECEMBER 31, 2019

Subsequent to December 31, 2019, the Company issued 2,657,143 common shares to management and a consultant for 2020 compensation and fees.

In February 2020, 1,750,000 options exercisable at \$0.13 expired unexercised.

In February 2020, the Company earned its 65% interest in RoyalMax when RoyalMax received a standard processing license from Health Canada, which allows the Company to deliver products to the recreational market throughout Canada, and a license for sale for medical purposes, which allows the Company to provide product directly to patients. The Company also obtained the additional 5% for having paid \$150,000 of the final cash payment of \$400,000 in advance with the remaining \$250,000 to be paid in 2020.

In April 2020, 1,620,000 broker warrants exercisable at \$0.45 expired unexercised.

On May 19, 2020, the Company and 93802601 Quebec Inc. entered into agreements whereby all of the issued and outstanding common shares of 93802601 Quebec Inc. were put into escrow, and the Company has the option to purchase these shares for the sum of \$40,000. The Company prepaid this \$40,000 and has the right to call upon these shares to be transferred to the Company, or a nominee of the Company, at any time. In addition, the original line of credit for \$1,500,000 was subsequently increased to \$3,000,000 in May 2020 with an updated mortgage of \$3,000,000 registered against the agricultural property.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses for the periods reported. 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. Significant areas requiring the use of management judgement and estimates include impairment of investments, loans receivable and non-financial assets, decommissioning liabilities, deferred income tax assets and liabilities, assumptions used in valuing options in share-based payment calculations, indemnification provision for flow-through shares and interest and penalties of flow-through shares, useful life of right of use asset, discount rate and lease terms used in adoption of IFRS 16, determination of control and significant influence, and going concern. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

ADOPTION OF NEW PRONOUNCEMENTS

IFRS 16 Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. Under IFRS 16, the majority of off balance sheet leases became on balance sheet liabilities. The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16.

The Company has applied the following practical expedients:

- (i) The Company applied the simplified transition approach and did not restate comparative information. As a result, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the deficiency as at January 1, 2019.
- (ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRIC 4, determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

In accordance with the practical expedients applied, the Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. In addition, the Company has elected not to record depreciation of the right-of-use assets prior to the date of initial application.

Upon transition to the new standard, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets and lease liabilities were recognized on the consolidated statement of financial position with the cumulative difference recognized in deficit.

At the date of initial application, the Company had one non-cancellable lease, resulting in a recognition of a lease liability and a right-of-use asset of \$211,092 with \$nil difference recognized in deficit. The weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position on the date of initial application is 6%.

IFRIC 23 Uncertainty Over Income Tax Treatments (“IFRIC 23”)

This new Interpretation was issued by the IASB in June 2017. The Interpretation requires that: an entity determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty; an entity consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, it must reflect the effect of uncertainty by using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of this interpretation.

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.

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.

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

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

IFRS 3 Business Combinations ("IFRS 3")

IFRS 3 was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

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.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has classified its cash and cash equivalents, short-term investments, 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:

	As at December 31,	
	2019	2018
	\$	\$
FVTPL (i)	3,249,070	7,126,188
Short-term loan	-	105,250
Long-term loans	4,993,991	1,182,193
Other financial liabilities (ii)	91,736	283,368

(i) Cash and cash equivalents, short-term investments, and marketable securities

(ii) Accounts payable and accrued liabilities, due to related parties, and flow-through renunciation obligations.

Fair value

As at December 31, 2019, the Company's financial instruments consist of cash and cash equivalents, short-term investments, marketable securities, short-term loan, accounts payable and accrued liabilities, due to related parties, and flow-through renunciation obligations. The fair values of these financial instruments approximate their carrying values because of their short-term nature.

IFRS 7 "Financial Instruments – Disclosures", requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. IFRS 7 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

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

At December 31, 2019:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	1,595,110	-	-	1,595,110
Short-term investments	1,505,000	-	-	1,505,000
Marketable securities	148,960	-	-	148,960
Convertible debenture	-	-	1	1

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

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 and comprehensive loss.

A summary of the changes in financial instruments classified as Level 3 for the year ended December 31, 2019 is presented below:

	\$
Balance, December 31, 2017	1,050,000
Additions	656,000
Fair value adjustment	(655,999)
Transfers out	(1,050,000)
Balance, December 31, 2018 and December 31, 2019	1

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 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 and cash equivalents. To minimize the credit risk on cash the Company places the instrument with a financial institution.

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.

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.

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 upon the 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.

RISK AND UNCERTAINTIES

The development of medical marijuana facilities involves many risks, many of which are outside the Company's control. In addition to the normal and usual risks of project development, the Company may work in remote locations that lack the benefit of infrastructure or easy access.

The economics of developing marijuana facilities are affected by many factors including the cost of operations, variations of the quality of products grown, fluctuations in the price of the products produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting.

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations. The Company would be adversely affected by the loss of services of key personnel and restrictions on cross border trade.

Foreign countries, laws and regulations

The Company has an incorporated subsidiary in Nevada, USA, and is therefore exposed to the laws governing the mining industry in the State of Nevada and the USA.

Commodity prices

The profitability of the Company's royalty interest, if established, will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, world supply of mineral commodities, consumption patterns, forward sales by producers, production, industrial and jewelry demand, speculative activities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political development. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production of the Company's royalty interest to become impractical.

The price of lithium may have an influence on the perceived value of the Company's royalty interests.

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, 2019, the Company had unfulfilled CEE obligations of \$42,770 (2018 - \$42,770). As the Company did not fulfill the expenditure obligation, the Company paid \$56,437 in 2018 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, 2019, an estimated amount accrued relating to the indemnification on the unfulfilled commitments totalled \$38,214 (2018 - \$63,683). The outcome of the amounts 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.

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.

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 and exercised the renewal option to extend the lease for another 5 years and 2 months. The remaining rental commitment, excluding operating expenses such as common area maintenance fees (which are considered as non-lease component), is \$224,184.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Financial Officer and Chief Executive Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("the Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Company's Certifying Officers are also responsible for establishing and maintaining internal controls over financial reporting ("Internal Controls") and have designed such Internal Controls, or caused it to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There are inherent weaknesses in the Internal Controls due to the small size of the Company and its inability to segregate incompatible functions. The Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the weakness at this time.

The Certifying Officers evaluate the Company's internal controls on a regular basis and have certified that there was no change in the Company's internal controls during the year ended December 31, 2019 that materially affected, or is reasonably likely to materially affect, the Company's internal controls.

APPROVAL

The Board of Directors of Matica Enterprises Inc. has approved the disclosure contained in this MD&A on May 29, 2020. A copy of this MD&A will be provided to anyone who requests it and can be obtained, along with additional information, under the Company profile on the SEDAR website at www.sedar.com.