MATICA

MATICA ENTERPRISES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)

McGovern
Hurley

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of Matica Enterprises Inc.

Opinion

We have audited the consolidated financial statements of Matica Enterprises Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity 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, 2019 and 2018, 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.

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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.

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
May 29, 2020

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	3	**1,595,110**	5,314,938
Short-term investments	3	**1,505,000**	-
Marketable securities	4	**148,960**	1,811,250
HST receivable		**16,758**	16,244
Prepaid expenses		**96,636**	77,433
Inventory	5	**54,746**	-
Short-term loan	6(e)	**-**	105,250
Total current assets		**3,417,210**	7,325,115
Right of use asset	8	**176,861**	-
Intellectual property	6(c)	**163,043**	-
Investment in RoyalMax	6(b)	**6,221,355**	6,221,355
Investment in Yunify	6(a)	**1**	1
Long-term loans	6(b)(d)	**4,993,991**	1,182,193
TOTAL ASSETS		**14,972,461**	14,728,664
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		**53,522**	98,209
Due to related parties	10	**-**	121,476
Lease obligation - current	8	**23,816**	-
Flow-through renunciation obligations	13	**38,214**	63,683
Total current liabilities		**115,552**	283,368
Lease obligation - long term	8	**167,447**	-
TOTAL LIABILITIES		**282,999**	283.368
SHAREHOLDERS' EQUITY			
Share capital	9	**25,928,264**	24,470,592
Contributed surplus	9	**5,472,638**	6,075,982
Deficit		**(16,711,440)**	(16,101,278)
Total shareholders' equity		**14,689,462**	14,445,296
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,972,461**	14,728,664

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 6(c), 13 and 14)
SUBSEQUENT EVENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD ON MAY 29, 2020:

/s/ "Boris Ziger" — Director

/s/ "Gurcharn Deol" — 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, 2019 AND 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
		$	$
GENERAL AND ADMINISTRATIVE EXPENSES			
Depreciation		**34,231**	-
Management and directors' fees	10	**183,855**	276,000
Office and general		**93,614**	107,641
Professional fees		**112,629**	226,425
Share-based compensation	9(d),10	**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
OTHER INCOME (EXPENSES)			
Other income		**88,752**	83,328
Realized gain on marketable securities	4	**627,662**	-
Unrealized (loss) gain on marketable securities	4	**(1,210,557)**	761,250
Write-down of investments	6(a)(e)	**(103,750)**	(655,999)
Part XII taxes and interest related to flow-through shares	13	**-**	30,032
Total other (expenses) income		**(597,893)**	218,611
NET LOSS AND COMPREHENSIVE LOSS		**(1,976,306)**	(5,261,462)
LOSS PER SHARE - BASIC AND DILUTED		**(0.01)**	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		**315,333,800**	292,155,786

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

		Common shares		Contributed		Shareholders'
	Notes	**Shares**	**Amount**	**Surplus**	**Deficit**	**Equity**
		#	$	$	$	$
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	9(b)	5,620,000	1,025,000	-	-	1,025,000
Options exercised	9(b)(d)	6,800,000	4,227,083	(1,335,083)	-	2,892,000
Options expired/cancelled	9(d)	-	-	(920,425)	920,425	-
Warrants exercised	9(b)(c)	22,525,667	2,509,386	-	-	2,509,386
Shares issued for services	9(b)	648,051	184,000	-	-	184,000
Share-based compensation	9(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
Options expired/cancelled	9(d)	-	-	(1,366,144)	1,366,144	-
Warrants exercised	9(b)(c)	10,625,068	1,049,629	-	-	1,049,629
Shares issued for acquisitions	6(c),9(b)	2,173,914	163,043	-	-	163,043
Shares issued for debt and services	9(b)	2,716,666	245,000	-	-	245,000
Share-based compensation	9(d)	-	-	762,800	-	762,800
Net loss		-	-	-	(1,976,306)	(1,976,306)
Balance, December 31, 2019		315,956,557	25,928,264	5,472,638	(16,711,440)	14,689,462

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

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		$	$
OPERATING ACTIVITIES			
Net loss		**(1,976,306)**	(5,261,462)
Items not involving cash			
Realized (gain) on marketable securities		**(627,662)**	-
Unrealized loss (gain) on marketable securities		**1,210,557**	(761,250)
Write-down of short-term loan and investment		**103,750**	655,999
Share-based compensation		**762,800**	4,618,916
Shares issued for services		**120,000**	184,000
Accrued interest income		**(87,294)**	(83,329)
Depreciation		**34,231**	-
		(459,924)	(647,126)
Changes in non-cash working capital items:			
HST receivable		**(514)**	(9,303)
Prepaid expenses		**(19,203)**	(46,548)
Inventory		**(54,746)**	-
Accounts payable and accrued liabilities		**75,313**	32,980
Interest and penalty accrual on flow-through shares		**(25,469)**	(86,469)
Cash Used in Operating Activities		**(484,543)**	(756,466)
INVESTING ACTIVITIES			
Short-term investments		**(1,505,000)**	-
Convertible debenture		**-**	(600,000)
Investment in RoyalMax		**-**	(2,616,291)
Long-term loans		**(3,718,004)**	(1,060,114)
Sale of marketable securities		**1,079,395**	-
Cash Used in Investing Activities		**(4,143,609)**	(4,276,405)
FINANCING ACTIVITIES			
Principal payments on lease obligation		**(19,829)**	-
Units issued for cash		**-**	1,025,000
Exercise of options		**-**	2,892,000
Exercise of warrants		**1,049,629**	2,509,386
Due to related parties		**(121,476)**	107,757
Cash Provided by Financing Activities		**908,324**	6,534,143
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,719,828)**	1,501,272
CASH AND CASH EQUIVALENTS, BEGINNING		**5,314,938**	3,813,666
CASH AND CASH EQUIVALENTS, ENDING		**1,595,110**	5,314,938
NON-CASH TRANSACTIONS:			
Right-of-use asset	8	**211,092**	-
Shares issued for debt	9(b)	**120,000**	-
Shares issued for acquisitions	6(c)	**163,043**	-
Shares issued for increase in loan receivable	9(b)	**5,000**	-
Units issued as finder's fee	9(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. In March 2019, the Company's common shares were approved for trading on the OTCQB under the symbol MMJFF.

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 7). 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 $1,976,306 for the year ended December 31, 2019 (2018 - $5,261,462), a deficit of $16,711,440 (December 31, 2018 - $16,101,278) and working capital of $3,301,658 (December 31, 2018 - $7,041,747) which has been funded primarily by the issuance of equity and exercises of equity instruments. Management believes that the working capital balance is sufficient to support planned operations for the next twelve months. 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. 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 the success of its ability to grow and sell 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

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 May 29, 2020.

2. BASIS OF PRESENTATION (continued)

Basis of preparation

These 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.

Consolidation

These consolidated financial statements for the years ended December 31, 2019 and 2018 include the accounts of Matica, and its 100% wholly owned subsidiaries Ravenline Exploration Ltd. ("Ravenline"), Nevada subsidiary Ravenline USA Ltd. ("Ravenline USA"), Trichome Treats Inc. and 10406619 Canada Inc. The Company previously held mineral claims to Nevada properties through Ravenline USA.

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

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, 2019, the Company held $1,275,500 (2018 - $nil) in cashable guaranteed investment certificates bearing interest at an average rate of 1.8%.

Short-term investments

The Company considers short-term interest-bearing securities that have maturities greater than three months but less than a year when acquired to be short-term investments. As at December 31, 2019, the Company held $1,505,000 in short-term investments (2018 - $nil) comprised of guaranteed investment certificates bearing interest at 2.2%.

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.

Inventory

Inventory is comprised of finished goods acquired for resale. Inventory is recorded at the lower of cost and net realizable value. Cost is determined on a standard cost basis, and includes the purchase price and other costs, such as import duties, taxes and transportation costs. Inventory cost is determined on a first-in, first-out basis and any trade discounts and rebates are deducted from the purchase price.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Foreign currency translation

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

In preparing these consolidated 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.

Financial instruments

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. Short-term and long-term loans 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 and comprehensive loss. The Company measures its cash and cash equivalents, short-term investments, marketable securities and convertible debenture receivable at FVTPL.

Publicly traded investments
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.

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.

The determination of fair value of the Company's privately-held investments at other than initial cost is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable. The Company did not have any privately-held investments as at December 31, 2019 and 2018.

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 loss and 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 loss and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company recognizes interest and other income from the loans receivable in the consolidated statements of loss and 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.

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, lease obligations, 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 and comprehensive loss.

Determination of fair value
The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate

Investment in associate is accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investment of this nature is recorded at original cost and adjusted to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received.

Dilution gains and losses arising from changes in interests in investment in associate where significant influence is retained are recognized in operations. At each reporting date, the Company determines whether there is any objective evidence that the investment in the associate is impaired or if previously recorded impairment should be reversed. If impairment is determined to exist, the amount of the impairment is recognized in the consolidated statement of loss and comprehensive loss. The amount of impairment is calculated as the difference between the recoverable amount of the investment in the associate and its carrying value.

Intangible assets

Estimated useful lives and amortization of intangible assets

Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. The estimated useful lives and amortization methods are reviewed at the end of each reporting year, with the effect of any changes in the estimate being accounted for on a prospective basis.

An intangible asset with an indefinite useful life is not amortized, but is tested annually for impairment.

Intangible assets acquired separately

Intangible assets that are acquired separately are measured at fair value at the acquisition dates and these with finite useful lives are subsequently carried at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditures are capitalized only when it increases the future economic benefits that form part of the specific asset to which it relates and other criteria have been met. Otherwise, all other expenditures are recognized in net loss as incurred.

De-recognition of intangible assets

An intangible asset is de-recognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net loss when the asset is de-recognized.

Impairment

At each reporting date, the carrying amounts of the Company's assets with definite lives 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 assets with indefinite useful lives are assessed for impairment annually and whenever there is an indication of impairment. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company generates revenues from the sale of products. Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Gross revenue excludes duties and taxes collected on behalf of third parties. Net revenue from sale of goods, as presented in the consolidated statement of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts, returns on sales of defective products and customer rebates. The Company's contracts with customers for the sales of products consist of one performance obligation.

The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment or delivery, depending on the contract. The Company's payment terms range from 30 to 60 days from the transfer of control. The Company did not have significant revenues during the years ended December 31, 2019 and 2018.

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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Private placement units

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Leases in accordance with IFRS 16, adopted January 1, 2019

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of plant and equipment.

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. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases in accordance with IAS 17, prior to January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Finance leases are capitalized at the commencement of the lease at the fair value of the leased property as of the inception date or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of loss and comprehensive loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. The Company did not have any finance leases during the year ended December 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating lease payments are recognized as selling, general and administrative expenses in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term and include renewal terms when it is reasonably certain that the option will be exercised. Contingent rentals arising under operating leases are recognized as an expense in the year in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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.

Significant accounting judgments, estimates and assumptions

The preparation of the 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.

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.

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 investments and loans receivable. Such estimates and assumptions primarily relate to the timing and amount of future cash flows.

Determining an allowance for expected credit losses ("ECLs") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of financial instruments
The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its investment in convertible debenture and 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.

Share-based compensation
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.

Contingencies
Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that are not recognized because either it is not probable that an outflow of economic benefits would be required to settle the obligation or the amount cannot be measured reliably.

Contingent liabilities are not recognized but are disclosed and described in the notes to the consolidated financial statements, including an estimate of their potential financial effect and uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company, with assistance from its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

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 renunciation obligations.

Consolidation
The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over an entity, exposure or rights of variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements contain rights that are designed to protect the Company's interest, without giving it power over the entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate and determination of significant influence

The Company considers its investment in RoyalMax Biotechnology Canada Inc. ("RoyalMax") to be subject to significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. Management reviews the relevant factors and made considerations in determining whether significant influence exists in associates. Significant judgment is involved in the determination of significant influence. In particular, the Company has assessed that it exerts significant influence over RoyalMax despite owning 0% of the outstanding shares of RoyalMax and having no voting control during the years ended December 31, 2019 and 2018. Management believes that it is able to exercise significant influence through its provision of funding, participation in decision-making processes given that an officer and director of the Company is General Manager of RoyalMax. See Note 6(b).

Impairment of investment in associate and due from associate exists when the carrying value of the investment in associate and due from associate exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

Useful life of right of use asset

The Company employs significant estimates to determine the estimated useful lives of right of use asset, considering industry trends such as technological advancements, past experience, expected use and review of asset useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

Discount rate and lease term used in adoption of IFRS 16

The determination of the Company's lease liabilities and right-of-use assets depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Management determines the incremental borrowing rate for each leased asset by taking into account the Company's credit standing, the guarantee, the term and the value of the underlying leased asset, as well as the economic environment in which the leased asset is operated. Incremental borrowing rates can be changed due to macroeconomic changes in the environment. To determine the appropriate lease term, management considers all relevant facts and circumstances that create an economic incentive for the Company to exercise a renewal option or not to exercise a termination option. The periods covered by the renewal options are included in the lease term only if management is reasonably certain it will renew the lease. Changes in the assumptions used may have a significant effect on the consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

New accounting policies

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%.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The following standards will be effective for annual periods beginning on or after January 1, 2020:

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.

4. MARKETABLE SECURITIES

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. The 525,000 shares were exchanged for 2,625,000 shares of Biome Grow Inc. which became listed and trading on the CSE in October 2018. At December 31, 2018, the value of these 2,625,000 shares was adjusted to $1,811,250 to reflect the quoted market value.

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.

5. INVENTORY

At December 31, 2019, inventory was comprised of 9,776 bottles of Ionic Mist, odour neutralizing sprays (2018 – nil).

During the year ended December 31, 2019, $1,254 (2018 - $nil) of inventory was expensed. Inventory as at December 31, 2019 was carried at cost.

6. 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 as amended in March 2019. 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. During the year ended December 31, 2018, the Company recorded an interest accrual of $56,000 and a write down of $655,999 based on management's estimate of the fair value of the convertible debenture.

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. The investment is being reported at a $1 nominal value based on management's estimate of its fair value. In March 2020, the Company subsequently granted an additional one-year extension to extend the maturity date to March 20, 2021 with all the other terms unchanged. See Note 17(d).

(Expressed in Canadian Dollars)

6. OTHER INVESTMENTS (continued)

(b) RoyalMax Biotechnology Canada Inc.

In March 2017, the Company signed a letter of intent ("LOI") with 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 located at Dorval, Quebec ("Dorval facility") up to and including receiving licenses from Health Canada. The Company may earn an additional 5% interest for making total cash payments of $800,000, $400,000 due within 30 days of notification of licensing by Health Canada (paid in advance in 2018), and $400,000 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. In February 2020, the Company finalized its acquisition of RoyalMax and 70% shares held in trust were subsequently released. See Note 17(c).

The investment in RoyalMax is considered to be an investment in associate, subject to significant influence by the Company. An officer and director of the Company is General Manager of RoyalMax. A reconciliation of carrying amount of the investment in RoyalMax is set out below:

	$
Balance, December 31, 2017	3,805,064
Capital contributions – funding of facility	2,416,291
Share of net loss and comprehensive loss	-
Balance, December 31, 2018 and 2019	6,221,355

The following is a summary of the financial information for RoyalMax as at and for the years ended December 31, 2019 and 2018:

	2019 $	2018 $
Current assets	1,263,269	141,146
Non-current assets	5,309,961	4,481,124
Current liabilities	84,269	39,106
Loan payable to Matica	2,019,504	200,000
Non-current liabilities	1,089,057	-
Total net loss and comprehensive loss	1,002,764	690,542

RoyalMax was incorporated on February 8, 2016, under the Quebec Business Corporations Act, and operates mainly in Canada with the objective to sell medical and recreational marijuana. As at December 31, 2018 and 2019, all the RoyalMax's assets were located in Canada.

Additional amounts were advanced by the Company to RoyalMax as follows:

	$
Balance, December 31, 2017	-
Advances	200,000
Balance, December 31, 2018	200,000
Advances	1,819,504
Balance, December 31, 2018 and 2019	2,019,504

6. OTHER INVESTMENTS (continued)

The advances are unsecured, non-interest bearing and due on demand and included in long-term loans in the consolidated statement of financial position as the Company does not expect to demand repayment of these advances during the next 12 months. During the year ended December 31, 2019, the Company reclassified $200,000 from the carrying amount of investment in RoyalMax to long term loans as at December 31, 2018 to reflect the correct nature of this advance.

(c) Investment in Trichome

In May 2019, the Company entered into a share purchase agreement with Trichome Treats Inc. and 10406619 Canada Inc. (together as "Trichome"), pursuant to which the Company acquired a 100% interest in Trichome for the purpose of acquiring Trichome's recipes, for total consideration of 4,347,826 common shares of the Company, issuable in four installments. In connection with the share purchase agreement, the Company also entered into a royalty agreement in May 2019 with the original shareholders of Trichome, pursuant to which the Company is required to pay a gross revenue royalty of 0.5% in perpetuity to these original shareholders on any edibles under the purchased brands sold.

In May 2019, the Company issued 1,086,957 shares valued at $97,826 based on the quoted market price of the Company's shares, as the first installment. In August 2019, the Company issued an additional 1,086,957 shares valued at $65,217 based on the quoted market price of the Company's shares, as part of the acquisition. The remaining 2,173,912 shares are due in two equal installments based upon completion of certain milestones, which include receipt of a license to produce edibles. The remaining two instalments will be recorded in the financial statements when the milestones are met. The Company intends to work with Trichome to produce edible cannabis infused products.

The acquisition of Trichome was determined to be an asset acquisition with the acquired intellectual property recognized at the fair value of shares issued given that the fair value of the intellectual property cannot be estimated reliably. The intellectual property is assessed to have an indefinite life based on its nature. The value of consideration paid has been presented as intellectual property on the consolidated statement of financial position.

(d) 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 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. See Note 17(g). The loan balance at December 31, 2019 was $2,974,487 (2018 - $982,193).

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. The two shareholders of the Quebec corporation are family members of a former officer and director of the Company.

(e) 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. In March 2019, the Company granted a six-month loan extension to Capital NX in exchange for an interest rate increase from 1% per month to 1.5% per month (18% per annum) retroactive to September 2018. Capital NX defaulted in October 2019 and the Company wrote-off the loan as at December 31, 2019.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSET

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.

8. LEASES

The Company has a lease agreement in place for its office premises as a lessee. The lease is for office space in Toronto. Lease payments consist of a basic rent of approximately $2,650 per month to the end of the initial term, January 2020, with subsequent renewals through March 2025 with an escalating basic rent from approximately $3,555 to $3,800 per month. Information about the lease is presented below.

(a) Right-of-use asset

Land-use rights	**As at December 31, 2018**	**As at January 1, 2019**	**Additions**	**As at December 31, 2019**
Cost	$ -	$ 211,092	$ -	$ 211,092
Accumulated depreciation	-	-	(34,231)	(34,231)
Net book value	$ -	$ 211,092	$ (34,231)	$ 176,861

(b) Lease obligation

	$
Lease obligation as at January 1, 2019	211,092
Interest expense	11,967
Lease payments	(31,796)
Lease obligation at December 31, 2019	191,263

(c) The following is a reconciliation from the undiscounted lease payments to the lease obligation. The lease payments only include basic rent amounts and exclude certain operating expenses, such as common area maintenance fees which are considered as non-lease components.

Year	$
2020	34,639
2021-2024	178,107
2025	11,438
Total contractual cash flows	224,184
Less: interest	(32,921)
Lease obligation at December 31, 2019	191,263

9. 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, 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).

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.

Shares issued for the year ended December 31, 2019:

In January 2019, the Company issued 2,666,666 common shares (valued at $240,000) to four directors, two of whom are officers, for settlement of 2018 bonuses and six months of their 2019 compensation. In addition, 1,066,667 common shares (valued at $48,000) were issued to the CFO for services rendered. During the year ended December 31, 2019, 1,988,889 of these shares (valued at $131,000) were returned to treasury and the original debt amount was settled in cash.

In January 2019, the Company also issued 922,222 common shares to a service provider as settlement of $83,000 of debt (based on the quoted market price on the date of issuance).

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

In May 2019, the Company issued 1,086,957 common shares (valued at $97,826) for the acquisition of Trichome. The Company issued a second installment of 1,086,957 common shares (valued at $65,217) in August 2019. The value of the shares was based on the quoted market price on the date of issuance. See Note 6(c).

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

In May 2019, the Company also issued 50,000 common shares to a service provider, who performed services for 93802601 Quebec Inc. described in Note 6(d), as settlement of $5,000 of debt (based on the quoted market price on the date of issuance) and recorded it as an addition to the loan to 93802601 Quebec Inc.

(c) Share purchase warrants

A summary of the changes in the Company's warrants for the years ended December 31, 2019 and 2018 is presented below:

	Number of warrants	Weighted average exercise price
		$
Balance, December 31, 2017	45,128,735	0.11
Issued	5,620,000	0.28
Exercised	(22,525,667)	(0.11)
Expired	(74,000)	(0.15)
Balance, December 31, 2018	28,149,068	0.13
Exercised	(10,625,068)	(0.10)
Expired	(11,904,000)	(0.10)
Balance, December 31, 2019	5,620,000	0.28

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

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

The following table summarizes the share purchase warrants outstanding and exercisable as at December 31, 2019:

Exercise price	Expiry date	Number of warrants
$ 0.450	04/11/2020*	1,620,000
$ 0.205	10/19/2023	4,000,000
		5,620,000

*see Note 17(e)

As at December 31, 2019, 5,620,000 warrants (2018 - 28,149,068 warrants) with a weighted average remaining contractual life of 2.79 years (2018 – 0.78 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.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

A summary of the changes in the Company's stock options for the years ended December 31, 2019 and 2018 is presented below:

	Number of options	Weighted average exercise price
		$
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
Options granted	13,900,000	0.07
Options cancelled or expired	(12,850,000)	(0.17)
Balance, December 31, 2019	31,050,000	0.20

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 expired on January 23, 2019.

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

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 from date of grant.

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 member 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.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

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 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.

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

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

The weighted average grant date fair value of stock options granted during the year ended December 31, 2019 was $0.07 (2018 - $0.16).

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

Issue date	November 29, 2019	November 29, 2019	October 31, 2019	July 12, 2019	July 12, 2019	March 11, 2019
Share price	$0.04	$0.04	$0.035	$0.075	$0.075	$0.11
Risk free interest rate	1.57%	1.63%	1.53%	1.45%	1.52%	1.67%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	140%	140%	140%	140%	140%	140%
Expected life	5 years	2 years	5 years	5 years	1 years	1 years

Issue date	February 4, 2019	December 11, 2018	October 15, 2018	August 23, 2018	August 23, 2018	July 3, 2018
Share price	$0.13	$0.10	$0.195	$0.175	$0.175	$0.35
Risk free interest rate	1.81%	2.06%	2.26%	2.14%	2.16%	1.90%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	140%	140%	105%	140%	166%	115%
Expected life	1 years	0.6 years	0.6 years	0.5 years	3 years	0.2 years

Issue date	March 23, 2018	March 23, 2018	February 3, 2018	January 3, 2018
Share price	$0.35	$0.35	$0.32	$0.58
Risk free interest rate	1.80%	1.92%	1.81%	1.73%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	140%	163%	159%	140%
Expected life	0.5 years	3 years	0.5 years	0.5 years

Volatility was estimated based on the historical volatility of the Company for the same time frame as the expected contractual life of the stock options.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

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

Exercise price	Expiry date	Number of options
$ 0.13	02/04/2020*	1,750,000
$ 0.075	07/12/2020	950,000
$ 0.075	10/15/2020	3,000,000
$ 0.175	10/15/2020	2,000,000
$ 0.35	10/15/2020	2,000,000
$ 0.42	10/15/2020	2,000,000
$ 0.16	11/24/2020	100,000
$ 0.42	12/24/2020	3,000,000
$ 0.35	03/23/2021	4,250,000
$ 0.175	08/23/2021	4,000,000
$ 0.04	11/29/2021	1,000,000
$ 0.075	07/12/2024	4,500,000
$ 0.035	10/31/2024	2,250,000
$ 0.04	11/29/2024	250,000
		31,050,000

*see Note 17(b)

As at December 31, 2019, 31,050,000 options (2018 - 30,000,000) with a weighted average remaining contractual life of 1.8 years (2018 – 1.7 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each option held.

10. RELATED PARTY TRANSACTIONS

Due to related parties comprised amounts owed to directors and officers as at December 31, 2019 of $Nil (December 31, 2018 - $121,476). These amounts were unsecured, due on demand and non-interest bearing.

During the year ended December 31, 2019, the Company issued 3,733,333 (2018 – 462,337) common shares valued at $288,000 (2018 - $136,000) 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 shares paid for debt to the former CFO were returned to treasury and the original debt of $131,000 was settled in cash.

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, 2019 and 2018. Short-term key management compensation for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
	$	$
Director fees	20,000	32,000
Management fees, paid to officers and directors	163,855	244,000
Share-based compensation to officers and directors	498,800	2,677,200
Total key management compensation	682,655	2,953,200

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (continued)

See also Notes 6(b)(d) and 17.

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 described in Note 9(d).

11. 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.

There were no changes in capital management for the years ended December 31, 2019 and 2018.

12. FINANCIAL INSTRUMENTS AND RISK

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:

	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, flow-through renunciation obligations and due to related parties

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 value of these current financial instruments approximate their carrying values because of their short-term nature.

The Company's financial instruments measured at fair value on a recurring basis at 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

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RISK (continued)

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 years ended December 31, 2019 and 2018 is presented below:

	$
Balance, December 31, 2017	1,050,000
Additions	656,000
Fair value adjustment	(655,999)
Transfers out (see Note 4)	(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 and loans receivable. The carrying amounts of these assets represent the maximum credit exposure.

The Company considers that its cash and cash equivalents have low credit risk because these are held with a financial institution.

For loans receivable, the Company applies the three-stage approach to measure allowance for credit losses, using the expected credit loss impairment approach as required under IFRS 9.

The allowance for credit losses is based on the stage in which the financial instrument falls on the reporting date. The financial instruments migrate through the three stages based on the change in their risk of default since initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted credit loss that considers numerous scenarios based on reasonable and supportable information about past events, current conditions and future forecasts of economic conditions. Forward-looking information is incorporated into the estimation of ECL as necessary.

12. FINANCIAL INSTRUMENTS AND RISK (continued)

The ECL impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

- Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to twelve months ECL is recorded. The ECL is computed using a probability of default occurring over the next twelve months. The 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. For those instruments with a remaining maturity of less than twelve months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a significant increase in credit risk after initial recognition but is not considered to be in default, it is included in stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are in default are included in this stage. Similar to stage 2, the allowance for credit losses captures lifetime ECL.

The determination of whether the ECL on a financial instrument is calculated on a twelve-month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis.

The measurement of ECL for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The Company considers a financial instrument to be in default when: (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse like the existence of a general security agreement (if any is held); or (ii) the borrower is past due more than 90 days on any material credit obligation to the Company. The Company classifies a receivable as impaired when, in its opinion, there is a reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest, or the loan is past due greater than 90 days.

The Company writes off an impaired financial asset, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is after the expected receipts from the realization of collateral. In subsequent periods, recoveries if any, against written off loans are credited to the provision for credit losses in the consolidated statements of loss and comprehensive loss.

As at December, 31, 2019, one of the loans which was unsecured and was in Stage 3 due to its default status was written off. The Company has assessed the remaining two loans and concluded that these are in Stage 1 as there is no significant increase in credit risk since initial recognition. The Company acquired control of both creditors subsequent to December 31, 2019. The Company also considers the secured loan to have low credit risk due to the value of the collateralized property.

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.

12. 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.

13. 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 (December 31, 2018 - $63,683). 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.

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.

14. 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. See Note 8.

(Expressed in Canadian Dollars)

15. SEGMENT DISCLOSURE

Geographic information

The Company's assets at December 31, 2019 and 2018 were based solely in Canada.

Operating segments

During the year ended December 31, 2019, the Company operates in the health related sector and is investing in an ACMPR applicant in Quebec, Canada (see Note 6(b)). The Company continues to hold a royalty on a Nevada Lithium property carried at $nil value as at December 31, 2019 (see Note 7).

16. 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:

	2019	2018
Combined statutory tax rate	26.5%	26.5%
	$	$
Income tax recovery at combined statutory rate	524,000	1,394,000
Non-deductible items	(202,000)	(1,305,000)
Other	(323,000)	112,000
Amounts not recognized	1,000	(201,000)
Income tax expense	–	–

At December 31, 2019 and 2018, the amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position is as follows:

	2019 Temporary Difference	2018 Temporary Difference
	$	$
Non-capital losses	5,780,000	5,903,000
Mineral properties	1,096,000	1,175,000
Marketable securities and capital losses	324,000	434,000
Share issue costs	126,000	218,000
	7,326,000	7,730,000

As at December 31, 2019, the Company had non-capital losses carried forward of approximately $5,780,000 (2018 - $5,903,000) which may be applied to reduce future years' taxable income, expiring as follows:

	$
2032	311,000
2033	480,000
2034	1,695,000
2035	1,368,000
2036	477,000
2038	872,000
2039	577,000
	5,780,000

16. INCOME TAXES (continued)

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.

17. SUBSEQUENT EVENTS

a) In January 2020, the Company issued 2,657,143 common shares to management and a consultant for 2020 compensation and fees.

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

c) 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.

d) In March 2020, the Company granted another one-year extension on the debenture maturity with Yunify at an interest rate of 1% per month (12% per annum). All the other terms remained unchanged.

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

f) COVID-19
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.

g) 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.