



MATICA

MATICA ENTERPRISES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE TO READER

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

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

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

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2021 AND 2020
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	March 31, 2021	December 31, 2020
		\$	(Audited) \$
ASSETS			
Current Assets			
Cash and cash equivalents	3	361,438	1,032,481
Short-term investments	3	355,000	355,000
Marketable securities	5	69,825	41,895
Accounts receivable		334,319	-
Sales tax recoverable		177,003	112,948
Prepaid expenses	10	201,658	194,498
Biological assets	6(a)	243,205	284,030
Inventory	6(b)	3,076,264	2,572,714
Total current assets		4,818,712	4,593,566
Security deposits		111,800	111,800
Property, plant and equipment		3,238,012	3,302,876
Right-of-use assets		1,122,396	1,144,015
Intangible assets		197,500	200,000
Investment in Yunify Natural Technologies	7	1	1
TOTAL ASSETS		9,488,421	9,352,258
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	4(a),10	625,303	491,711
Customer deposits		-	167,350
Lease obligations - current		50,569	49,561
Flow-through renunciation obligations	13	38,214	38,214
Total current liabilities		714,086	746,836
Lease obligations - long-term		1,193,822	1,206,943
TOTAL LIABILITIES		1,907,908	1,953,779
EQUITY			
Share capital	9	26,036,373	25,748,264
Contributed surplus	9	971,116	683,886
Deficit		(19,427,716)	(16,711,440)
Equity attributable to owners of the Company		7,579,773	7,397,668
Non-controlling interest	13	740	711
Total equity		7,580,513	7,398,479
TOTAL LIABILITIES AND EQUITY		9,488,421	9,352,258

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
 COMMITMENTS AND CONTINGENCIES (Notes 4(c), 13 and 14)
 SUBSEQUENT EVENTS (Note 15)

APPROVED ON BEHALF OF THE BOARD ON JUNE 18, 2021:

/s/ "Boris Ziger"

Director

/s/ "Gurcharn Deol"

Director

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

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	2021	2020
		\$	\$
REVENUE			
Sales		591,778	-
Cost of sales		(486,756)	-
Gross margin		105,022	-
GENERAL AND ADMINISTRATIVE EXPENSES			
Depreciation		27,982	12,075
Management and directors' fees	11	106,895	83,000
Office and general		94,496	16,499
Professional fees		107,183	102,050
Share-based compensation	9(d),11	331,400	-
Transfer agent and filing fees		9,445	20,821
Travel, marketing and promotion		5,658	31,520
Total general and administrative expenses		683,059	265,965
OTHER INCOME (EXPENSES)			
Interest and other income (loss)	3,4(b)	(13,235)	53,195
Unrealized gain (loss) on marketable securities	5	27,930	(97,755)
Unrealized change in fair value of biological assets	6(a)	170,037	69,951
Total other expenses		184,732	(25,391)
NET LOSS AND COMPREHENSIVE LOSS		(393,305)	(240,574)
Net loss and comprehensive loss attributable to:			
Shareholders of the Company		(393,334)	(230,043)
Non-controlling interest	4(a)	29	(10,531)
NET LOSS AND COMPREHENSIVE LOSS		(393,305)	(240,574)
LOSS PER SHARE - basic and diluted		(0.00)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			
- basic and diluted		317,405,127	318,146,510

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

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	Common shares		Contributed	Non-controlling		Equity
		Shares	Amount	Surplus	Interest	Deficit	
		#	\$	\$	\$	\$	\$
Balance, December 31, 2019		315,956,557	25,928,264	5,472,638	-	(16,711,440)	14,689,462
Options expired	9(d)	-	-	(111,800)	-	111,800	-
Business acquisition	9(b)(c)	-	-	-	987,494	-	987,494
Shares issued for debt and services	4(c),9(b)	2,657,143	93,000	-	-	-	93,000
Net loss and comprehensive loss		-	-	-	(10,531)	(230,043)	(240,574)
Balance, March 31, 2020		318,613,700	26,021,264	5,360,838	976,963	(16,829,683)	15,529,382
Balance, December 31, 2020		315,423,945	25,748,264	683,886	711	(19,034,382)	7,398,479
Private placement units issued for cash, net of issue costs	9(d)	3,809,523	185,476	-	-	-	185,476
Shares issued for debt and services	9(b)	141,045	8,463	-	-	-	8,463
Share-based compensation	9(d)	-	-	331,400	-	-	331,400
Options exercised		2,000,000	94,170	(44,170)	-	-	50,000
Net loss and comprehensive loss		-	-	-	29	(393,334)	(393,305)
Balance, March 31, 2021		321,374,513	26,036,373	971,116	740	(19,427,716)	7,580,513

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

MATICA ENTERPRISES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited)
(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
OPERATING ACTIVITIES		
Net loss	(393,305)	(240,574)
Items not involving cash:		
Unrealized loss on marketable securities	(27,930)	97,755
Unrealized (gain) in fair value of biological assets	(187,567)	(69,951)
Share-based compensation	331,400	-
Shares issued for debt and services	8,463	93,000
Accrued interest income	-	(36,469)
Depreciation	27,982	12,075
	(240,957)	(144,164)
Changes in non-cash working capital items, net of acquisitions:		
Accounts receivable	(398,374)	(26,100)
Prepaid expenses	(7,160)	(54,084)
Inventory	(97,138)	(45,306)
Biological assets	(109,069)	(122,660)
Accounts payable and accrued liabilities	133,592	5,041
Customer deposits	(167,350)	-
Cash (Used in) Operating Activities	(886,456)	(387,273)
INVESTING ACTIVITIES		
Equipment acquisitions	(7,950)	-
Maturity of short-term investments	-	755,000
Loans advanced	-	(268,688)
Cash Provided by (Used in) Investing Activities	(7,950)	486,312
FINANCING ACTIVITIES		
Units issued for cash	185,476	-
Exercise of options	50,000	-
Principal payments on lease obligations	(12,113)	(190)
Exercise of options	-	-
Due to related parties	-	9,367
Cash (Used in) Provided by Financing Activities	223,363	9,177
(DECREASE) IN CASH AND CASH EQUIVALENTS	(671,043)	108,216
CASH AND CASH EQUIVALENTS, beginning of period	1,387,481	1,595,110
CASH AND CASH EQUIVALENTS, end of period	716,438	1,703,326
NON-CASH TRANSACTIONS:		
Shares issued for debt and services	9(b) 141,045	93,000
SUPPLEMENTAL INFORMATION:		
Interest paid	-	-
Income taxes paid	-	-

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

MATICA ENTERPRISES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited)
(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 8). 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 \$393,305 for the three months ended March 31, 2021 (2020 - \$230,043), a deficit of \$19,427,716 (December 31, 2020 - \$19,034,382) and working capital of \$4,104,626 (2020 - \$3,846,730) 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 13.

These unaudited condensed consolidated interim financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. These 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 condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on June 18, 2021.

MATICA ENTERPRISES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited)
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2. BASIS OF PRESENTATION (continued)

Basis of preparation

These condensed consolidated interim financial statements of the Company have been prepared on an accrual basis except for cash flow information and are based on historical costs, except for specific financial instruments and biological assets measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars.

Consolidation

These condensed consolidated interim financial statements for the three months ended March 31, 2021 and 2020 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 condensed consolidated interim financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

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

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

Please refer to the December 31, 2020 audited financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2020 financial statements were consistently applied to all periods presented unless otherwise noted below. These condensed consolidated interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2020.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of March 31, 2021. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended December 31, 2021 could result in restatement of these interim consolidated financial statements.

Significant accounting judgments, estimates and assumptions

The preparation of the condensed consolidated interim 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 condensed consolidated interim 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.

MATICA ENTERPRISES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment

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

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

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

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Unaudited)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

See Note 13.

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

New accounting policies

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 condensed consolidated interim 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.

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.

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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.

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 March 31, 2021.

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.

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 13 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	823,707
	2,745,691
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	1,044,924
Property, plant and equipment	2,838,000
Cultivation, processing and sales licenses	209,000
Accounts payable and accrued liabilities	(117,274)
Lease obligation	(1,100,703)
Advances from Matica	(2,140,624)
Net assets acquired	2,745,691

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
Balance, December 31, 2019	2,019,504
Advances	121,120
Balance, February 11, 2020 (acquisition date)	2,140,624
Advances	1,129,658
Balance, November 16, 2020	3,270,282

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4. ACQUISITIONS (continued)

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

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 13, 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 13 for management's assessment of such claims.

(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.

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.

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.

In 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 March 31, 2021, 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.

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4. ACQUISITIONS (continued)

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

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. 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.

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.

In 2019, the Company sold 1,694,000 shares of Biome for net proceeds of \$1,079,395. As at March 31, 2021, the value of the remaining 931,000 Biome shares was adjusted to \$69,825 (December 31, 2020 - \$41,895) 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, 2020	284,030
Capitalization of production costs	336,465
Unrealized change in fair value of biological assets	170,037
Transferred to inventory upon harvest	(547,327)
Balance, March 31, 2021	243,205

As of March 31, 2021, the Company had 1,535 plants (December 31, 2020 – 1,630 plants) classified as biological assets which are expected to ultimately yield 85,900 grams of dry flower (December 31, 2020 – 147,770 grams), 80,430 grams of dry trim (December 31, 2020 – 120,610 grams) and 2,846 grams of dry kief (December 31, 2020 – 10,348 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 March 31, 2021, the plants were on average 14 weeks into the growing cycle, or 58% complete, and were ascribed approximately 58% of their expected fair value at harvest date. 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.

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6. BIOLOGICAL ASSETS AND INVENTORY (continued)

(b) Inventory

	March 31, 2021	December 31, 2020
	\$	\$
Work-in-process – dry cannabis (i)	2,446,062	2,104,770
Finished goods – dry cannabis (i)	558,601	390,209
Finished goods – Ionic mist (ii)	36,658	36,658
Supplies and packaging materials (i)	34,943	41,077
Total inventory	3,076,264	2,572,714

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

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

	As at March 31, 2021	
	g	\$
Work-in-process		
Dry flower	761,755	2,024,279
Dry trim	581,405	356,924
Dry kief	49,304	64,859
		<u>2,446,062</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.

(i) *Ionic Mist*

At March 31, 2021, inventory was comprised of 6,746 bottles of IonicMist, odour neutralizing sprays, carried at a cost of \$36,658 (December 31, 2020 – 6,746 bottles carried at cost of \$36,658).

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7. INVESTMENT

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. In 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 March 31, 2021, the investment is being reported at a \$1 nominal value based on management’s estimate of its fair value.

8. 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.

9. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued and outstanding

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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9. SHARE CAPITAL (continued)

Shares issued during the three months ended March 31, 2021:

In February 2021, the Company closed a private financing for gross proceeds of \$190,476 by issuing 3,809,523 units at \$0.05 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. Share issue costs of \$5,000 was paid on closing of this financing.

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).

During the three months ended March 31, 2021, 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.

(c) Share purchase warrants

A summary of the changes in the Company's warrants for the three months ended March 31, 2021 is presented below:

	Number of warrants	Weighted average exercise price
		\$
Balance, December 31, 2020	4,000,000	0.205
Issued	3,809,523	0.0875
Balance, March 31, 2021	7,809,523	0.15

The following table summarizes the share purchase warrants outstanding and exercisable as at March 31, 2021:

Exercise price	Expiry date	Number of warrants
\$ 0.205	10/19/2023	4,000,000
\$ 0.0875	2/23/2026	3,809,523
		7,809,523

As at March 31, 2021, 7,809,523 warrants (2020 - 5,620,000 warrants) with a weighted average remaining contractual life of 3.70 years (2020 – 2.54 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each whole warrant held.

(d) Stock options

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

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

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10. SHARE CAPITAL (continued)

(d) Stock options (continued)

A summary of the changes in the Company's stock options for the three months ended March 31, 2021 is presented below:

	Number of options	Weighted average exercise price
		\$
Balance, December 31, 2020	20,850,000	0.04
Options granted	7,500,000	0.05
Options exercised	(2,000,000)	(0.025)
Balance, March 31, 2021	26,350,000	0.04

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.

In January 2021, the Company granted 4,000,000 and 2,500,000 stock options to two directors and two consultants, respectively. The options are exercisable at a price of \$0.05 per share for a period of five years expiring on January 21, 2026.

In February 2021, the Company granted 1,000,000 stock options to a director. The options are exercisable at a price of \$0.05 per share for a period of five years expiring on February 2, 2026.

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

The weighted average grant date fair value of stock options granted during the three months ended March 31, 2021 was \$0.04 (2020 - \$0.06).

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

Issue date	February 2, 2021	January 21, 2021	October 8, 2020	July 2, 2020
Share price	\$0.05	\$0.05	\$0.025	\$0.025
Risk free interest rate	0.46%	0.41%	0.35%	0.37%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	140%	140%	140%	140%
Expected life	5 years	5 years	5 years	5 years

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

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10. SHARE CAPITAL (continued)

(d) Stock options (continued)

The following table summarizes the options outstanding and exercisable as at March 31, 2021:

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	3,100,000
\$ 0.025	10/08/2025	8,750,000
\$ 0.05	01/21/2026	6,500,000
\$ 0.05	02/02/2026	1,000,000
		26,350,000

As at March 31, 2021, 26,350,000 options (2020 - 29,300,000) with a weighted average remaining contractual life of 4.3 years (2020 – 2.2 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each option held.

11. RELATED PARTY TRANSACTIONS

Due to related parties, included in account payable and accrued liabilities, comprised amounts owed to directors and officers as at March 31, 2021 of \$55,140 (December 31, 2020 - \$25,996). These amounts were unsecured, due on demand and non-interest bearing.

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

Key management compensation:

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-terms benefits and termination benefits were made during the three months ended March 31, 2021 and 2020. Short-term key management compensation for the three months ended March 31, 2021 and 2020 was as follows:

	2021	2020
	\$	\$
Director fees	13,000	8,000
Management fees, paid to officers and directors	75,000	75,000
Share-based compensation to officers and directors	220,938	-
Total key management compensation	308,938	83,000

See also Notes 4, 9, and 14.

12. 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.

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12. MANAGEMENT OF CAPITAL (continued)

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

There were no changes in capital management for the three months ended March 31, 2021 and 2020.

13. 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:

	March 31, 2021	December 31, 2020
	\$	\$
FVTPL (i)	786,263	1,429,377
Long-term loans receivable	-	-
Other financial liabilities (ii)	663,517	529,925

(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 March 31, 2021, 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 March 31, 2021:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	361,438	-	-	361,438
Short-term investments	355,000	-	-	355,000
Marketable securities	69,825	-	-	69,825
Convertible debenture	-	-	1	1

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

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

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13. FINANCIAL INSTRUMENTS AND RISK (continued)

During the three months ended March 31, 2021 and 2020, there were no changes in financial instruments classified as Level 3.

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.

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.

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13. FINANCIAL INSTRUMENTS AND RISK (continued)

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

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

As at March 31, 2021 and 2020, one of the loans which was unsecured and was in Stage 3 due to its default status was written off. See Note 7.

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.

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.

14. 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 condensed consolidated interim financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of any such matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these condensed consolidated interim financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

Claims filed by RoyalMax NCI parties

During the three months ended March 31, 2021, 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). Among other things, one NCI party also alleged that Matica was not entitled to the additional 5% interest in RoyalMax given the outstanding consideration of \$400,000.

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14. CONTINGENCIES (continued)

Claims filed by RoyalMax NCI parties (continued)

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. The Company will aggressively defend itself against these claims, and intends to seek all available remedies under the law.

Claim filed against the Company for trademark infringement

Subsequent to March 31, 2021, 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 defending itself, and intends to 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 March 31, 2021, the Company had an unfulfilled CEE obligations of \$42,770 (2020 - \$42,770). As the Company did not fulfill the expenditure obligation, the Company paid \$56,437 in 2018 related to Part XII.6 tax and related penalties and interests on the unfulfilled commitments. Furthermore, the Company may also have to indemnify shareholders for taxes and related amounts in respect of the unspent portion of the commitment. As at March 31, 2021, an estimated amount accrued relating to the indemnification on the unfulfilled commitments totalled \$38,214 (2020 - \$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.

15. COMMITMENTS

The Company is a party to two management and consulting contracts with two key management officers and directors described in Note 10. 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 March 31, 2021, no triggering event has occurred, and the contingent payments have not been reflected in these condensed consolidated interim 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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16. SUBSEQUENT EVENTS

Subsequent to March 31, 2021, the Company granted 2,000,000 stock options to a consultant exercisable at a price of \$0.04 for a period of one year expiring in 2022. The stock options vested immediately.