



MATICA

MATICA ENTERPRISES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian Dollars)

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, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in 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, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
May 31, 2021

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

	Notes	2020	2019
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	3	1,032,481	1,595,110
Short-term investments	3	355,000	1,505,000
Marketable securities	5	41,895	148,960
Sales tax recoverable		112,948	16,758
Prepaid expenses	14	194,498	96,636
Biological assets	6(a)	284,030	-
Inventory	6(b)	2,572,714	54,746
Total current assets		4,593,566	3,417,210
Security deposits		111,800	-
Property, plant and equipment	7	3,302,876	-
Right-of-use assets	11	1,144,015	176,861
Intangible assets	8	200,000	163,043
Investment in RoyalMax Biotechnologies Inc.	4(a)	-	6,221,355
Investment in Yunify Natural Technologies	9(a)	1	1
Long-term loans	4(a)(b)	-	4,993,991
TOTAL ASSETS		9,352,258	14,972,461
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	4(a),14	491,711	53,522
Customer deposits		167,350	-
Lease obligations - current	11	49,561	23,816
Flow-through renunciation obligations	17	38,214	38,214
Total current liabilities		746,836	115,552
Lease obligations - long-term	11	1,206,943	167,447
TOTAL LIABILITIES		1,953,779	282,999
EQUITY			
Share capital	12	25,748,264	25,928,264
Contributed surplus	12	683,886	5,472,638
Deficit		(19,034,382)	(16,711,440)
Equity attributable to owners of the Company		7,397,768	14,689,462
Non-controlling interest	13	711	-
Total equity		7,398,479	14,689,462
TOTAL LIABILITIES AND EQUITY		9,352,258	14,972,461

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
 COMMITMENTS AND CONTINGENCIES (Notes 4(c), 17 and 18)
 SUBSEQUENT EVENTS (Note 21)

APPROVED ON BEHALF OF THE BOARD ON MAY 31, 2021:

/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, 2020 AND 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
		\$	\$
REVENUE			
Sales	19	121,416	-
Cost of sales		(305,766)	-
Gross margin		(184,350)	-
GENERAL AND ADMINISTRATIVE EXPENSES			
Depreciation	7,8,11	113,341	34,231
Management and directors' fees	14	367,707	183,855
Office and general		210,342	93,614
Professional fees		464,009	112,629
Share-based compensation	12(d),14	305,900	762,800
Transfer agent and filing fees		40,388	56,049
Travel, marketing and promotion		77,159	135,235
Total general and administrative expenses		1,578,846	1,378,413
OTHER INCOME (EXPENSES)			
Interest and other income	3,4(b),11	22,709	88,752
Realized gain on marketable securities	5	-	627,662
Unrealized (loss) on marketable securities	5	(107,065)	(1,210,557)
Impairment of intangible asset	4(c),8	(163,043)	-
Write-down of investment in RoyalMax Biotechnologies Inc.	4(a)	(4,699,371)	-
Write-down of investment in 93802601 Quebec Inc.	4(b)	(2,234,106)	-
Write-down of short-term loan	9(b)	-	(103,750)
Unrealized change in fair value of biological assets	6(a)	430,482	-
Total other expenses		(6,750,394)	(597,893)
NET LOSS AND COMPREHENSIVE LOSS		(8,513,590)	(1,976,306)
Net loss and comprehensive loss attributable to:			
Shareholders of the Company		(8,404,438)	(1,976,306)
Non-controlling interest	13	(109,152)	-
NET LOSS AND COMPREHENSIVE LOSS		(8,513,590)	(1,976,306)
LOSS PER SHARE - basic and diluted		(0.03)	(0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			
- basic and diluted		318,495,763	315,333,800

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

MATICA ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

	Notes	Common shares		Contributed	Non-controlling	Deficit	Equity
		Shares	Amount	Surplus	Interest		
		#	\$	\$	\$	\$	\$
Balance, December 31, 2018		300,440,909	24,470,592	6,075,982	-	(16,101,278)	14,445,296
Options expired/cancelled	12(d)	-	-	(1,366,144)	-	1,366,144	-
Warrants exercised	12(b)(c)	10,625,068	1,049,629	-	-	-	1,049,629
Shares issued for acquisitions	4(c),12(b)	2,173,914	163,043	-	-	-	163,043
Shares issued for debt and services	12(b)	2,716,666	245,000	-	-	-	245,000
Share-based compensation	12(d)	-	-	762,800	-	-	762,800
Net loss and comprehensive 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
Shares returned to treasury	12(b)	(3,189,755)	(273,000)	-	-	273,000	-
Options expired/cancelled	12(d)	-	-	(5,094,652)	-	5,094,652	-
Shares issued for debt and services	12(b)	2,657,143	93,000	-	-	-	93,000
Share-based compensation	12(d)	-	-	305,900	-	-	305,900
Acquisition of RoyalMax Biotechnologies Inc.	4(a),13	-	-	-	823,707	-	823,707
Decrease in non-controlling interest	4(a),13	-	-	-	(713,844)	713,844	-
Net loss and comprehensive loss		-	-	-	(109,152)	(8,404,438)	(8,513,590)
Balance, December 31, 2020		315,423,945	25,748,264	683,886	711	(19,034,382)	7,398,479

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, 2020 AND 2019
(Expressed in Canadian Dollars)

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Net loss	(8,513,590)	(1,976,306)
Items not involving cash:		
Realized (gain) on marketable securities	-	(627,662)
Unrealized loss on marketable securities	107,065	1,210,557
Unrealized (gain) in fair value of biological assets	(430,482)	-
Write-down of short-term loan	-	103,750
Write-down of intangible asset	163,043	-
Write-down of investment in RoyalMax Biotechnologies Inc.	4,699,371	-
Write-down of investment in 93802601 Quebec Inc.	2,234,106	-
Share-based compensation	305,900	762,800
Shares issued for debt and services	93,000	120,000
Accrued interest income	(36,470)	(87,294)
Depreciation	113,341	34,231
	(1,264,716)	(459,924)
Changes in non-cash working capital items, net of acquisitions:		
Sales tax recoverable	613,947	(514)
Prepaid expenses	(97,987)	(19,203)
Inventory	(990,860)	(54,746)
Biological assets	48,694	-
Accounts payable and accrued liabilities	70,915	75,313
Customer deposits	167,350	-
Interest and penalty accrual on flow-through shares	-	(25,469)
Cash (Used in) Operating Activities	(1,452,657)	(484,543)
INVESTING ACTIVITIES		
Equipment acquisitions	(8,037)	-
Purchase of short-term investments	(355,000)	(1,505,000)
Maturity of short-term investments	1,505,000	-
Investment in RoyalMax Biotechnologies Inc.	(150,000)	-
Loans advanced	(211,120)	(3,718,004)
Cash acquired from acquisitions	144,647	-
Proceeds from sale of marketable securities	-	1,079,395
Cash Provided by (Used in) Investing Activities	925,490	(4,143,609)
FINANCING ACTIVITIES		
Principal payments on lease obligations	(35,462)	(19,829)
Exercise of warrants	-	1,049,629
Due to related parties	-	(121,476)
Cash (Used in) Provided by Financing Activities	(35,462)	908,324
(DECREASE) IN CASH AND CASH EQUIVALENTS	(562,629)	(3,719,828)
CASH AND CASH EQUIVALENTS, beginning of year	1,595,110	5,314,938
CASH AND CASH EQUIVALENTS, end of year	1,032,481	1,595,110

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, 2020 AND 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
		\$	\$
NON-CASH TRANSACTIONS:			
Right-of-use assets	11	1,044,924	211,092
Capitalized depreciation in biological assets and inventory	7,11	314,590	-
Shares issued for debt and services	12(b)	93,000	120,000
Shares issued for acquisitions	4(c)	-	163,043
Shares issued for increase in loan receivable	12(b)	-	5,000
Due to non-controlling interest	4(a)	250,000	-
SUPPLEMENTAL INFORMATION:			
Interest paid	11	65,287	11,967
Interest received	3	51,526	-
Income taxes paid		-	-

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

MATICA ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

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 and is listed on the Canadian Stock Exchange (“CSE”) under the symbol MMJ, the Frankfurt Stock Exchange and the OTCQB under the symbol MMJFF. The Company’s subsidiary, RoyalMax Biotechnologies Inc. (“RoyalMax’), holds a cultivation license, a standard processing license, and a license for sale of marijuana for medical purposes from Health Canada. RoyalMax has also been granted an amendment to its sales license which permits for the sale of cannabis products to all authorized provincial and territorial distributors/retailers. With the amendment to the sales license, the focus of the Company will be on recreational sales of cannabis rather than medical.

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

The Company holds a royalty interest in a Nevada lithium property (see Note 10). The business of exploring for minerals involves a high degree of risk and there could be no assurances that exploration programs would result in profitable operations and future royalties.

The Company has a net loss of \$8,513,590 for the year ended December 31, 2020 (2019 - \$1,976,306), a deficit of \$19,034,382 (2019 - \$16,711,440) and working capital of \$3,846,730 (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 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 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.

The Company’s ownership interest in RoyalMax is subject to dispute as disclosed in Notes 4(a) and 17.

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 31, 2021.

MATICA ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

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 and biological assets measured at fair value. The consolidated financial statements are presented in Canadian dollars.

Consolidation

These consolidated financial statements for the years ended December 31, 2020 and 2019 include the accounts of Matica, its 99.97% owned subsidiary RoyalMax Biotechnologies Inc. (acquired February 11, 2020), and its wholly owned subsidiaries 93802601 Quebec Inc. (acquired May 19, 2020), Ravenline Exploration Ltd. ("Ravenline"), Nevada subsidiary Ravenline USA Ltd. ("Ravenline USA"), Trichome Treats Inc. and 10406619 Canada Inc.

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.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity 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, 2020, the Company held \$250,000 (2019 - \$1,275,500) in cashable guaranteed investment certificates bearing interest at an average rate of 1.8% (2019 - 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, 2020, the Company held \$355,000 in short-term investments (2019 - \$1,505,000) comprised of guaranteed investment certificates bearing interest at an average rate of 0.5% (2019 - 2.2%).

Marketable securities

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

MATICA ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Biological assets and inventory

The Company measures biological assets consisting of cannabis plants, at fair value less costs to sell up to the point of harvest. Costs incurred to transform biological assets to the point of harvest ("production costs") are capitalized as they are incurred, which become the cost basis of the biological assets. While the Company's biological assets are within the scope of IAS 41 Agriculture, the Company applies a similar approach to IAS 2 Inventories in capitalizing direct and indirect costs of biological assets. These costs include direct costs such as nutrients, soil, seeds, and direct labour, as well as other indirect costs such as an allocation of utilities, indirect labour, property taxes, and depreciation. The biological assets are then revalued to fair value less costs to sell at the end of the period. Gains or losses arising from changes in fair value less costs to sell are recorded as unrealized change in fair value of biological assets within the statement of loss and comprehensive loss.

Inventories of finished goods and work-in-process are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at the point of harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs ("processing costs"), including direct costs attributable to processing and related overhead, are capitalized to inventory as they are incurred, to the extent that cost is less than net realizable value. The Company also has inventories of dry cannabis related supplies and materials, and finished goods acquired for resale. The cost of these inventories 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 for inventories other than dry cannabis is determined on a first-in, first-out basis, and any trade discounts and rebates are deducted from the purchase price. Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated variable costs to sell. The Company classifies inventories of harvested cannabis before final packaging as work-in-process.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated using the straight-line method over their estimated useful lives.

Buildings	Lesser of land rights lease term or useful life
Furniture and fixtures	5 years
Security system	10 years
Computer equipment	3 years
Production equipment	8 years
Facility system and equipment	10 years
Vehicle	8 years

The estimated residual value, useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components. Construction in progress is transferred to the appropriate asset class when the asset is available for use. Depreciation commences at the point the assets are classified as available for use. Land is not depreciated.

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.

MATICA ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (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 all the entities within the Company group 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 assets and liabilities 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 fair value through profit or loss (“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. Loans receivable are measured at amortized cost. Transaction costs of financial instruments classified as amortized cost are capitalized and amortized in profit or loss on the same basis as the financial instruments.

MATICA ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (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 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, 2020 and 2019.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

If a significant increase in credit risk occurs on a loan investment, an estimate of default is considered over the entire remaining life of the assets. In circumstances when an entity acquires a loan investment that is credit impaired at the date of initial recognition, the credit adjusted approach ECL model will be applied. The credit adjusted approach ECL model results in expected credit losses calculated considering an estimate of default over the life of the asset.

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

De-recognition

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, 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.

De-recognition

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Determination of fair value

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

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

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

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.

Licenses	21 years
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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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 of non-financial assets

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.

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.

Excise taxes are charged to consumers and payable to the Canadian federal government by licensed cannabis producers upon the sale of the packaged cannabis products to consumers in the marketplace, including provincially-authorized distributors and/or retailers and individual consumers. During the years ended December 31, 2020 and 2019, the Company did not have such sales and, therefore, no excise taxes were charged.

Share-based compensation

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 the end of each reporting period.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation (continued)

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.

After the vesting date, amounts recorded for expired or cancelled instruments are reclassified to deficit.

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 renunciation 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Company accounts for lease contracts in accordance with IFRS 16, Leases.

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. During the years ended December 31, 2020 and 2019, the Company, as a lessee, did not have any short-term leases or leases for which the underlying asset is of low value.

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.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination (continued)

Non-controlling interests represent equity interests in subsidiaries owned by outside parties entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequently, the non-controlling interests' share of net loss and comprehensive loss is attributed to the non-controlling interests.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for those items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement period, or additional assets or liabilities may be recognized to reflect additional information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Asset acquisition

The Company accounts for the acquisition of an asset or a group of assets that does not constitute a business by allocating the fair value of consideration paid to the assets acquired. For asset acquisitions achieved in stages, the Company measures its previously held interest at its carrying amount and does not revalue to fair value.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.

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.

See Note 17.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Determination of control

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.

Business combination and asset acquisition

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, as well as the fair value of consideration paid and contingent consideration payable. In certain circumstances, such as the valuation of property, plant and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. The determination of these fair values involves a variety of assumptions, include revenue growth rates, expected operating income, discount rates, and earnings multiples.

Useful lives and depreciation or amortization of property, plant and equipment, right-of-use assets and intangible assets with finite lives

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

Discount rate and lease term used in application 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 judgment. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate and determination of significant influence

The Company considered its investment in RoyalMax to be subject to significant influence as at December 31, 2019. 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 exerted significant influence over RoyalMax despite owning 0% of the outstanding shares of RoyalMax and having no voting control during the year ended December 31, 2019 and for the period January 1, 2020 to the date of acquisition in February 2020. Management believes that it was able to exercise significant influence through its provision of funding and participation in decision-making processes, given that an officer and director of the Company was General Manager of RoyalMax. See Note 4(a).

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.

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.

Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell. As a result, critical estimates related to the valuation of biological assets are also applicable to inventory. Determining the fair value less costs to sell requires the Company to make assumptions about the expected harvest yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, processing costs to convert harvested cannabis into inventory and selling costs. The Company's estimates are, by their nature, subject to change.

Inventory is valued at the lower of cost and net realizable value. Determining the net realizable value requires the Company to make assumptions about the estimated selling price in the ordinary course of business, the estimated costs of completion and the estimated variable costs to sell.

Refer to Note 6.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies

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 were adopted by the Company as of January 1, 2020 and did not have a significant impact on the consolidated financial statements for the year ended December 31, 2020:

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.

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 clarifies 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.

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, 2021:

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements ("IAS 1")

IAS 1 was amended in January 2020 to address inconsistencies with how entities apply the standard over classification of current and non-current liabilities. The amendment serves to address whether, in the statement of financial position, debt and other liabilities with an uncertain settlement should be classified as current or non-current. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

IAS 37 was amended in May 2020 to clarify the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted.

IAS 16 Property, Plant and Equipment ("IAS 16")

IAS 16 was amended in May 2020 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted.

4. ACQUISITIONS

(a) RoyalMax Biotechnologies 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.

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"), to acquire up to a 70% interest in RoyalMax. 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.

On February 11, 2020, the Company received its 70% interest in the common shares of RoyalMax, which had been previously held in trust, upon the completion of release conditions. As a result, the Company obtained control over RoyalMax and commenced consolidating RoyalMax. Prior to February 11, 2020, the Company was considered to have significant influence over RoyalMax as described in Note 3. As such, prior to the 2020 acquisition, the investment in RoyalMax had been accounted for as an investment in associate.

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4. ACQUISITIONS (continued)

(a) RoyalMax Biotechnologies Inc. ("RoyalMax")(continued)

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

	2019
	\$
Current assets	1,263,269
Non-current assets	5,309,961
Current liabilities	84,269
Loan payable to Matica	2,019,504
Non-current liabilities	1,089,057
Total net loss and comprehensive loss	1,002,764

In February 2020, 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 and a license for sale for medical purposes (received in February 2020) from Health Canada.

The Company earned an additional 5% interest for consideration of \$800,000 of which \$400,000 was due within 30 days of notification of licensing by Health Canada (paid), and \$400,000 is due twelve months after commencement of production at the facility (\$150,000 paid). The balance of the consideration payable of \$250,000 has been included in accounts payable and accrued liabilities as at December 31, 2020.

In February and March 2021, non-controlling interest ("NCI") parties of RoyalMax filed two claims against the Company. Among the allegations, is the claim that Matica was not entitled to receive the additional 5% interest in RoyalMax given that consideration of \$400,000 is still outstanding. The NCI party does not believe that the \$150,000 paid is part of the \$400,000 consideration. The Company believes that the allegations contained in the statements of claims are without merit and is vigorously defending itself and seeking dismissals. Refer to Note 17 for management's assessment of such claims. As such, the Company has accounted for the acquisition based on the assumption that the Company had acquired a 70% interest in RoyalMax on February 11, 2020, the acquisition date.

Management determined that the assets and processes of RoyalMax comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting, with Matica as the acquirer and RoyalMax as the acquiree. The Company's previously held investment in the acquiree was remeasured to its acquisition date fair value and the resulting loss of \$4,699,371, which mainly derived from cost overruns relating to the construction of Dorval facility, was recognized in profit or loss.

The NCI as at the acquisition date was measured at the NCI's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

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4. ACQUISITIONS (continued)

(a) RoyalMax Biotechnologies Inc. ("RoyalMax")(continued)

The following table summarizes the fair value of the consideration transferred and the estimated fair value of assets acquired and liabilities assumed at the acquisition date as follows:

Total consideration transferred	\$
Initial cash payment due on signing of agreement	185,000
6,000,000 common shares of the Company	270,000
Capital contributions – funding of the facility	5,366,355
First \$400,000 paid for additional 5% interest in RoyalMax	400,000
Carrying amount of investment in RoyalMax at December 31, 2019, prior to acquisition of control:	6,221,355
Second \$400,000 payable for additional 5% interest in RoyalMax	400,000
Less: write-down of investment in RoyalMax, resulting from the revaluation at the time of acquisition	(4,699,371)
Non-controlling interest (Note 13)	823,707
	<u>2,745,691</u>
 Fair value of identifiable net assets acquired	
Cash	102,432
Sales tax recoverable	685,611
Biological assets (Note 6(a))	225,459
Inventory (Note 6(b))	889,301
Prepaid expenses	109,565
Right-of-use asset (Note 11(b))	1,044,924
Property, plant and equipment (Note 7)	2,838,000
Cultivation, processing and sales licenses (Note 8)	209,000
Accounts payable and accrued liabilities	(117,274)
Lease obligation (Note 11(b))	(1,100,703)
Advances from Matica	(2,140,624)
Net assets acquired	<u>2,745,691</u>

For the year ended December 31, 2020, RoyalMax generated revenues of \$86,588 and a net loss and comprehensive loss of \$515,519 since the acquisition date. If the acquisition had occurred on January 1, 2020, RoyalMax would have incurred a net loss and comprehensive loss of \$604,275, with no change in revenues, for the year ended December 31, 2020.

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4. ACQUISITIONS (continued)

(a) RoyalMax Biotechnologies Inc. ("RoyalMax")(continued)

In addition to capital contributions, additional amounts were advanced by the Company to RoyalMax to support RoyalMax's operations as follows:

	\$
Balance, December 31, 2018	200,000
Advances	1,819,504
<hr/>	
Balance, December 31, 2019	2,019,504
Advances	121,120
<hr/>	
Balance, February 11, 2020 (acquisition date)	2,140,624
Advances	1,129,658
<hr/>	
Balance, November 16, 2020	3,270,282

The advances are unsecured, non-interest bearing and due on demand. In November 2020, the Company demanded the repayment of the full balance of \$3,270,282. As a result of RoyalMax's failure to repay debts owing to Matica, Matica received an additional 100,000 common shares of RoyalMax in settlement of such debt on November 16, 2020 and increased its interest in RoyalMax from 70% to 99.97%. As described in Note 17, the two NCI parties filed separate claims against the Company, in which they disagreed with the dilution of their interests in RoyalMax as a result of this debt settlement. Refer to Note 17 for management's assessment of such claims.

Refer to Note 13 for the changes in non-controlling interest of RoyalMax during the year ended December 31, 2020.

(b) 93802601 Quebec Inc. ("Quebec Inc.")

Quebec Inc. is a private Quebec corporation with the objective to construct a 181-acre agricultural property for cannabis growing purposes. On May 19, 2020, the Company and Quebec Inc. entered into agreements whereby the Company had the option to purchase all of the issued and outstanding common shares of Quebec Inc. for the sum of \$40,000 and paid such at the same date. Prior to such acquisition, the Company made available to Quebec Inc., a \$3,000,000 revolving line of credit secured by a mortgage of \$3,000,000 registered against the agricultural property. The loan accrues interest at 5% per annum and is payable on demand. The proceeds of the line of credit were to be used to develop the agricultural property. The loan balance at May 19, 2020 was \$3,060,956 (December 31, 2019 - \$2,974,487).

Effective May 19, 2020, the Company can exercise its option to acquire all of the issued and outstanding shares of Quebec Inc. for no additional consideration and accordingly, the Company was determined to have acquired control of Quebec Inc. on this date. The acquisition was to advance the Company's goal of becoming a cannabis producer and accounted for as an asset acquisition, given Quebec Inc. did not meet the definition of business on May 19, 2020, in accordance with IFRS 3.

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4. ACQUISITIONS (continued)

(b) 93802601 Quebec Inc. ("Quebec Inc.")(continued)

The following table represents the Company's purchase price allocation for the asset acquisition.

	\$
Total consideration transferred	40,000
Fair value of identifiable net assets acquired	
Cash	42,215
Sales tax recoverable	24,525
Prepaid expenses	2,110
Property, plant and equipment	798,000
Advances from Matica	(3,060,956)
Net liabilities assumed	(2,194,106)
Loss on acquisition	2,234,106

Funds advanced from Matica were used by Quebec Inc. to prepare the land for construction of outdoor greenhouse facilities. However, in 2020, it was determined that the construction of outdoor greenhouses was no longer determined to be economically viable, and accordingly the Company recognized a loss on acquisition.

(c) Trichome Treats Inc. and 10406619 Canada Inc. (together as "Trichome")

In May 2019, the Company entered into a share purchase agreement with 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. The Company intended to work with Trichome to produce edible cannabis infused products.

During the year ended December 31, 2019, the Company issued 2,173,914 shares, as the first and second installments, valued at \$163,043 based on the quoted market price of the Company's shares at the time of issuance. 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. As at December 31, 2020, the Company has not met the remaining payment milestones yet. The remaining two instalments will be paid and recorded in the financial statements when the milestones are met.

The acquisition of Trichome was determined to be an asset acquisition with the acquired intellectual property recognized at the fair value of shares issued upon recognition, given that the fair value of the intellectual property cannot be estimated reliably. Refer to Note 8. The intellectual property is assessed to have an indefinite life based on its nature. During the year ended December 31, 2020, management wrote down the full balance of intellectual property to \$nil, given the Company halted its development of edible cannabis infused products and, therefore, such intellectual property provided negligible value to the Company.

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5. MARKETABLE SECURITIES

In May 2017, the Company received 350,000 common shares of Cultivator Catalyst Corp. (“CCC”), a private company, at a 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. (“Biome”) which became listed and trading on the CSE in October 2018.

During the year ended December 31, 2019, the Company sold 1,694,000 shares of Biome for net proceeds of \$1,079,395. As at December 31, 2020, the value of the remaining 931,000 Biome shares was adjusted to \$41,895 (2019 - \$148,960) to reflect the quoted market value.

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, 2018 and 2019	-
Acquired through RoyalMax acquisition (Note 4(a))	225,459
Capitalization of production costs	1,056,697
Unrealized change in fair value of biological assets	430,482
Transferred to inventory upon harvest	(1,428,608)
Balance, December 31, 2020	284,030

As of December 31, 2020, the Company had 1,630 plants (February 11, 2020 – 2,865 plants) classified as biological assets which are expected to ultimately yield 147,770 grams of dry flower (February 11, 2020 – 172,695 grams), 120,610 grams of dry trim (February 11, 2020 – 111,570 grams) and 10,348 grams of dry kief (February 11, 2020 – 2,604 grams).

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 December 31, 2020, the plants were on average 15 weeks into the growing cycle, or 61% complete, and were ascribed approximately 61% of their expected fair value at harvest date. As at February 11, 2020, the plants were on average 17 weeks into the growing cycle, or 51% complete, and were ascribed approximately 51% of their expected fair value at harvest date.

See Note 6(b) for the significant inputs and assumptions used in valuation of biological assets and inventory as at February 11, 2020 and December 31, 2020.

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6. BIOLOGICAL ASSETS AND INVENTORY (continued)

(b) Inventory

	2020	2019
	\$	\$
Work-in-process - dry cannabis (i)	2,104,770	-
Finished goods – dry cannabis (i)	390,209	-
Finished goods – Ionic mist (ii)	36,658	54,746
Supplies and packaging materials (i)	41,077	-
Total inventory	2,572,714	54,746

(i) *Dry cannabis and related supplies and materials*

The Company conducted the business of manufacturing and sale of the cannabis products through RoyalMax, which was acquired on February 11, 2020 as described in Note 4(a). As of December 31, 2019, the Company did not have any dry cannabis or related supplies and materials.

Dry cannabis work-in-process inventory consisted of the following:

	As at December 31, 2020	
	g	\$
Work-in-process		
Dry flower	684,685	1,772,486
Dry trim	458,037	280,902
Dry kief	39,059	51,382
		<u>2,104,770</u>

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 15-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.

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6. BIOLOGICAL ASSETS AND INVENTORY (continued)

(b) Inventory (continued)

(i) *Dry cannabis and related supplies and materials (continued)*

The following table quantifies each of the significant unobservable inputs described above and provides a sensitivity analysis of the impact on the reported values of biological assets and inventory. The sensitivity analysis for each significant input is performed by assuming a 5% decrease in the input while other significant inputs remain constant at management's best estimate as of February 11, 2020 and December 31, 2020.

	As at December 31, 2020			\$ increase (decrease)	
	<u>Dry flower</u>	<u>Dry trim</u>	<u>Dry Kief</u>	<u>Biological assets</u>	<u>Inventory</u>
Selling price per gram	\$2.9 - \$6.3	\$0.7	\$1.5	\$ (19,393)	\$ (134,100)
Harvest yield per plant	92g	75g	6g	(14,202)	-
Stage of growth	61%	61%	61%	(14,202)	-
Processing and selling costs per gram	\$1.4 - \$1.8	\$0.2	\$0.4	7,911	32,096

	As at February 11, 2020			\$ increase (decrease)	
	<u>Dry flower</u>	<u>Dry trim</u>	<u>Dry Kief</u>	<u>Biological assets</u>	<u>Inventory</u>
Selling price per gram	\$3	\$1	\$3.5	\$ (17,246)	\$ (44,466)
Harvest yield per plant	64g	41g	1g	(11,273)	-
Stage of growth	51%	51%	51%	(11,273)	-
Processing and selling costs per gram	\$1.3	\$0.4	\$1.5	8,391	6,235

(ii) *Ionic Mist*

At December 31, 2020, inventory was comprised of 6,746 bottles of IonicMist, odour neutralizing sprays, carried at a cost of \$36,658 (2019 – 9,776 bottles carried at cost of \$54,746).

7. PROPERTY, PLANT AND EQUIPMENT

Cost	As at December 31, 2018 and 2019	Acquired through acquisitions	Additions	As at December 31, 2020
		(Notes 4(a)(b))		
Land	\$ -	\$ 551,975	\$ -	\$ 551,975
Buildings	-	832,061	-	832,061
Furniture and fixtures	-	11,921	-	11,921
Security system	-	610,361	-	610,361
Computer equipment	-	18,872	-	18,872
Production equipment	-	59,749	8,037	67,786
Facility system and equipment	-	1,521,805	-	1,521,805
Vehicle	-	29,256	-	29,256
Total cost	\$ -	\$ 3,636,000	\$ 8,037	3,644,037

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated depreciation	As at December 31, 2018 and 2019	Acquired through acquisitions (Notes 4(a)(b))	Additions	As at December 31, 2020
Buildings	\$ -	\$ -	\$ 186,490	\$ 186,490
Furniture and fixtures	-	-	2,546	2,546
Security system	-	-	72,348	72,348
Computer equipment	-	-	10,057	10,057
Production equipment	-	-	8,695	8,695
Facility system and equipment	-	-	56,670	56,670
Vehicle	-	-	4,355	4,355
Total accumulated depreciation	-	-	341,161	341,161
Net book value	\$ -	\$ -		\$ 3,302,876

All of the Company's property, plant and equipment is domiciled in Canada.

During the year ended December 31, 2020, \$278,075 of depreciation expense was capitalized to biological assets and inventory (2019 – n/a).

8. INTANGIBLE ASSETS

	Intellectual property	Licenses	Total
Cost			
As at December 31, 2018	\$ -	\$ -	\$ -
Acquired through Trichome acquisition (Note 4(c))	163,043	-	163,043
As at December 31, 2019	163,043	-	163,043
Acquired through RoyalMax acquisition (Note 4(a))	-	209,000	209,000
Write-down (Note 4(c))	(163,043)	-	(163,043)
As at December 31, 2020	\$ -	\$ 209,000	\$ 209,000
Accumulated amortization			
As at December 31, 2019 and 2018	\$ -	\$ -	\$ -
Additions	-	9,000	9,000
As at December 31, 2020	-	9,000	9,000
Net book value as at December 31, 2019	\$ 163,043	\$ -	\$ 163,043
Net book value as at December 31, 2020	\$ -	\$ 200,000	\$ 200,000

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9. INVESTMENT AND LOAN

(a) Investment in 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 wrote down the full balance of the loan 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. In March 2020, the Company granted an additional one-year extension to extend the maturity date to March 20, 2021 with all the other terms unchanged. The extension of the maturity date did not result in a substantial change in the net present value of future cash flows, and therefore was accounted for as a modification of the convertible debenture with \$nil recognized in profit or loss.

As at December 31, 2019 and 2020, the investment is being reported at a \$1 nominal value based on management’s estimate of its fair value.

(b) 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.

10. NET SMELTER RETURN ROYALTY

The Company holds a 2% net smelter return royalty (“NSR”) on a lithium property in Clayton Valley, Nevada, of which half of the 2% NSR may be purchased for US\$500,000.

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11. LEASES

(a) Toronto, Ontario

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 the extended term through March 2025 with an escalating basic rent from approximately \$3,555 to \$3,800 per month. Information about the lease is presented below.

(i) Right-of-use asset

Right-of-use asset	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	<u>\$ 211,092</u>	<u>\$ (34,231)</u>	<u>\$ 176,861</u>

Right-of-use asset	As at December 31, 2019	Additions	As at December 31, 2020
Cost	\$ 211,092	\$ -	\$ 211,092
Accumulated depreciation	(34,231)	(34,231)	(68,462)
Net book value	<u>\$ 176,861</u>	<u>\$ (34,231)</u>	<u>\$ 142,630</u>

(ii) Lease obligation

	\$
Lease obligation at January 1, 2019	211,092
Interest expense	11,967
Lease payments	(31,796)
Lease obligation at December 31, 2019	191,263
Interest expense	10,823
Lease payments	(34,639)
Lease obligation at December 31, 2020	<u>167,447</u>

(iii) The following is a reconciliation of 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	\$
2021	42,653
2022-2025	146,892
Total contractual cash flows	189,545
Less: interest	(22,098)
Lease obligation at December 31, 2020	<u>167,447</u>

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11. LEASES (continued)

(b) Dorval, Quebec

As part of RoyalMax acquisition as described in Note 4(a), the Company acquired a lease for land in Dorval, Quebec, on which RoyalMax as lessee built its facility. The lease charges an escalating monthly rent, starting from approximately \$6,000 per month, to the end of the first extended term, March 31, 2025, with subsequent renewals through March 31, 2040. The lease payments increase based on increases in the consumer price index every five years. At the acquisition date, the lease liability was re-measured at the present value of the remaining lease payments for all the renewal periods as if the lease were a new lease at the acquisition date. Information about the lease is presented below.

(i) Right-of-use asset

Land-use rights	As at December 31, 2019	Acquired through acquisition Note 4(a)	Additions	As at December 31, 2020
Cost	\$ -	\$ 1,044,924	\$ -	\$ 1,044,924
Accumulated depreciation	-	-	(43,539)	(43,539)
Net book value	<u>\$ -</u>	<u>\$ 1,044,924</u>	<u>\$ (43,539)</u>	<u>\$ 1,001,385</u>

During the year ended December 31, 2020, \$36,515 of the depreciation expense was capitalized to biological assets and inventory (2019 – n/a).

(ii) Lease obligation

	\$
Lease obligation at December 31, 2019	-
Acquired through acquisition (Note 4(a))	1,100,703
Interest expense	54,464
Lease payments	(66,110)
Lease obligation at December 31, 2020	<u>1,089,057</u>

(iii) The following is a reconciliation of the undiscounted lease payments to the lease obligation.

Year	\$
2021	80,336
2022-2025	419,254
2026-2030	478,250
Thereafter	945,203
Total contractual cash flows	1,923,043
Less: interest	(833,986)
Lease obligation at December 31, 2020	<u>1,089,057</u>

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12. 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 4(c).

In May 2019, the Company also issued 50,000 common shares to a service provider, who performed services for Quebec Inc. described in Note 4(b), 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 Quebec Inc.

Shares issued during the year ended December 31, 2020:

In January 2020, the Company issued 1,514,286 common shares (valued at \$53,000) to two directors, one of whom is 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).

During the year ended December 31, 2020, 3,189,755 shares (valued at \$273,000) were returned to treasury by an officer, who is also a director of the Company, for \$nil consideration.

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12. SHARE CAPITAL (continued)

(c) Share purchase warrants

A summary of the changes in the Company's warrants for the years ended December 31, 2020 and 2019 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	5,620,000	0.28
Expired	(1,620,000)	(0.45)
Balance, December 31, 2020	4,000,000	0.21

The following table summarizes the share purchase warrants outstanding and exercisable as at December 31, 2020:

Exercise price	Expiry date	Number of warrants
\$ 0.205	10/19/2023	4,000,000
		4,000,000

As at December 31, 2020, 4,000,000 warrants (2019 - 5,620,000 warrants) with a weighted average remaining contractual life of 2.80 years (2019 - 2.79 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each whole warrant held.

(d) Stock options

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

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

A summary of the changes in the Company's stock options for the years ended December 31, 2020 and 2019 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 granted	13,850,000	0.03
Options cancelled or expired	(24,050,000)	(0.25)
Balance, December 31, 2020	20,850,000	0.04

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12. SHARE CAPITAL (continued)

(d) Stock options (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.

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

In October 2020, the Company granted 6,500,000 and 3,750,000 stock options to two directors and four consultants, respectively. The options are exercisable at a price of \$0.025 per share for a period of five years expiring on October 8, 2025. Of the 10,250,000 stock options issued, 9,500,000 stock options were issued as replacement options for 11,250,000 options cancelled in July and October 2020. In July 2020, the Company cancelled another 4,000,000 stock options for \$nil consideration. The options were cancelled due to them not being in the money. The Company accounted for the replacement options as a modification of the original options issued and recognized the incremental fair value of \$209,831 as share-based compensation at the time of grant.

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

The weighted average grant date fair value of stock options granted during the year ended December 31, 2020 was \$0.02 (2019 - \$0.07).

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

Issue date	October 8, 2020	July 2, 2020	November 29, 2019	November 29, 2019	October 31, 2019
Share price	\$0.025	\$0.025	\$0.04	\$0.04	\$0.035
Risk free interest rate	0.35%	0.37%	1.57%	1.63%	1.53%
Expected dividend yield	0%	0%	0%	0%	0%
Expected volatility	140%	140%	140%	140%	140%
Expected life	5 years	5 years	5 years	2 years	5 years

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12. SHARE CAPITAL (continued)

(d) Stock options (continued)

Issue date	July 12, 2019	July 12, 2019	March 11, 2019	February 4, 2019
Share price	\$0.075	\$0.075	\$0.11	\$0.13
Risk free interest rate	1.45%	1.52%	1.67%	1.81%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	140%	140%	140%	140%
Expected life	5 years	1 years	1 year	1 year

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.

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

Exercise price	Expiry date	Number of options
\$ 0.075	07/12/2024	4,500,000
\$ 0.035	10/31/2024	2,250,000
\$ 0.040	11/29/2024	250,000
\$ 0.025	07/02/2025*	3,600,000
\$ 0.025	10/08/2025*	10,250,000
		20,850,000

*See Note 21(a) for subsequent exercises of 1,500,000 options expiring on October 8, 2025 and 500,000 options expiring on July 2, 2025

As at December 31, 2020, 20,850,000 options (2019 - 31,050,000) with a weighted average remaining contractual life of 4.3 years (2019 – 1.8 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each option held.

13. NON-CONTROLLING INTEREST

The following table presents the summarized financial information for RoyalMax, the Company's subsidiary which had an NCI of 30% for the period between February 11, 2020 (acquisition date of RoyalMax) and November 16, 2020 and 0.03% thereafter. Refer to Note 4(a) for a description of the dilution in NCI. This information represents amounts before intercompany eliminations for the post-acquisition period from February 11, 2020 to December 31, 2020 and as at December 31, 2020.

RoyalMax's summarized financial information	\$
Current assets	3,382,194
Non-current assets	3,513,878
Current liabilities	364,234
Non-current liabilities	1,073,233
Sales	86,588
Net loss and comprehensive loss	515,519

The net changes in NCI are as follows:

	\$
Balance, February 11, 2020 (RoyalMax acquisition date)	823,707
Share of net loss and comprehensive loss	(109,152)
Decrease in NCI	(713,844)
Balance, December 31, 2020	711

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14. RELATED PARTY TRANSACTIONS

Due to related parties, included in account payable and accrued liabilities, comprised amounts owed to directors and officers as at December 31, 2020 of \$25,996 (2019 - \$Nil). These amounts were unsecured, due on demand and non-interest bearing.

As at December 31, 2020, there were \$2,000 prepaid expenses paid to a director and officer (2019 - \$nil).

Key management compensation:

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

	2020	2019
	\$	\$
Director fees	47,000	20,000
Management fees, paid to officers and directors*	292,000	163,855
Share-based compensation to officers and directors	187,747	498,800
Total key management compensation	526,747	682,655

* of \$292,000 expense in 2020, \$48,000 of management fees paid to a director and officer were settled through the issuance of 1,371,429 common shares of the Company in January 2020, which were subsequently returned to treasury for \$nil.

See also Notes 4, 12, 13, 18 and 21.

During the year ended December 31, 2020, the Company incurred \$57,500 consulting fees for three related consultants (2019 - \$nil), one of whom is the related consultant described in Note 12(d) with the other two being the NCI parties of RoyalMax.

During the year ended December 31, 2020, the Company recognized a share-based compensation of \$22,089 (2019 - \$46,990) for the 1,000,000 options (2019 - 1,250,000 options) issued to the related consultant described in Note 12(d).

15. 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, 2020 and 2019.

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16. FINANCIAL INSTRUMENTS AND RISK

The Company has classified its cash and cash equivalents, short-term investments, marketable securities and convertible debenture as FVTPL. Loans receivable are classified at amortized cost. Accounts payable and accrued liabilities and flow-through renunciation obligations are classified as other financial liabilities.

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

	2020	2019
	\$	\$
FVTPL (i)	1,429,377	3,249,071
Long-term loans receivable	-	4,993,991
Other financial liabilities (ii)	529,925	91,736

- (i) Cash and cash equivalents, short-term investments, marketable securities and convertible debenture
(ii) Accounts payable and accrued liabilities and flow-through renunciation obligations

Fair value

As at December 31, 2020, the fair value of the Company's 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, 2020:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	1,032,481	-	-	1,032,481
Short-term investments	355,000	-	-	355,000
Marketable securities	41,895	-	-	41,895
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

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.

During the years ended December 31, 2020 and 2019, there were no changes in financial instruments classified as Level 3.

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16. FINANCIAL INSTRUMENTS AND RISK (continued)

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and convertible debenture. 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.

The convertible debenture is measured at FVTPL and valued at \$1 nominal value based on management's estimated high credit risk.

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.

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.

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16. FINANCIAL INSTRUMENTS AND RISK (continued)

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, 2020 and 2019, one of the loans which was unsecured and was in Stage 3 due to its default status was written off. See Note 9(b). The Company acquired control of both creditors for the remaining two loan arrangements, described in Note 4(a) and (b), during the year ended December 31, 2020.

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 current financial liabilities, except for lease obligations, 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. See Note 11 for a description of the Company's lease obligations and timing of contractual cash flows.

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.

17. CONTINGENCIES

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.

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17. CONTINGENCIES (continued)

Claims filed by RoyalMax NCI parties

Subsequent to the year ended December 31, 2020, two separate claims were filed by NCI parties of RoyalMax against the Company, disputing among other things, the dilution of their interests in RoyalMax as a result of the debt settlement described in Note 4(a). One NCI party also alleged that Matica was not entitled to the additional 5% interest in RoyalMax given the outstanding consideration of \$400,000. The NCI parties are seeking payment of the \$400,000, annulment of the 100,000 RoyalMax common shares issued to Matica, damages in the aggregate amount of \$95,000 and Matica's purchase of one NCI party's interest in RoyalMax at the fair market value. Management believes that the plaintiff's claims were commenced in order to seek a payment via a settlement and are without merit and plans to vigorously oppose these claims.

Claim filed against the Company for trademark infringement

Subsequent to the year ended December 31, 2020, the Company was served with a lawsuit claiming trademark infringement. In May 2020, the Company filed for registration name and logo design. Management believes that this lawsuit is without merit. The Company will aggressively defend itself, and seek all available remedies under the law.

COVID-19 Estimation Uncertainty

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.

Flow-through renunciation obligations

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, 2020, the Company had an 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 December 31, 2020, an estimated amount accrued relating to the indemnification on the unfulfilled commitments totalled \$38,214 (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.

18. COMMITMENTS

The Company is a party to two management and consulting contracts with two key management officers and directors described in Note 14. These contracts contain clauses requiring additional payments of up to \$720,000 to be made upon the occurrence of certain events such as a change of control or termination. As of December 31, 2020, no triggering event has occurred, and the contingent payments have not been reflected in these consolidated financial statements.

The Company is also committed to pay a consultant at a monthly rate of \$8,000 in cash for the period from January 2021 to February 2022.

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18. COMMITMENTS (continued)

Also see Note 4(c).

19. SEGMENT DISCLOSURE

Geographic information

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

Operating segments

During the year ended December 31, 2020, the Company operates in the cannabis sector through RoyalMax, its subsidiary located in Quebec, Canada (see Note 4(a)). This represents the sole operating segment of the Company.

The Company continues to hold a royalty on a Nevada Lithium property carried at \$nil value as at December 31, 2020 (see Note 10).

Revenue

During the year ended December 31, 2020, 99% of revenue of the Company was earned from three customers (2019 – n/a).

20. 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:

	2020	2019
Combined statutory tax rate	26.5%	26.5%
	\$	\$
Income tax recovery at combined statutory rate	2,257,000	524,000
Non-deductible items	5,000	(202,000)
Other	27,000	(323,000)
Write-down of investments	(1,837,000)	–
Deferred tax assets acquired through acquisitions	905,000	–
Amounts not recognized	(1,357,000)	1,000
Income tax expense	–	–

The components of deferred tax are summarized below. Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

	2020	2019
Recognized deferred tax assets and liabilities	\$	\$
Non-capital losses	541,000	–
Share issue costs	(53,000)	–
Right-of-use asset	(303,000)	–
Biological assets and inventory	(185,000)	–
Net deferred tax assets	–	–

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20. INCOME TAXES (continued)

At December 31, 2020 and 2019, the amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position is as follows:

	2020	2019
	Temporary Difference	Temporary Difference
	\$	\$
Non-capital losses	9,013,000	5,780,000
Mineral properties	1,096,000	1,096,000
Marketable securities and capital losses	992,000	324,000
Share issue costs	67,000	126,000
Property, plant and equipment	1,954,000	-
Lease obligations	1,256,000	-
Investment in Yunify	728,000	-
Other	163,000	-
Total deductible temporary differences	15,269,000	7,326,000

As at December 31, 2020, the Company had non-capital losses carried forward of approximately \$9,013,000 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	660,000
2037	758,000
2038	1,324,000
2039	1,092,000
2040	1,325,000
	<u>9,013,000</u>

As at December 31, 2020, the Company also had capital losses carryforward of approximately \$786,000, which can be carried forward indefinitely and applied against future taxable capital gains.

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.

21. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2020, 2,000,000 options were exercised for gross proceeds of \$50,000, of which 1,500,000 options were exercised by a senior officer and director for gross proceeds of \$37,500.

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21. SUBSEQUENT EVENTS (continued)

- b) Subsequent to December 31, 2020, the Company granted 7,500,000 stock options exercisable at a price of \$0.05 for a period of five years expiring in 2026. Of total options issued, 5,000,000 options were issued to three directors and/or officers. The stock options vested immediately.
- c) In February 2021, the Company closed a private financing for gross proceeds of \$200,000 by issuing 3,809,523 units at \$0.0525 per unit. Each unit consists of one common share and one warrant exercisable into a common share at \$0.0875 per share, to February 23, 2026.
- d) In March 2021, the Company issued 141,045 common shares to a service provider as a settlement of \$8,500 of debt (based on the quoted market price on the date of issuance).
- e) See Note 17.