MATICA ENTERPRISES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2020 AND 2019
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	March 31, 2020	December 31, 2019
			(Audited)
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	12	**1,703,326**	1,595,110
Short-term investments	12	**750,000**	1,505,000
Marketable securities	5	**51,205**	148,960
Accounts receivable		**862,403**	16,758
Prepaid expenses		**260,285**	96,636
Biological assets	6(a)	**134.589**	-
Inventory	6(b)	**1,356,965**	54,746
Total current assets		**5,118,773**	3,417,210
Plant and equipment		**3.375,726**	-
Right of use asset		**1,208,873**	176,861
Intellectual property	7(b)	**163,043**	163,043
Goodwill	4	**3,917,204**	-
Investment in RoyalMax	4	**-**	6,221,355
Investment in Yunify	7(a)	**1**	1
Long-term loans	7(c)	**3,260,957**	4,993,991
TOTAL ASSETS		**17,044,577**	14,972,461
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		**175,837**	53,522
Due to related parties	10	**9,367**	-
Lease obligation - current		**47,386**	23,816
Flow-through renunciation obligations	13	**38,214**	38,214
Total current liabilities		**270,804**	115,552
Lease obligation - long term		**1,244,391**	167,447
TOTAL LIABILITIES		**1,515,195**	282,999
SHAREHOLDERS' EQUITY			
Share capital	9	**26,021,264**	25,928,264
Contributed surplus	9	**5,360,838**	5,472,638
Deficit		**(16,829,683)**	(16,711,440)
Non-controlling interest		**976,963**	-
Total shareholders’ equity		**15,529,382**	14,689,462
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**17,044,577**	14,972,461

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 7(b), 13 and 14)
SUBSEQUENT EVENTS (Note 16)

APPROVED ON BEHALF OF THE BOARD ON JULY 14, 2020:

<u>/s/ “Boris Ziger”</u>	*<u>/s/ “Gurcharn Deol”</u>*
Director	Director

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

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	2020	2019
		$	$
GENERAL AND ADMINISTRATIVE EXPENSES			
Depreciation		**12,075**	-
Management and directors' fees	10	**83,000**	66,000
Office and general		**16,499**	23,401
Professional fees		**102,050**	38,650
Share-based compensation	9(d)	**-**	117,100
Transfer agent and filing fees		**20,821**	26,297
Travel, marketing and promotion		**31,520**	86,609
Total general and administrative expenses		**265,965**	358,057
OTHER INCOME (EXPENSES)			
Other income		**53,195**	17,378
Realized gain on marketable securities	5	**-**	369,532
Unrealized (loss) on marketable securities	5	**(97,755)**	(466,152)
Unrealized change in fair value of biological assets	6(a)	**69,951**	-
Total other (expenses) income		**(25,391)**	(79,242)
NET LOSS AND COMPREHENSIVE LOSS		**(240,574)**	(437,299)
Net loss and comprehensive loss – non-controlling interest		**10,531**	-
NET LOSS AND COMPREHENSIVE LOSS - Matica		**(230,043)**	(437,299)
LOSS PER SHARE - BASIC AND DILUTED		**(0.00)**	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		**318,146,510**	313,506,527

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)
(Expressed in Canadian Dollars)

		Common shares		Contributed		Non-controlling	Shareholders'
	Notes	Shares	Amount	Surplus	Surplus	Interest	Equity
		#	$	$	$	$	$
Balance, December 31, 2018		300,440,909	24,470,592	6,075,982	(16,101,278)	-	14,445,296
Options expired/cancelled	9(d)	-	-	(101,500)	101,500	-	-
Warrants exercised	9(b)(c)	10,625,068	1,049,629	-	-	-	1,049,629
Shares issued for services	9(b)	3,588,888	323,000	-	-	-	323,000
Share-based compensation	9(d)	-	-	117,100	-	-	117,100
Net loss		-	-	-	(437,299)	-	(437,299)
Balance, March 31, 2019		314,654,865	25,843,221	6,091,582	(16,437,077)	-	15,497,726
Balance, December 31, 2019		315,956,557	25,928,264	5,472,638	(16,711,440)	-	14,689,462
Options expired	9(b)(c)	-	-	(111,800)	111,800	-	-
Business acquisition	4	-	-	-	-	987,494	987,494
Shares issued for debt and services	9(b)	2,657,143	93,000	-	-	-	93,000
Net loss		-	-	-	(230,043)	(10,531)	(240,574)
Balance, March 31, 2020		**318,613,700**	**26,021,264**	**5,360,838**	**(16,829,683)**	**976,963**	**15,529,382**

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)
(Expressed in Canadian Dollars)

	Note	2020	2019
		$	$
OPERATING ACTIVITIES			
Net loss		**(240,574)**	(437,299)
Items not involving cash			
Realized (gain) on marketable securities		**-**	(369,532)
Unrealized loss (gain) on marketable securities		**97,755**	466,152
Unrealized (gain) in fair value of biological assets		**(69,951)**	-
Share-based compensation		**-**	117,100
Shares issued for services		**93,000**	323,000
Accrued interest income		**(36,469)**	(12,878)
Depreciation		**12,075**	-
		(144,164)	86,543
Changes in non-cash working capital items:			
Accounts receivable		**(26,100)**	(10,770)
Prepaid expenses		**(54,084)**	(70,071)
Inventory		**(45,306)**	-
Biological assets		**(122,660)**	-
Accounts payable and accrued liabilities		**5,041**	(39,174)
Interest and penalty accrual on flow-through shares		**-**	(23,114)
Cash Used in Operating Activities		**(387,273)**	(56,586)
INVESTING ACTIVITIES			
Short-term investments		**755,000**	-
Long-term loans		**(268,688)**	(345,500)
Sale of marketable securities		**-**	596,065
Cash Used in Investing Activities		**486,312**	250,565
FINANCING ACTIVITIES			
Principal payments on lease obligation		**(190)**	-
Exercise of warrants		**-**	1,049,629
Due to related parties		**9,367**	(121,476)
Cash Provided by Financing Activities		**9,177**	928,153
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**108,216**	1,122,132
CASH AND CASH EQUIVALENTS, BEGINNING		**1,595,110**	5,314,938
CASH AND CASH EQUIVALENTS, ENDING		**1,703,326**	6,437,070
NON-CASH TRANSACTIONS:			
Right-of-use asset		**1,316,970**	-
Shares issued for related party debt settlement	10	**53,000**	244,000
Shares issued for vendor debt settlement	7(c)	**40,000**	83,000
SUPPLEMENTAL INFORMATION:			
Interest paid		**-**	-
Income taxes paid		**-**	-

The accompanying notes are an integral part of these condensed consolidated interim 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 8). 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 $230,043 for the three months ended March 31, 2020 (2019 - $437,299), a deficit of $16,829,683 (December 31, 2019 - $16,711,440) and working capital of $5,389,577 (December 31, 2019 - $3,301,658) 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 unaudited condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements were approved and authorized for issuance by the Company's Board of Directors on July 14, 2020.

2. BASIS OF PRESENTATION (continued)

Basis of preparation

These condensed consolidated interim 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 condensed consolidated interim financial statements are presented in Canadian dollars.

Consolidation

These condensed consolidated interim financial statements for the three months ended March 31, 2020 and 2019 include the accounts of Matica, its 100% wholly owned subsidiaries Ravenline Exploration Ltd. ("Ravenline"), Nevada subsidiary Ravenline USA Ltd. ("Ravenline USA"), Trichome Treats Inc. and 10406619 Canada Inc., and its 70% owned subsidiary RoyalMax Biotechnologies 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 condensed consolidated interim 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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). They do not include all of the information required for full IFRS annual financial statements.

Please refer to the December 31, 2019 audited financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2019 financial statements were consistently applied to all periods presented unless otherwise noted below. These condensed consolidated interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2019.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of March 31, 2020. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended December 31, 2020 could result in restatement of these interim consolidated financial statements.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 two non-cancellable lease, resulting in a recognition of a lease liability and a right-of-use asset of $1,316,970 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. BUSINESS COMBINATION

RoyalMax Biotechnology Canada Inc. ("RoyalMax")

RoyalMax was incorporated on December 15, 2013, under the Quebec Business Corporations Act, and operates mainly in Canada with the objective to sell medical and recreational cannabis. All of RoyalMax's assets are located in Canada.

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 earned 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 a cultivation license (received in October 2018) and a standard processing license, 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 (received in February 2020) from Health Canada.

The Company earned 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), and $400,000 due after twelve months of production at the facility ($150,000 paid in advance with the remaining $250,000 to be paid in 2020).

The preliminary purchase price allocation that reflects the estimated fair value of assets acquired and liabilities assumed on the February 11, 2020 acquisition date is as follows:

	RoyalMax
	$
Current assets	2,146,304
Non-current assets	4,503,942
Goodwill	3,917,204
Total assets	**10,567,450**
Current liabilities	131,492
Loan payable to Matica	2,140,624
Non-current liabilities	1,086,485
Net assets acquired	**7,208,849**
Less: Non-controlling interest	987,494
Total consideration paid	**6,221,355**

The fair value of the receivable acquired of $819,547 of which no amount was considered uncollectible at the acquisition date, is included in current assets in the accounting of the business acquisition. The Company's consolidated financial statements for the three months ended March 31, 2020 includes RoyalMax net loss of since the acquisition date. If the acquisition had occurred on January 1, 2020, net loss for the three months ended March 31, 2020 from RoyalMax would have been approximately $123,857.

The Company will finalize the purchase price allocation over the coming quarters as soon as it has gathered all significant information available and considered necessary in order to finalize the fair value measurement of working capital, plant and equipment, intangible assets and goodwill.

5. 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.

During 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 $51,205 to reflect the quoted market value at March 31, 2020.

6. BIOLOGICAL ASSETS AND INVENTORY

(a) Biological assets

The Company's biological assets consist of cannabis plants. The changes in the carrying amounts of the biological assets are as follows:

	$
Balance, December 31, 2019	-
Acquired in business acquisition	225,459
Capitalization of production costs	198,045
Unrealized change in fair value of biological assets	69,951
Transferred to inventory upon harvest	(358,866)
Balance, March 31, 2020	134,589

As of March 31, 2020, the Company has 1,978 plants classified as biological assets which are expected to ultimately yield 136,902g of dry flower, 39,730g of dry trim and 1,978g of dry kief.

The Company measures its biological assets at fair value less costs to sell. This valuation is based on the expected harvest yield (on a grams per plant basis) for plants currently being cultivated, adjusted for the expected net selling price less post-harvest costs attributable to bringing a harvested gram of cannabis to a saleable condition and ultimate sale (on a per gram basis). The Company accretes the fair value of each cannabis plant on a straight-line basis over the expected growing cycle. As at March 31, 2020, the plants were on average 13 weeks into the growing cycle, 42% complete, and were ascribed approximately 42% of their expected fair value at harvest date.

(b) Inventory

<u>Dry Cannabis</u>

Inventory consisted of the following:

	As at March 31, 2020	
Work-in-process	g	$
Dry flower	290,012	763,021
Dry trim	90,230	79,132
Dry kief	15,360	47,148
	395,602	889,301

6. BIOLOGICAL ASSETS AND INVENTORY (continued)

Significant inputs

The Company has made the following estimates related to significant inputs in the valuation model:

Significant inputs	Definition
Selling price per gram	Estimated net selling price per gram of dry cannabis based on market prices
Harvest yield per plant	Expected grams of dry cannabis to be harvested from a cannabis plant, based on the weighted average historical yields by plant strain
Stage of growth	Weighted average plant age (in weeks) out of the 18-week growing cycle as of the period end date
Processing and selling costs per gram	Estimated processing and selling costs per gram; calculated as processing and selling costs incurred during the period divided by number of grams harvested during the period and expected to be sold in the next year

These inputs are level 3 on the fair value hierarchy, and are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets and inventory in future periods. Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules.

Ionic Mist

At March 31, 2020, inventory was comprised of 9,741 bottles of Ionic Mist, odour neutralizing sprays (2019 – nil).

During the three months ended March 31, 2020, $224 (2019 - $nil) of inventory was expensed. Inventory as at March 31, 2020 was carried at cost.

7. 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. In 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.

7. OTHER INVESTMENTS (continued)

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.

(b) 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 condensed consolidated interim statement of financial position.

(c) Secured loan to 93802601 Quebec Inc.

In June 2018, the Company made available to a private Quebec corporation, a $1,500,000 revolving line of credit secured by a mortgage against a 181-acre agricultural property purchased by the Quebec corporation using line of credit funds. The loan accrues interest at 5% per annum 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 16(c). The loan balance at March 31, 2020 was $3,260,957 (December 31, 2019 - $2,974,487).

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.

(d) Unsecured loan to Capital NX Phase Inc.

In September 2018, the Company made a $100,000 unsecured loan to Capital NX Phase Inc. ("Capital NX"), with a March 14, 2019 maturity date. 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.

8. 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.

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, 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 7(b).

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 7(c), 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.

Shares issued for the three months ended March 31, 2020:

In January 2020, the Company issued 1,514,286 common shares (valued at $53,000) to two directors, one of which is an officer, for settlement of a portion of their 2020 compensation. The Company also issued 1,142,857 common shares to a service provider as settlement of $40,000 of debt (based on the quoted market price on the date of issuance).

9. SHARE CAPITAL (continued)

(c) Share purchase warrants

A summary of the changes in the Company's warrants for the three months ended March 31, 2020 is presented below:

	Number of warrants	Weighted average exercise price
		$
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 and March 31, 2020	5,620,000	0.28

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 March 31, 2020:

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 16(a)

As at March 31, 2020, 5,620,000 warrants (2019 – 5,620,000 warrants) with a weighted average remaining contractual life of 2.54 years (2019 – 3.54 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each whole warrant held.

(d) Stock options

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

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

A summary of the changes in the Company's stock options for the three months ended March 31, 2020 is presented below:

	Number of options	Weighted average exercise price
		$
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
Options expired	(1,750,000)	(0.13)
Balance, March 31, 2020	29,300,000	0.21

9. SHARE CAPITAL (continued)

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.

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.

The weighted average grant date fair value of stock options granted during the three months ended March 31, 2019 was $0.06 (2018 - $0.22).

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
Share price	$0.04	$0.04	$0.035	$0.075
Risk free interest rate	1.57%	1.63%	1.53%	1.45%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	140%	140%	140%	140%
Expected life	5 years	2 years	5 years	5 years

Issue date	July 12, 2019	March 11, 2019	February 4, 2019
Share price	$0.075	$0.11	$0.13
Risk free interest rate	1.52%	1.67%	1.81%
Expected dividend yield	0%	0%	0%
Expected volatility	140%	140%	140%
Expected life	1 years	1 years	1 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.

During the three months ended March 31, 2020, 1,750,000 options expired unexercised.

9. SHARE CAPITAL (continued)

The following table summarizes the options outstanding and exercisable as at March 31, 2020:

Exercise price	Expiry date	Number of options
$ 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
		29,300,000

See Note 16(d)(e)(f)

As at March 31, 2020, 29,300,000 options (2019 - 30,150,000) with a weighted average remaining contractual life of 2.2 years (2019 – 1.5 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 March 31, 2020 of $9,367 (December 31, 2019 - $Nil). These amounts were unsecured, due on demand and non-interest bearing.

During the three months ended March 31, 2020, the Company issued 1,514,286 (2019 – 2,666,666) common shares valued at $53,000 (2019 - $240,000) to two directors and/or officers in lieu of a portion of their 2020 compensation.

Key management compensation:

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-terms benefits and termination benefits were made during the three months ended March 31, 2020 and 2019. Short-term key management compensation for the three months ended March 31, 2020 and 2019 was as follows:

	2020	2019
	$	$
Director fees	8,000	6,000
Management fees, paid to officers and directors	75,000	60,000
Total key management compensation	83,000	66,000

See also note 7(b) and (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 three months ended March 31, 2020 and 2019.

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:

	March 31, 2020	December 31, 2019
	$	$
FVTPL (i)	2,374,608	3,249,070
Long-term loans	3,260,957	4,993,991
Other financial liabilities (ii)	105,933	91,736

(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 March 31, 2020, 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 March 31, 2020:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	1,703,326	-	-	1,703,326
Short-term investments	750,000			750,000
Marketable securities	51,205	-	-	51,205
Convertible debenture	-	-	1	1

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

12. FINANCIAL INSTRUMENTS AND RISK (continued)

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

There were no changes in financial instruments classified as Level 3 for the three months ended March 31, 2020 and 2019.

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.

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.

12. FINANCIAL INSTRUMENTS AND RISK (continued)

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 condensed consolidated interim statements of loss and comprehensive loss.

As at March, 31, 2020, 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 loan and concluded that it is in Stage 1 as there is no significant increase in credit risk since initial recognition. The Company acquired control of the creditor subsequent to March 31, 2020. 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.

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 March 31, 2020, the Company had unfulfilled CEE obligations of $42,770 (2019 - $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 March 31, 2020, an estimated amount accrued relating to the indemnification on the unfulfilled commitments totalled $38,214 (December 31, 2019 - $38,214). 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 condensed consolidated interim 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 condensed consolidated interim 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 $213,604.

15. SEGMENT DISCLOSURE

Geographic information

The Company's assets at March 31, 2020 and 2019 were based solely in Canada.

Operating segments

During the three months ended March 31, 2020, the Company operates in the health related sector and has a subsidiary who is an ACMPR applicant in Quebec, Canada (see Note 4). The Company continues to hold a royalty on a Nevada Lithium property carried at $nil value as at March 31, 2020 (see Note 8).

16. SUBSEQUENT EVENTS

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

b) 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.

c) 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.

d) Subsequent to March 31, 2020, the Company cancelled 12,250,000 stock options.

e) In July 2020, 950,000 stock options expired unexercised.

f) In July 2020, the Company granted 2,000,000 and 1,600,000 stock options to two directors and three consultants respectively. The options are exercisable at a price of $0.025 per share for a period of five years expiring on July 2, 2025.