Consolidated Financial Statements of

BENCHMARK BOTANICS INC.

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Benchmark Botanics Inc.

Opinion

We have audited the consolidated financial statements of Benchmark Botanics Inc. (the "Company") which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

If, based on the work we have performed on this other information, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 to 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.

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Auditors' 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 auditors' 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 the 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 judgment 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 risk 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 auditors' 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 auditors' 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 audits.

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 on the audit resulting in this independent auditors' report is Raymond Lu.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 27, 2020

Benchmark Botanics Inc.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		$	$
Current Assets			
Cash		875,347	328,112
Restricted cash		34,500	-
Amounts receivable	4	151,269	124,700
Biological assets	5	102,258	33,992
Inventory	6	855,029	587,395
Prepaid expenses and deposits	7	73,541	76,467
Due from associate		83,631	-
		2,175,575	1,150,666
Deposits	8	272,050	-
Loans receivable	9	3,802,422	-
Investment in associate	10	1,784,178	-
Right of use assets	3(q)	102,703	-
Property, plant and equipment	8	6,822,975	5,011,740
		14,959,903	6,162,406
Current Liabilities			
Accounts payable and accrued liabilities	11	390,249	357,150
Lease liabilities due within one year	3(q)	38,362	-
		428,611	357,150
Lease liabilities	3(q)	88,147	-
		516,758	357,150
Equity			
Share capital	13	29,582,289	17,815,099
Warrants reserve	13	506,667	506,667
Share subscriptions	13	-	80,000
Stock options reserve	13	2,403,215	1,732,466
Deficit		(18,049,026)	(14,328,976)
		14,443,145	5,805,256
		14,959,903	6,162,406

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)
COMMITMENTS (Note 17)
SUBSEQUENT EVENTS (Note 19)

Approved on behalf of the Board:

"George Dorin" Director

"William Ying" Director

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

Benchmark Botanics Inc.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		$	$
Revenue		252,254	-
Excise taxes		16,477	-
Net revenue		235,777	-
Inventory production costs		101,869	-
Gross profit before fair value adjustments		133,908	-
Fair value changes in biological assets included in inventory sold and other inventory charges		353,058	-
Unrealized gain on changes in fair value of biological assets	5	(312,527)	(424,259)
Gross profit		93,377	424,259
Expenses			
Amortization of tangible assets		309,514	262,246
Depreciation on right of use assets		58,140	-
Sales and marketing expenses		341,072	291,051
General and administrative expenses	18	3,993,484	3,876,671
Share-based compensation	12,13	884,606	1,449,350
		5,586,816	5,879,318
Loss before other income (expense)		(5,493,439)	(5,455,059)
Other income (expenses)			
Interest income	9	142,422	-
Gain on acquisition of associate	10	1,677,430	-
Loss on equity investments	10	(24,822)	-
Write-off of deposit		-	(500,000)
Write-off of inventory		-	(122,450)
		1,795,030	(622,450)
Net loss and comprehensive loss		(3,698,409)	(6,077,509)
Loss per common share – basic and diluted		(0.02)	(0.04)
Weighted average number of common shares outstanding		159,039,796	139,126,358

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

Benchmark Botanics Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Warrants Reserve	Share Subscriptions Received (Receivable)	Stock Options Reserve	Deficit	Total
		$	$	$		$	$
Balance, December 31, 2017	137,234,080	15,645,220	-	(12,988)	601,840	(8,251,467)	7,982,605
Shares issued for cash, net	2,666,667	1,344,833	506,667	-	-	-	1,851,500
Shares issued for trade mark fees	214,286	120,000	-	-	-	-	120,000
Share subscriptions received	-	-	-	92,988	-	-	92,988
Stock options exercised	1,913,894	705,046	-	-	(318,724)	-	386,322
Share-based compensation	-	-	-	-	1,449,350	-	1,449,350
Comprehensive loss for the year	-	-	-	-	-	(6,077,509)	(6,077,509)
Balance, December 31, 2018	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,328,976)	5,805,256
Impact of adopting IFRS 16 (Note 3 (q))	-	-	-	-	-	(21,641)	(21,641)
Restated balance as at January 1, 2019	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,350,617)	5,783,615
Shares issued for cash, net	28,250,000	11,300,000	-	-	-	-	11,300,000
Stock options exercised	1,266,667	467,190	-	-	(213,857)	-	253,333
Share-based compensation	-	-	-	-	884,606	-	884,606
Refund of share subscriptions received	-	-	-	(80,000)	-	-	(80,000)
Comprehensive loss for the year	-	-	-	-	-	(3,698,409)	(3,698,409)
Balance, December 31, 2019	171,545,594	29,582,289	506,667	-	2,403,215	(18,049,026)	14,443,145

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

Benchmark Botanics Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(3,698,409)	(6,077,509)
Items not involving cash:		
Fair value changes in biological assets included in inventory sold	353,058	-
Unrealized gain on fair value change of biological assets	(312,527)	(424,259)
Depreciation and amortization	367,654	262,246
Interest accretion on lease liabilities	21,725	-
Interest income	(142,422)	-
Gain of acquisition of associate	(1,677,430)	-
Share-based compensation	884,606	1,449,350
Loss on equity investments	24,822	-
Trademark fees	-	120,000
	(4,178,923)	(4,670,172)
Changes in non-cash working capital balances:		
Restricted cash	(34,500)	-
Amounts receivable	(26,569)	(62,921)
Biological assets	(68,266)	(142,078)
Inventory	(283,638)	(20,490)
Prepaid expenses and deposits	2,926	(39,274)
Due from associate	(83,631)	-
Accounts payable and accrued liabilities	(95,009)	(163,524)
Cash used in operating activities	(4,767,610)	(5,098,459)
INVESTING ACTIVITIES		
Deposits on acquisition of equipment	(272,050)	-
Acquisition of property, plant and equipment	(2,017,168)	(361,941)
Investment in associate	(131,570)	-
Loans receivable	(3,660,000)	-
Cash used in investing activities	(6,080,788)	(361,941)
FINANCING ACTIVITIES		
Proceeds from share issuance, net of share issuance costs	11,553,333	2,237,822
Subscriptions received (repayment)	(80,000)	92,988
Payment on lease liabilities	(77,700)	-
Cash provided by financing activities	11,395,633	2,330,810
Change in cash during the year	547,235	(3,129,590)
Cash, beginning of year	328,112	3,457,702
Cash, end of year	875,347	328,112
Supplemental cash flow information:		
Cash paid for interest	-	-
Cash paid for income taxes	-	-
Non-cash financing and investing transactions:		
Shares issued for trademark fees	-	120,000

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Benchmark Botanics Inc. (the "Company") was incorporated on November 23, 2009 under the Business Corporation Act of Alberta. On November 2, 2017, the Company acquired Potanicals Green Growers Inc. ("Potanicals") through a reverse acquisition transaction. The Company's common shares are trading as a Tier 2 Industrial Issuer on the Canadian Securities Exchange ("CSE") under the symbol "BBT". Potanicals was incorporated on February 7, 2014 under the British Columbia Business Corporation Act. The address of the Company's principal place of business is 4715 Paradise Valley Drive, Peachland, BC. The Company's head office and mailing address is 3600 Lysander Lane Suite 400, Richmond, British Columbia.

The Company's principal business is the production of marijuana licensed under the *Cannabis Act (Canada)* and its relevant regulations (the "Cannabis Act"), which came into force on October 17, 2018. On October 13, 2017, the Company obtained a license to produce medical marijuana under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). On May 29, 2018, the Company amended its licence to produce cannabis oil. On September 28, 2018, the Company obtained a licence to sell cannabis under the ACMPR. On July 26, 2019, the Company received a sales license from Health Canada. The Company has received its second cultivation license, effective November 29, 2019, from Health Canada for the Company's investment in a greenhouse operation located in Pitt Meadows, BC (Note 10).

These consolidated financial statements have been prepared on the basis of accounting principals applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at December 31, 2019, the Company has an accumulated deficit of $18,049,026 and has generated negative cash flows from operations. For the year ended December 31, 2019, the Company incurred a net loss of $3,698,409 (2018 – $6,077,509). During the year ended December 31, 2019, the majority of the equity financing raised by the Company has been used to purchase property, plant and equipment, increase working capital and to fund expenses. All of these factors raise significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and successfully generating profits and cash flows from producing and distributing medical marijuana.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements. Management's plans to meet the Company's current and future obligations are to generate revenue from sales, raise equity capital through prospectus and private placements, rely on the financial support of its shareholders and parties related to the current shareholders, as well as explore financing that may be available to the Company.

Subsequent to year-end in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on April 27, 2020.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments carried at fair value where changes are recorded through profit or loss.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary Potanicals Green Growers Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant estimates include:

- Estimating the stage of growth of the biological assets, the cannabis plants, up to the point of harvest, the expected future yields from the cannabis plants, their values during the growth cycle, costs to convert the harvested cannabis to finished goods, their sales price and net realizable value;
- Determining the useful lives of property and equipment; and
- Estimating the value of variables used to calculate the fair value of share-based payment transactions.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- The evaluation of the Company's ability to continue as going concern (see Note 1);
- The determination of impairment in the carrying costs of inventory;
- The recognition and valuation of impairment of property and equipment;
- In determining the appropriate basis of accounting for the Company's interests in investees, judgment is applied regarding the degree to which the Company has the ability to exert influence directly or indirectly over the investees' financial and operating activities; and
- Income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

b) Revenue Recognition

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 includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue from sale of goods, as presented in the consolidated statement of operations and comprehensive income (loss), represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

The Company's contracts with customers for the sale of dried cannabis 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those decisions. Significant influence is presumed if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary.

Investments in associates are accounted for using the equity method. The Company's interest in an associate is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the net assets of the associate, less any impairment in the value of individual investments, and any dividends paid. Where the Company transacts with an associate, unrealized profits and losses are eliminated to the extent of the Company's interest in that associate.

d) Inventory

Inventories of harvested finished goods and packing materials are initially valued at cost and subsequently 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 harvest which becomes the deemed cost. Any subsequent postharvest costs ("processing costs") are capitalized to inventory to the extent that the cost is less than net realizable value. 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 costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

e) Biological assets

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 utilities, an allocation of indirect labour, property taxes, and depreciation of equipment used in the growing process. The biological assets are then revalued to their 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 included under fair value adjustments within the consolidated statement of comprehensive loss.

f) Cash equivalents

Cash equivalents consist of highly liquid investments and bank overdrafts, excluding restricted cash, if any, that are readily convertible to cash with maturities of three months or less when purchased, or which are redeemable at the option of the Company.

g) Impairment

At each reporting date, the carrying amounts of the Company’s assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the greater 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 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. An impairment loss in respect of goodwill is not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Cost includes the acquisition price, any direct costs to bring the asset into productive use at its intended location, the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Major inspection cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is computed on a straight-line basis based on nature and useful lives of the assets, except in the year of acquisition, when half of the rate is used. The significant classes of plant and equipment and their estimated useful lives are as follows:

Leasehold improvements	term of lease
Plant	25 years
Production and other equipment	5 -10 years
Computer equipment and software	3 years
Furniture and fixtures	5 years
Vehicles	5 years

i) Financial instruments

The Company classifies it financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company classifies its financial liabilities in the following categories: at FVTPL or at amortized cost. The classification depends on the purpose for which the financial assets and liabilities are acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of comprehensive loss in the period in which they arise. The Company's cash and restricted cash are classified as FVTPL.

Financial assets at FVTOCI

Financial assets carried at FVOCI are financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and selling financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. The Company has no financial assets classified as FVTOCI.

Financial assets at amortized cost

Financial assets at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are initially recognized at fair value and are measured subsequent at amortized cost.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

Interest income is recognized using the effect interest method, and is recognized in interest and other income on the consolidated statements of comprehensive loss. The Company has classified its accounts receivable, other receivable, due from associate and loans receivable as financial assets at amortized cost.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of comprehensive loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Impairment of financial assets at amortized cost

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as FVTPL) is impaired. The criteria used to determine if there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;
(ii) delinquencies in interest or principal payments; and
(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

The loss of a financial assets carried at amortized cost is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method. The Company has classified its accounts payable as financial liabilities at amortized cost.

Financial liabilities classified FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the consolidated statement of comprehensive loss. The Company has no financial liabilities designated at FVTPL.

j) 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 probable. 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.

k) Share-based payments

The Company accounts for share-based payments awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) 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. The Company applies the treasury stock method in calculating diluted earnings per share. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

m) 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 income 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 income 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 income 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 income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income 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.

n) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

o) Functional and presentation currency

Items included in the financial statements of the Company and its subsidiary are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency of the Company and its subsidiary is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

p) Reclassifications

Certain reclassifications have been made to conform the prior year’s consolidated financial statements and notes to the current year’s presentation.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Adoption of new accounting pronouncements

IFRS 16 *Leases* - IFRS 16 superseded IAS 17 *Leases and* requires how leases will be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. For leases where the Company is the lessee, it recognizes a right-of-use asset and a lease liability for its office premises leases previously classified as operating leases. The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on January 1, 2019, and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS 16. As a result, the comparative information continues to be presented in accordance with the Company's previous accounting policies. The cumulative effect of initial adoption of IFRS 16 includes recognition of a lease liability of $182,484, right of use assets of $160,843 and an adjustment of $21,641 to the Company's accumulated deficit as at January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities on office premises which had previously been classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates applies to the lease liabilities on January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 15% per annum. The details of the lease liabilities recognized as at January 1, 2019 are as follow. The weighted average lease term remaining as at January 1, 2019 is approximately 3.3 years.

	As at January 1, 2019
	$
Operating lease commitment disclosed as at December 31, 2018	209,712
Discount of future commitments as at January 1, 2019	(23,314)
Extension options reasonably certain to exercise	(3,914)
Lease liabilities recognized as at January 1, 2019	182,484

Right-of-use assets

The following is the continuity of the cost and accumulated depreciation of right-of-use assets (office premises leases) as at and for the year ended December 31, 2019:

Cost	$
Balance, January 1, 2019	160,843
Accumulated depreciation	
Balance, January 1, 2019	-
Depreciation	58,140
Balance, December 31, 2019	58,140
Carrying amount as at December 31, 2019	102,703

Lease liabilities

The following is the continuity of lease liabilities as at and for the year ended December 31, 2019:

	$
Balance, January 1, 2019	182,484
Lease payments	(77,700)
Interest expense on lease liabilities	21,725
Balance, December 31, 2019	126,509
Less: current portion	38,362
Lease liabilities – non current	88,147

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

Amounts receivable are comprised of:

	2019	2018
	$	$
Accounts receivable	86,172	-
GST receivable	65,097	83,049
Other receivable	-	41,651
Balance, end of year	151,269	124,700

5. BIOLOGICAL ASSETS

As at December 31, 2019, the Company's biological assets consisted of cannabis plants. The changes in the carrying value of the biological assets are as follow:

	2019	2018
	$	$
Balance, beginning of year	33,992	-
Acquired biological assets	-	33,384
Unrealized gain on changes in fair value of biological assets	312,527	424,259
Production costs capitalized	458,524	143,254
Harvested cannabis transferred to inventory	(702,785)	(566,905)
Balance, end of year	102,258	33,992

As of December 31, 2019, the weighted average fair value less cost to complete and cost to sell was $5.00 per gram (2018 - $5.00 per gram).

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to sell up to the point of harvest. The Company's biological assets are primarily cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on selling prices less the costs to sell at harvest. For in process biological assets, the fair value at point of harvest is adjusted based on the stage of growth.

During the year ended December 31, 2019, the Company's biological assets produced 140,557 grams of dried cannabis (2018 – 113,398 grams).

The significant unobservable inputs and their range of values are noted in the table below:

Unobservable Inputs	Range	Sensitivity
Estimated Yield per Plant – varies by strain and is obtained through historical growing results (trailing 6-months moving average) or grower estimate if historical results are not available.	25 grams/plant to 165 grams/plant	A slight increase in the estimated yield per plant would result in a significant increase in fair value, and vice versa.
Listed Selling Price of Dry Cannabis – varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available.	$5 to $8/gram	A slight increase in the estimated selling price per strain would result in a significant increase in fair value, and vice versa.

The Company estimates the average grow cycle of plants up to the point of harvest is approximately twelve weeks.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected the gain or loss on biological assets in future periods.

(Expressed in Canadian Dollars)

6. INVENTORY

	2019	2018
	$	$
Dry cannabis	831,260	566,905
Raw materials	23,769	20,490
Total	855,029	587,395

For the year ended December 31, 2019, the Company sold 39,037 grams of dried cannabis. Inventory expensed during the year ended December 31, 2019, was $195,185 (2018 - $nil).

The fair value changes of biological assets included in inventory sold and other inventory charges for the year ended December 31, 2019 was $353,058 (2018 - $nil), including a net realizable value adjustment to inventory of $243,246 (2018 - $nil).

7. PREPAID EXPENSES AND DEPOSITS

	2019	2018
	$	$
Prepaid expenses	38,886	8,554
Deposits	34,655	67,913
	73,541	76,467

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Plant	Building under Development	Leasehold Improvement	Production and Other Equipment	Computer Equipment and Software	Furniture and Fixtures	Motor Vehicle	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance, December 31, 2017	1,857,500	1,894,755	-	33,900	977,950	129,253	25,197	-	4,918,555
Additions	30,144	48,267		-	34,118	17,062	163,358	68,992	361,941
Balance, December 31, 2018	1,887,644	1,943,022	-	33,900	1,012,068	146,315	188,555	68,992	5,280,496
Additions	84,200	20,057	1,918,479	-	71,606	5,564	7,223	38,146	2,145,275
Balance, December 31, 2019	1,971,844	1,963,079	1,918,479	33,900	1,083,674	151,879	195,778	107,138	7,425,771
Accumulated Depreciation									
Balance, December 31, 2017	-	-	-	1,412	-	603	3,319	-	5,334
Charge for the year	-	76,723	-	11,300	98,836	64,552	10,286	1,725	263,422
Balance, December 31, 2018	-	76,723	-	12,712	98,836	65,155	13,605	1,725	268,756
Charge for the year	-	78,122	-	11,300	139,363	49,699	37,943	17,613	334,040
Balance, December 31, 2019	-	154,845	-	24,012	238,199	114,854	51,548	19,338	602,796
Net book value									
December 31, 2018	1,887,644	1,866,299	-	21,188	913,232	81,160	174,950	67,267	5,011,740
December 31, 2019	1,971,844	1,808,234	1,918,479	9,888	845,475	37,025	144,230	87,800	6,822,975

As at December 31, 2019, the Company's Building under Development is not yet available for use. As a result no depreciation was recorded for the year ended December 31, 2019. During the year ended December 31, 2019, the Company made deposits of $272,050 to purchase equipment for the Company's extraction facility which is currently under construction.

(Expressed in Canadian Dollars)

9. LOANS RECEIVABLE

On January 28, 2019, the Company entered into a revolving loan agreement (the "Loan Agreement") with 1139000 BC Ltd. ("1139000"), an associated company as described in Note 10. Pursuant to the Loan Agreement, the Company agreed to make loans to 1139000 from time to time. The loans are unsecured, bear interest at 8% per annum and mature on December 31, 2020. During the year ended December 31, 2019, the aggregate amount loaned to 1139000 totaled $3,660,000 (2018 - $nil). Accrued interest for the year ended December 31, 2019 was $142,422 (2018 - $nil). As at December 31, 2019, the loan and interest receivable totaled $3,802,422 (2018 - $nil).

10. INVESTMENT IN ASSOCIATE

On August 30, 2018, the Company entered into an Earn-in and Shareholders' Agreement (the "Agreement") with 1139000 and its shareholders to acquire and develop a four-acre greenhouse facility (the "Facility") into a licensed medical cannabis cultivation operation in Pitt Meadows, BC. Pursuant to the Agreement, the 1139000 existing shareholders will earn their initial 75% ownership interest in 1139000 by financing all the costs and expenses relating to the purchase, design, construction and upgrading of the Facility into a facility that meets the requirements of a licensed cultivation and production of medical cannabis facility under ACMPR which was replaced by the Cannabis Act and its relevant regulations (the "Cannabis Act") effectively on October 17, 2018.

The Company, through its wholly-owned subsidiary, Potanicals Green Growers Inc., earned its initial 25% ownership interest in 1139000 by obtaining Health Canada's approval to extend its licence for cultivation and production of medical cannabis under the Cannabis Act to the Facility. The Company will have the option to acquire from 1139000's shareholders an additional 26% ownership interest in 1139000 when the Facility reaches a Commercial Stage as defined by the Agreement. The Company will pay for the additional 26% ownership interest at its fair value to be determined at the time when the option is exercised by issuance of the Company's common shares. On November 29, 2019, the Company received a cultivation license for the Facility and received its 25% interest in 1139000 on December 6, 2019. As at December 31, 2019, the Facility has not reached the commercial stage.

As at December 6, 2019, the fair value of 1139000's net assets was $7,236,000. The Company recognized a gain of $1,677,430 on its acquisition of the 25% ownership interest of 1139000, as follows:

	$
Cash	247,955
Prepaid expenses and other current assets	311,161
Property, plant and equipment	12,666,709
Accounts payable	(252,803)
Mortgages payable	(1,984,600)
Loan payable	(3,752,422)
Net assets	7,236,000
The Company's 25% share of the net assets' fair value	1,809,000
Less: Costs incurred by the Company to extend the licence	(131,570)
Gain on acquisition of associate	1,677,430

The following table outlines the investment in 1139000 that is accounted for using the equity method for the year ended December 31, 2019:

	$
Balance, December 31, 2018	-
Initial recognition of the 25% ownership of 1139000	1,809,000
Share of 1139000 loss for the year	(24,822)
Balance, December 31, 2019	1,784,178

(Expressed in Canadian Dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	$	$
Trade payables	327,188	286,074
Accrued liabilities	63,061	71,076
Total	390,249	357,150

12. RELATED PARTY BALANCES AND TRANSACTIONS

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the years ended December 31, 2019 and 2018. Short-term key management compensation consists of the following:

	2019	2018
	$	$
Share-based payments	484,656	720,893
Salaries	389,125	240,533
Management fees	528,000	493,000
Consulting fees	72,000	63,750
Director fees	93,500	52,871
Rent	42,000	37,490

Related party balances and transactions

a) During the year ended December 31, 2019, the Company incurred $42,000 (2018 - $37,490) in rental expenses to directors of the Company.

The above transactions were entered into in the normal course of operations and were recorded at their exchange amounts established and agreed to between the related parties.

13. SHARE CAPITAL

Common Shares Issued and Outstanding

At December 31, 2019, there were 171,545,594 issued and fully paid common shares (2018 - 142,028,927).

During the year end December 31, 2019:

i. On June 6, 2019, the Company closed its non-brokered private placement financing (the "Private Placement") of 28,250,000 units (each, a "Unit") at a price of $0.40 per Unit for total gross proceeds of $11,300,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant can be exercisable into one share at a price of $1.00 for a period of 24 months from the closing date of the Private Placement.

ii. During the year ended December 31, 2019, there were 1,266,667 common shares issued on exercise of stock options for total proceeds of $253,333 and the Company reclassified $213,857 from contributed surplus to share capital upon exercise.

During the year ended December 31, 2018:

i. There were 1,913,894 shares issued on exercise of stock options for total proceeds of $386,322.

ii. On September 5, 2018, the Company completed a non-brokered private placement and issued 2,666,667 units at $0.75 per unit for aggregate proceeds of $2,000,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at a price of $1.20 until September 5, 2020. The fair value of the warrants was $506,667 based on the residual value method. The Company paid finder fees of $140,000 and other costs of $8,500 in relation to the share issuance.

iii. On September 19, 2018, the Company issued 214,286 common shares at a fair value of $120,000 to for payment of a trademark license fees.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

Escrow Shares

As at December 31, 2019, the Company has 11,752,200 of its common shares held in escrow (2018 - 21,704,400). Of this amount, 5,426,100 of the common shares will be released every 6 months thereafter until November 2, 2020.

Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Security Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to five years from the date of grant.

The status of the stock options is summarized as follows:

	Number of Options	Exercise Price
Outstanding, December 31, 2017	8,747,227	$0.20
Exercised on February 19, 2018	(47,227)	$0.275
Exercised on May 17, 2018	(666,667)	$0.20
Exercised on June 18, 2018	(100,000)	$0.20
Exercised on June 25, 2018	(500,000)	$0.20
Exercised on June 26, 2018	(200,000)	$0.20
Granted on August 9, 2018	2,580,000	$0.60
Exercised on August 16, 2018	(100,000)	$0.20
Exercised on September 6, 2018	(100,000)	$0.20
Exercised on September 13, 2018	(100,000)	$0.20
Exercised on October 4, 2018	(100,000)	$0.20
Stock options forfeited	(800,000)	$0.20
Granted on October 19, 2018	950,000	$0.48
Outstanding, December 31, 2018	9,563,333	
Exercised on January 4, 2019	(566,667)	$0.20
Granted on January 24, 2019	1,050,000	$0.45
Stock options forfeited	(960,000)	$0.54
Stock options expired	(380,000)	$0.54
Exercised on May 13, 2019	(300,000)	$0.20
Exercised on August 6, 2019	(400,000)	$0.20
Granted on September 3, 2019	500,000	$0.43
Outstanding, December 31, 2019	8,506,666	

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

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

Outstanding			Exercisable
Number of options	Weighted average exercise price	Weighted average remaining contractual life in years	Number of options
4,566,666	$0.20	2.85	4,566,666
1,440,000	$0.60	3.61	960,000
950,000	$0.48	3.80	633,333
1,050,000	$0.45	4.07	350,000
500,000	$0.43	4.68	166,667
8,506,666	$0.34	3.34	6,676,666

On November 7, 2017, the Company granted an aggregate of 8,700,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of $0.20 and an expiry date of November 6, 2022. All of the options will vest over a two year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on November 6, 2019. During the year ended December 31, 2019, the Company recognized share-based payments of $114,833 (2018 - $586,914) related to these stock options.

On August 9, 2018, the Company granted an aggregate of 2,580,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of $0.60 and an expiry date of August 8, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on August 9, 2020. During the year ended December 31, 2019, the Company recognized share-based payments of $201,321 (2018 - $695,294) related to these stock options.

On October 19, 2018, the Company granted an aggregate of 950,000 stock options to directors and officer of the Company. These stock options have an exercise price of $0.48 and an expiry date of October 18, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on October 18, 2020. During the year ended December 31, 2019, the Company recognized share-based payments of $180,207 (2018 - $167,142) related to these stock options.

On January 24, 2019, the Company granted 600,000 stock options to a director and 450,000 stock options to an employee of the Company. These stock options have an exercise price of $0.45 and an expiry date of January 23, 2024. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on January 23, 2021. During the year ended December 31, 2019, the Company recognized share-based payments of $298,043 (2018 - $nil) related to these stock options.

On September 3, 2019, the Company granted 500,000 stock options to a consultant of the Company. These stock options have an exercise price of $0.43 and an expiry date of September 2, 2024. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on September 2, 2021. During the year ended December 31, 2019, the Company recognized share-based payments of $90,202 (2018 - $nil) related to these stock options.

The weighted average fair value at grant date of the stock options granted during the year ended December 31, 2019 was $0.38 (2018 - $0.17) per option. The fair value was determined using the Black-Scholes option-pricing model using the following weighted average assumptions:

	2019	2018
Expected volatility	125%	125%
Risk-free interest rate	1.63%	1.81%
Dividend yield	-	-
Expected life of options	5.0 years	5.0 years
Stock price on grant date	$0.44	$0.31
Forfeiture rate	-	-

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

Warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2017	-	-
Warrants issued	2,666,667	$1.20
Balance at December 31, 2018	2,666,667	$1.20
Warrants issued	28,250,000	$1.00
Balance at December 31, 2019	30,916,667	$1.02

The weighted average remaining contractual life of warrants outstanding as at December 31, 2019 is 1.37 years (2018 – 1.69 years).

Pursuant to the private placement closed on September 5, 2018, the Company issued 2,666,667 common share purchase warrants at fair value of $506,667. Each warrant is exercisable into one common share of the Company at an exercise price of $1.20 per common share for a period of two years, expiring on September 9, 2020.

Pursuant to the private placement closed on June 6, 2019, the Company issued 28,500,000 common share purchase warrants at fair value of $nil. Each warrant is exercisable into one common share of the Company at an exercise price of $1.00 per common share for a period of two years, expiring on June 5, 2021.

14. INCOME TAX

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2019	2018
	$	$
Canadian Statutory income tax rate	27%	27%
Income tax recovery at statutory rates	(998,570)	(1,640,927)
Non-deductible and other items	(374,391)	489,971
Non-capital loss	-	417,590
Change in unrecognized deferred tax assets	1,372,961	733,366
Income tax provision	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets (liabilities) are as follows:

	2019	2018
	$	$
Non-capital losses	4,024,755	2,178,070
Share issuance costs	24,057	32,076
Capital assets	33,879	62,036
Inventory	(114,488)	(123,728)
Investment in associate	(446,788)	-
Unrecognized deferred tax assets	(3,521,415)	(2,148,454)
Net deferred income tax assets	-	-

(Expressed in Canadian Dollars)

14. INCOME TAX (continued)

As at December 31, 2019, the Company had non-capital losses carried forward of approximately $14,907,000 which may be applied to reduce future years' taxable income, expiring as follows:

2029	$ 17,000
2030	121,000
2031	240,000
2032	215,000
2033	159,000
2034	690,000
2035	940,000
2036	812,000
2037	2,510,000
2038	4,675,000
2039	4,528,000
	$ 14,907,000

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of 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 are expected to reverse. 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.

15. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash, restricted cash, accounts receivable, other receivable, due from associate, loans receivable, and accounts payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

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

	2019	2018
	$	$
Financial assets at fair value through profit or loss (i)	909,847	328,112
Financial assets at amortized cost (ii)	3,972,225	41,651
Financial liabilities at amortized cost (iii)	327,188	286,074

(i) Cash and restricted cash
(ii) Accounts receivables, other receivable, due from associate and loan receivable
(iii) Accounts payable

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices 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 that are not based on observable market date

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and restricted cash				
December 31, 2019	909,847	-	-	909,847
December 31, 2018	328,112	-	-	328,112

15. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and other receivables. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risks the Company only holds its cash with chartered Canadian financial institutions. As at December 31, 2019 and 2018, the Company has no financial assets that are past due or impaired due to credit risk defaults.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its other receivables in a timely manner and by maintaining sufficient cash on hand through equity financing.

The following are the contractual maturities of the Company's financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years and over
December 31, 2019					
Accounts payable	327,188	327,188	327,188	-	-
December 31, 2018					
Accounts payable	286,074	286,074	286,074	-	-

16. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, reduce debt or increase its debt. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian Dollars)

17. COMMITMENTS

(a) On July 1, 2017, the Company entered into a lease agreement with a related party for office premises located in Richmond, BC. On December 31, 2018, the agreement was amended and the Company agreed to pay annual rent of $42,000 until the lease expires on June 30, 2020.

(b) On November 29, 2017, the Company entered into a lease agreement for office premises located in Toronto, Ontario. The Company agreed to pay annual rent of $20,000 from January 1, 2018 until the lease expires on December 31, 2020.

(c) On July 10, 2019, the Company entered into a purchase agreement with a construction company which provides the goods and services for construction of an extraction building. The total purchase price is $1,650,000, of which $1,312,500 was paid during the year ended December 31, 2019.

(d) The Company has entered into consulting agreements with its key management personnel (Note 12). These agreements do not have specific expiry dates.

(e) On May 27, 2019, the Company entered into an Investment Corporation Agreement with Zhengjiang Yatai Pharmaceutical Co., Ltd. and Rippington Investment Inc. to establish Yatai & BBT Biotech Ltd. Pursuant to the agreement, the Company will receive 3,500,000 shares, representing 25% of the initial issued shares, by causing its wholly-owned subsidiary, Potanicals Green Growers to use its existing Health Canada issued license to apply for a license for a facility for cannabis cultivation, processing, and sale. As at December 31, 2019, the Company is still in the process of applying for the license and has therefore not received an ownership interest in Yatai & BBT Biotech Ltd.

18. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's operating expenses are presented on the consolidated statements of comprehensive loss based on the functions of the expenses to the following classifications: inventory production costs, sales and marketing and general and administration.

During the years ended December 31, 2019 and 2018, the Company incurred the following general and administrative expenses:

	2019	2018
	$	$
Consulting fees	522,860	560,824
Director fees	93,500	52,871
Insurance	122,804	44,839
Investor relations	66,001	26,280
Management fees	548,000	493,000
Office and general	392,513	371,187
Professional fees	139,200	409,747
Rent	61,226	121,993
Research and development	2,603	42,715
Salaries and benefits	1,605,528	1,042,997
Supplies	54,722	48,344
Trademark fees	-	120,000
Travel and entertainment	365,911	503,240
Utilities	18,616	38,634
	3,993,484	3,876,671

19. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2019, the Company issued 1,666,667 common shares for stock options exercised.

b) On April 6, 2020, the Company granted 200,000 stock options to a consultant of the Company with an exercise price of $0.45 expiring of January 23, 2024. The options will vest over a two-year period with 1/3 of the options vesting immediately on the date of grant, 1/3 one year thereafter and 1/3 two years thereafter; so that all the options will fully vest on January 23, 2021.

c) Subsequent to December 31, 2019, the Company entered into a lease agreement for office premises located in Richmond, BC. The Company agreed to pay annual rent of $190,627 from July 1, 2020 to June 30, 2021, $200,660 from July 1, 2021 to June 30, 2023, $210,693 from July 1, 2023 until the lease expires on June 30, 2025.

d) Subsequent to December 31, 2019, the Company has closed its non-brokered private placement financing (the “Private Placement”) of 3,400,000 units (each, a “Unit”) at a price of $0.50 per Unit for total gross proceeds of $1,700,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant (“Warrant”). Each Warrant can be exercisable into one share at a price of $1.20 for a period of 24 months from the closing date of the Private Placement.

e) On February 28, 2020, the Company entered into a share purchase agreement (the "Agreement") with shareholders of 1187349 B.C. Ltd. ("7349") for the acquisition of 51% of issued and outstanding share capital of 7349 for a purchase price of $510,000 (the "Purchase Price"). 7349 is a company located in British Columbia that holds a cannabis research and development licence issued by Health Canada under The Cannabis Act and its regulations.

   Pursuant to the Agreement, the Company will pay the Purchase Price to the shareholders of 7349 by issuing 563,636 common shares of the Company at a deemed price of $0.55 per share for a deemed aggregate value of $310,000, and promissory notes with a total amount of $200,000.