BIOME GROW INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Biome Grow Inc.

Opinion

We have audited the consolidated financial statements of Biome Grow Inc. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2021 and 2020, the related notes comprising a summary of significant accounting policies and other explanatory information (together, the "Financial Statements").

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards 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 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 Financial Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying Financial Statements, which describes matters that indicate the existence of a material uncertainty that may cast significant doubt on 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 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 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 Financial Statements or our knowledge obtained in the audit 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 audits. We also:

- Identify and assess the risks of material misstatement of the 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 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 Financial Statements, including the disclosures, and whether the 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 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 audits 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 Waseem Javed.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 29, 2022

BIOME GROW INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Notes	**2021**	2020
		$	$
ASSETS			
Current assets			
Cash		**582,304**	98,113
Restricted cash	8	**897**	471,386
Goods and services tax recoverable		**86,064**	38,211
Prepaid expenses and advances – current		**88,695**	307,600
Investments – current portion	5	**10,249,135**	11,152,935
Total current assets		**11,007,095**	12,068,245
Prepaid expenses and advances		**66,521**	-
Investments	5	**-**	512,362
TOTAL ASSETS		**11,073,616**	12,580,607
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7,12	**1,138,584**	2,358,723
Current portion of loans payable	8, 12	**3,506,295**	1,250,000
Total current liabilities		**4,644,879**	3,608,723
Loans payable	8	**-**	2,455,545
Total liabilities		**4,644,879**	6,064,268
SHAREHOLDERS' EQUITY			
Share capital	9	**23,183,398**	23,183,398
Reserves		**2,544,824**	2,492,497
Deficit		**(19,299,485)**	(19,159,556)
Total shareholders' equity		**6,428,737**	6,516,339
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,073,616**	12,580,607

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent event (Note 15)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 29, 2022. They are signed on the Company's behalf by:

"Khurram Malik"	*"Mark Lievonen"*
Director	*Director*

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

BIOME GROW INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars, except number of shares)

	Notes	**2021**	2020
		$	$
Operating expenses			
Professional fees	12	**697,128**	453,000
Insurance		**117,641**	176,558
Salaries, wages and benefits		**106,221**	1,393,290
Share-based compensation	12	**52,327**	27,966
Transfer agent and listing fees		**47,750**	56,548
Accretion expense		**41,037**	1,373,509
Travel		**31,372**	19,151
Investor relations		**3,052**	-
Bad debt expense		**2,663**	380,518
General and administration		**2,625**	44,870
Donations		**2,500**	-
Consulting	12	**-**	1,665,549
Advertising and promotion		**-**	7,643
Utilities		**-**	4,172
Loss before other items		**(1,104,316)**	(5,602,774)
Other expenses (income)			
Realized gain on investments sold	5	**(1,008,954)**	(433,540)
Gain on settlement of debt	7	**(675,227)**	(266,813)
Change in fair value on investments	5	**262,258**	(3,888,432)
Interest expense	8	**412,506**	466,276
Loss on legal settlement	7	**45,030**	-
Settlement of contingency	7	**-**	571,891
Other income		**-**	(335,076)
		(964,387)	(3,885,694)
Loss from continuing operations		**(139,929)**	(1,717,080)
Net income from discontinued operations	4	**-**	1,477,881
Net loss and comprehensive loss		**(139,929)**	(239,199)
Loss per share from continuing operations			
Basic and diluted		(0.00)	(0.02)
Income per share from discontinued operations			
Basic and diluted		-	0.00
Weighted average number of common shares outstanding			
Basic and diluted		**112,417,435**	111,891,383

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

BIOME GROW INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except number of shares)

	Common shares					
	Number	Share capital	Shares to be (cancelled) issued	Reserves	Deficit	Total
	#	$	$	$	$	$
Balance, December 31, 2019	111,599,899	23,110,095	515,000	2,464,531	(19,170,357)	6,919,269
Cancellation of shares issuable	-	-	(265,000)	-	-	(265,000)
Cancellation of Back Home shares issuable	-	-	(250,000)	-	250,000	-
Cancellation of Back Home share capital	-	(100)	-	-	-	(100)
Issuance of shares for debt	817,536	73,403	-	-	-	73,403
Share-based compensation	-	-	-	27,966	-	27,966
Net loss for the year	-	-	-	-	(239,199)	(239,199)
Balance, December 31, 2020	**112,417,435**	**23,183,398**	**-**	**2,492,497**	**(19,159,556)**	**6,516,339**
Share-based compensation	-	-	-	52,327	-	52,327
Net loss for the year	-	-	-	-	(139,929)	(139,929)
Balance, December 31, 2021	**112,417,435**	**23,183,398**	**-**	**2,544,824**	**(19,299,485)**	**6,428,737**

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

BIOME GROW INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	2021	2020
	$	$
Operating activities		
Net loss from continuing operations for the year	**(139,929)**	(1,717,080)
Adjustments for non-cash items:		
Gain on sale of investments	**(1,008,954)**	(433,540)
Change in fair value on investments	**262,258**	(3,888,432)
Interest expense (income)	**412,506**	(140,008)
Share-based compensation	**52,327**	27,966
Gain on debt settlement	**(675,227)**	(266,813)
Accretion	**41,037**	1,373,509
Bad debt expense	**2,663**	380,518
Changes in non-cash working capital items:		
Goods and services tax receivable	**(50,516)**	(371,578)
Accounts payable and accrued liabilities	**(847,260)**	3,286,248
Prepaid expense and advances	**111,489**	(317,284)
Cash used in continuing operating activities	**(1,839,606)**	(2,066,494)
Cash provided by discontinued operating activities	**-**	1,057,353
Investing activities		
Proceeds on sale of investments	**2,162,858**	565,224
Cash provided by continuing investing activities	**2,162,858**	565,224
Cash provided by discontinued investing activities	**-**	1,242,947
Financing activities		
Repayment of loan payable	**(240,287)**	(3,163,676)
Interest paid on loan payable	**(69,263)**	(50,660)
Advance of term loan	**-**	1,000,000
Debt issuance costs	**-**	(80,000)
Advance of short-term loan	**-**	400,000
Repayment of short-term loan	**-**	(400,000)
Cash used in continuing financing activities	**(309,550)**	(2,294,336)
Change in cash, continuing operations	**13,702**	(3,795,606)
Change in cash, discontinued operations	**-**	2,300,300
Cash and restricted cash, beginning of period	**569,499**	2,064,805
Cash and restricted cash, end of period	**583,201**	569,499

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

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Biome Grow Inc. (the "Company") was incorporated under the *Business Corporations Act* of British Columbia on December 31, 2013. The head office and principal business location of the Company is 1401-480 University Avenue, Toronto, Ontario.

The Company's principal business activity is pursuing opportunities in the cannabis industry. On May 19, 2017, the Company acquired a 100% interest in Highland Grow Inc. ("HGI"). On July 31, 2020, the Company completed the sale of HGI (Note 4).

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company has incurred losses since its inception and has an accumulated deficit of $19,299,485 as at December 31, 2021 (December 31, 2020 - $19,159,556). There is a material uncertainty related to these conditions that casts doubt about the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern depends upon its ability to realize sufficient cash from the sale of its marketable securities and generate profitable operations in the future.

In March 2020, the World Health Organization declared the coronavirus COVID-19 a global pandemic. This contagious disease outbreak including variants which continues to spread, and related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. During 2021 vaccines became available and certain restrictions have begun to ease. The Company and its prior operations had not been drastically impacted by the pandemic, 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") issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on April 29, 2022.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its subsidiaries is the Canadian dollar.

b) Basis of consolidation

These financial statements include the accounts of the Company and the following Canadian subsidiaries:

Subsidiaries	**Percentage ownership**
Cultivator Catalyst Corp.	100%
Great Lake Cannabis Company Inc.	100%
Red Sands Craft Cannabis Corp.[1]	100%
Weed Virtual Retail Inc.[1]	100%

[1] These companies were inactive during the years ended December 31, 2021 and 2020.

Subsidiaries are entities that the Company controls directly. Control is defined as the exposure, or rights, or variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when the Company has existing rights and the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital.

2. BASIS OF PRESENTATION (continued)

All inter-company balances and transactions, including unrealized profits and losses arising from intra-group transactions, have been eliminated upon consolidation. Where necessary, adjustments are made to the results of the subsidiaries and entities to bring their accounting policies in line with those used by the Company.

As at December 31, 2020, the Company entered into an agreement to dispose of its investment in The Back Home Medical Cannabis Corporation (“Back Home”) (Note 4). As a result, the financial statements have been prepared with Back Home included as discontinued operations.

As at July 31, 2020, the Company sold its investment in HGI (Note 4). As a result, the financial statements have been prepared with the results of HGI included as discontinued operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

<u>Share-based compensation and warrants</u>

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company’s stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of the Company’s share price, the value of the common share, and the risk-free interest rate.

<u>Deferred tax assets and liabilities</u>

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assess whether it is probable that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management’s assessment of the Company’s ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

<u>Going concern</u>

Management applies judgment in its evaluation of the Company’s ability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Revenue recognition

The Company's revenue is comprised of sales of its products which consists of cannabis which is internally harvested and purchased from wholesale suppliers for resale purposes. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. The excise taxes payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an ad valorem duty that is imposed when a cannabis product is delivered to the customer. Effective May 1, 2019, excise tax calculated on edible cannabis products, cannabis extracts and cannabis topicals will prospectively be calculated as a flat rate based on the quantity of total tetrahydrocannabinol (THC) contained in the final product. There were no changes in the legislation in calculating excise taxes for fresh cannabis, dried cannabis, seeds and plants. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Revenue from sale of goods, as presented in these consolidated financial statements, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Revenues were previously earned from the Company's now disposed of subsidiary, HGI. No revenues were earned during the year ended December 31, 2021.

c) Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

d) Property, plant and equipment

Property and equipment are measured at cost less accumulated amortization and impairment losses. The Company uses the following amortization rates for its property and equipment:

Building	25 years	Straight line
Computer and software	5 years	Straight line
Equipment	5 years	Straight line
Leasehold improvements	Lease term	Straight line

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment (continued)

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

e) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive loss except to the extent that it related to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets - Classification

The Company classifies its financial assets in the following categories:

i. Those to be measured subsequently at fair value (either through Other Comprehensive Income ("FVOCI"), or through profit or loss ("FVTPL")), and
ii. Those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income ("OCI").

Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based upon observable market data.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Cash is carried at fair value using a level 1 fair value measurement.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial assets - Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest method.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Statement of comprehensive loss in the period in which it arises.

Financial liabilities - Classification

The Company classifies its financial liabilities into the following categories:

- Financial liabilities at FVTPL; and
- Amortized cost.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of the change in the fair value is presented in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Financial assets and liabilities are offset, and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Classification of financial instruments

Cash / restricted cash	FVTPL
Investments	FVTPL
Accounts payable	Amortized cost
Loan payables	Amortized cost

g) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued. The Company has adopted the residual method with respect to the measurement of common shares and warrants issued as equity units.

h) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Basic and diluted loss per share is the same for the periods presented.

i) Provisions

The Company recognizes a provision when all of these conditions are met:

a. an entity has present obligation (legal or constructive) as a result of a past event;
b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c. a reliable estimate can be made of the amount of the obligation.

In certain asset acquisitions, the Company provides consideration that is contingent on uncertain future events of which the existence will be confirmed only by the occurrence or non-occurrence of one or more future events. These events are typically in control of management and as a result do not meet the definition of a financial liability until the events have occurred.

j) Share-based payments

The fair value of stock options granted is measured at the grant date using the Black-Scholes option pricing model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against share-based compensation reserve. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in share-based compensation reserve is credited to share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Share-based payments (continued)

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

k) Discontinued operations

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operation; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation; or (iii) is a subsidiary acquired exclusively with a view to resell. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

l) Investments

The Company's investments are classified as fair value through profit and loss. Investments held in companies with an active market are classified as current assets at fair value. The original value at the time the Company legally obtains title of the shares is based upon the closing market price of the shares on the date of acquisition. The shares are revalued at each period based upon the closing market price of the shares at the balance sheet date. The change in fair value is recorded as unrealized (gain) loss on investments on the audited consolidation statement of loss and comprehensive loss.

m) Adoption of new pronouncements

During the year ended December 31, 2021, the Company did not adopt any new or amended accounting standards or interpretations which had a significant impact on the Company's consolidated financial statements.

4. DISCONTINUED OPERATIONS

Discontinued operations consisted of the following:

Highland Grow Inc.

On July 31, 2020, the Company completed the sale of 100% of the Company's interest in HGI to MYM Nutraceuticals Inc. ("MYM").

The total consideration received by the Company was valued at $12,021,901 consisting of:

(i) $1.5 million in cash;
(ii) 42,813,985 common shares in the capital of MYM (each a "MYM Shares"), representing 19% of MYM's total issued and outstanding share capital post-closing; and
(iii) 132,551,040 newly created non-voting Class A Special Shares of MYM International Brands Inc., which may be exchanged for MYM Shares in accordance with the Class A Special Shares' rights and restrictions ("Exchangeable Shares"); and
(iv) MYM's agreement to make the MYM Loan (as described below).

Each Exchangeable Share may be exchanged for one MYM Share at the option of the Company or MYM on the earlier of July 31, 2022 or a corporate reorganization of MYM.

(Expressed in Canadian dollars)

4. DISCONTINUED OPERATIONS (continued)

In addition, MYM also loaned the Company an amount equal to $1,000,000 in cash plus $1,664,141 for outstanding debts previously incurred in HGI (the “MYM Loan”) (Note 8(a)).

As security for the MYM Loan, 38,461,538 of the MYM Shares received on closing were held in escrow (“Escrow Shares”). The Escrow Shares are subject to certain vesting conditions and released monthly at the greater of 2,000,000 shares or 25% of the average of the monthly trading volume of MYM on the Canadian Securities Exchange (“CSE”) for a period of 20 months commencing on August 1, 2020.

Any proceeds received by the Company from the sale of such Escrow Shares shall be used to repay the MYM Loan until such time as the MYM Loan is discharged in full.

The following table summarizes the gain on sale of HGI:

Assets transferred	$
Cash	235,781
Amounts receivable	1,318,713
Inventory	1,242,074
Biological assets	17,501
Prepaid expenses and deposits	191,232
Note receivable	1,664,141
Property, plant and equipment	3,195,427
Goodwill	4,374,313
	12,239,182
Liabilities transferred	
Accounts payable and accrued liabilities	1,935,311
Lease liability	41,129
	1,976,440
Net assets transferred	**10,262,742**
Consideration	
Fair value of 132,551,040 Exchangeable Shares	7,953,062
Fair value of 38,461,538 Escrow Shares at $0.06 per share	2,307,692
Fair value of 4,352,447 MYM Shares at $0.06 per share	261,147
Cash	1,500,000
Total consideration	**12,021,901**
Gain on sale of HGI	**1,759,159**

Back Home Medical Cannabis Corporation

On November 9, 2020, the Company entered into a share buyback agreement with the previous owners of Back Home to return the Company’s interest in Back Home to the previous owners. Pursuant to the share buyback agreement, the previous owners are to return 187,000 common shares of the Company previously issued to them and the Company is no longer required to issue common shares previously recorded as shares to be issued of $250,000. Accordingly, the Company has reclassified the $250,000 from shares issuable to deficit.

The following table summarizes the loss on the share buyback agreement:

Assets transferred	$
Amounts receivable	870,973
Consideration	
Cash paid as part of closing	(15,000)
Loss on share buyback agreement	**885,973**

(Expressed in Canadian dollars)

4. DISCONTINUED OPERATIONS (continued)

The discontinued operations include the net income to the date of disposal and the gain or loss on disposal. Net income from the discontinued operations for the year ended December 31, 2020, is as follows:

	2020
	$
Revenue	5,563,034
Cost of sales	3,640,276
Gross margin before fair value changes	1,922,758
Changes in fair value of inventory sold	(39,634)
Unrealized loss on change in fair value of biological assets	(108,377)
Gross profit	1,774,747
Operating expenses	
Bad debt expense	226,000
General and administration	257,852
Depreciation	136,173
Salaries and wages	68,545
Utilities	42,625
Travel	10,443
Advertising and promotion	3,076
Professional fees	2,136
	746,850
Other income (expense)	
Gain on sale of discontinued operation	1,759,159
Write-down of inventory	(1,294,175)
Forgiveness of account payable	870,973
Loss on share buy back agreement	(885,973)
Net income from discontinued operations	1,477,881

Cash flows related to discontinued operations for the year ended December 31, 2020, is as follows:

	2020
	$
Operating activities of discontinued operations	
Net income from discontinued operations	1,477,881
Adjustments for non-cash items:	
Gain on sale of HGI	(1,759,160)
Depreciation	136,172
Loss on share buy back agreement	885,973
Changes in non-cash working capital items:	
Biological assets	150,758
Inventory	1,036,612
Accounts payable	(870,883)
Net cash used in discontinued operating activities	1,057,353
Investing activities of discontinued operations	
Gain on sale of HGI, net	1,264,219
Cash paid on share buy back	(15,000)
Purchase of equipment	(61,336)
Return of equipment	55,064
Cash provided by discontinued investing activities	1,242,947
Change in cash, discontinued operations	2,300,300

(Expressed in Canadian dollars)

5. INVESTMENTS

Investments as at December 31, 2021 and 2020 consisted of the following:

	Shares	Escrow Shares	Exchangeable Shares	Total
	$	$	$	
Cost				
Balance, December 31, 2019	-	-	-	-
Additions	261,147	2,307,692	7,953,063	10,521,902
Transferred	978,597	(599,817)	(378,780)	-
Cost sold or transferred for debt settlement	(505,020)	-	(2,240,017)	(2,745,037)
Balance, December 31, 2020	734,724	1,707,875	5,334,266	7,776,865
Transferred	791,012	(791,012)	-	-
Cost sold or transferred for debt settlement	(1,153,904)	-	-	(1,153,904)
Securities exchanged	5,334,266	-	(5,334,266)	-
Balance, December 31, 2021	**5,706,098**	**916,863**	**-**	**6,622,961**
Fair value				
Balance, December 31, 2019	-	-	-	-
Additions	261,147	2,307,692	7,953,063	10,521,902
Transferred	978,597	(599,817)	(378,780)	-
Net proceeds on sales	(565,224)	-	-	(565,224)
Transfer for debt settlement	-	-	(2,613,353)	(2,613,353)
Realized gain on investments sold/transferred	60,204	-	373,336	433,540
Change in fair value of investments	367,362	853,937	2,667,133	3,888,432
Balance, December 31, 2020	1,102,086	2,561,812	8,001,399	11,665,297
Transferred	791,012	(791,012)	-	-
Net proceeds on sales	(2,162,858)	-	-	(2,162,858)
Realized gain on investments sold	1,008,954	-	-	1,008,954
Cost of securities exchanged	5,334,266	-	(5,334,266)	-
Change in fair value of investments	2,756,982	(352,107)	(2,667,133)	(262,258)
Balance, December 31, 2021	**8,830,442**	**1,418,693**	**-**	**10,249,135**

On July 31, 2020, the Company received 4,352,447 MYM Shares, 38,461,538 Escrow Shares and 132,551,040 Exchangeable Shares of MYM as consideration for the sale of HGI (Note 4). During the year ended December 31, 2020, the Company disposed of a total of 8,417,000 MYM Shares and realized a gain of $433,540.

In connection with the sale of HGI, the Company entered into various debt settlements and bonus payments with former employees of the Company and HGI which were settled with the issuance of either Exchangeable Shares or MYM Shares. On May 21, 2021, the Company exchanged the 88,904,428 outstanding Exchangeable Shares for 88,904,428 MYM Shares.

On July 9, 2021, MYM was acquired by IM Cannabis Corp. ("IMC") and all MYM Shares were converted into common shares of IMC. The Company received 2,700,905 IMC common shares (of which 336,183 are held in escrow), in exchange for 122,768,413 MYM Shares (which included 15,281,054 Escrow Shares).

For the year ended December 31, 2021, the Company recorded a loss of $262,258 on its revaluation of these investments (2020 – gain of $3,888,432). During the year ended December 31, 2021, the Company also recorded a realized gain on sale of investments of $1,008,954 (2020 - $433,540). As at December 31, 2021, the Company held 2,434,005 IMC Shares, of which 336,183 are IMC Escrow Shares.

The remaining IMC Escrow Shares are expected to be released within the next 12 months and have been classified as a current asset on the statement of financial position (December 31, 2020 – $512,362 of Escrow Shares were not expected to vest within 12 months and classified as non-current). The Company's investments are measured using Level 1 inputs.

(Expressed in Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2021 and 2020, consisted of the following:

	Computer and software	Equipment	Land and building	Leasehold improvements	Leased vehicles	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2019	34,927	387,439	595,465	2,615,647	-	3,633,478
Additions	-	-	-	-	52,266	52,266
Disposals (see Note 4)	(34,927)	(387,439)	(595,465)	(2,615,647)	(52,266)	(3,685,744)
Balance, December 31, 2021 and 2020	-	-	-	-	-	-
Accumulated depreciation						
Balance, December 31, 2019	11,882	105,086	-	243,449	-	360,417
Depreciation	4,105	43,142	-	76,132	12,793	136,172
Disposals (see Note 4)	(15,987)	(148,228)	-	(319,581)	(12,793)	(496,589)
Balance, December 31, 2021 and 2020	-	-	-	-	-	-
Carrying amount						
Balance, December 31, 2021 and 2020	-	-	-	-	-	-

During the year ended December 31, 2020, the Company returned equipment to the supplier for a full refund of the original purchase prices totaling $55,064. No gain or loss occurred as a result of this return of equipment.

On July 31, 2020, all property, plant and equipment were disposed of for $1 pursuant to sale of HGI (Note 4).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at December 31, 2021, and 2020 consisted of the following:

	2021	2020
	$	$
Trade payables	**519,071**	1,676,832
Accrued liabilities	**261,510**	681,891
Deferred compensation (note 12)	**60,000**	-
Interest payable	**298,003**	-
	1,138,584	2,358,723

During the year ended December 31, 2021, the Company record a gain on debt settlement of $675,227 (2020 - $266,813) as a result of settlement agreements on trades payable.

During the year ended December 31, 2020, the Company entered legal proceedings with the former CEO of HGI subsequent to the disposition of HGI. As at December 31, 2020, the Company recorded an accrued liability for settlement contingency of $571,891 representing the estimated cost of legal expenses and a final settlement amount which was included in accrued liabilities. During the year ended December 31, 2021, the Company finalized the settlement and recorded an additional loss on legal settlement of $45,030. The total amount of $616,921 was paid fully during the year ended December 31, 2021.

(Expressed in Canadian dollars)

8. LOANS PAYABLE

A continuity of the Company's loan obligations as at December 31, 2021 and 2020 is as follows:

	MYM Loan	Related Party Loan	**Total 2021**	Total 2020
			$	$
Opening balance	2,455,545	1,250,000	**3,705,545**	2,911,571
Proceeds from issuance of term loan	-	-	**-**	2,664,141
Issuance costs and transaction fees	-	-	**-**	(80,000)
Principal repayments, net	(240,287)	-	**(240,287)**	(3,163,676)
Accretion expense	41,037	-	**41,037**	1,373,509
Ending balance	2,256,295	1,250,000	**3,506,295**	3,705,545
Current portion	2,256,295	1,250,000	**3,506,295**	1,250,000
Non-current portion	-	-	**-**	2,455,545

a) On July 31, 2020, in connection with sale of HGI, MYM agreed to loan the Company an amount equal to $1,000,000 (the "MYM Loan – Tranche #1") plus the balance of certain liabilities of HGI, which will continue to be owed by HGI, post-closing, in the amount of $1,664,141 (the "MYM Loan – Tranche #2"), both for a term of 18 months (January 31, 2022) with an option to extend for an additional 6 months at the sole discretion of the Company upon the Company paying an extension fee (together the "MYM Loan"). The MYM Loan bears interest at a rate of 17.5% per annum.

Pursuant to the loan and security agreement, the Company incurred a one-time set-up fee equal to 8% of the MYM Loan – Tranche #1 advance. Interest on the MYM Loan is calculated from July 31, 2020 on a monthly basis and payable every fourth months beginning on November 30, 2020. The total debt issuance costs of $80,000 were applied against the loan principle in the amount of $2,664,141 and are accreted over the term of the loan.

During the year ended December 31, 2021, the Company incurred interest expense of $403,250 (2020 - $192,214) in connection with this loan. Subsequent to December 31, 2021, the loan matured and is due on demand.

b) During the year ended December 31, 2019, the Company received a series of advances from a related party totaling $1,250,000. The amounts are secured by promissory notes, bear no interest and are due on demand. As at December 31, 2021, the carrying value of these loans are $1,250,000 (December 31, 2020 - $1,250,000).

c) On November 21, 2019, the Company entered into a credit agreement pursuant to which the Company received a loan in the amount of $3,000,000. The loan bore interest at 10% per annum payable monthly and was due on November 21, 2021. The loan amount was secured by, amongst other guarantees and assignments, a general security agreement and a first priority security interest over all common shares of HGI. Of the total loan amount, $500,000 was placed in a lawyer's trust account pursuant to an escrow agreement which restricts the use of the funds subject to certain conditions to be fulfilled by the Company and its management. Funds in the trust account have been utilized to service legal costs pursuant to the terms of the trust agreement and the balance as at December 31, 2021, is $897 (December 31, 2020 - $471,386).

Pursuant to the credit agreement, the Company incurred a one-time aggregate commitment fee of $105,000, paid costs of the lender totaling $51,000, and committed to issue 5,357,143 share purchase warrants exercisable for a period of four years at a price of $0.28 per common share. The Company estimated the fair value of the share purchase warrants being $979,475, which was calculated using the Black-Scholes Option Pricing Model using the following assumptions: stock price on date of grant - $0.24; expected life of warrants - 4 years; volatility - 125%; dividend rate - 0%; risk-free rate - 1.51%. The total debt issuance costs of $1,135,475 were applied against the loan principal amount of $3,000,000 and were accreted over the term of the loan.

During the year ended December 31, 2020, the Company repaid the principal amount of $3,000,000 and recorded interest expense of $140,662 related to the loan payable.

(Expressed in Canadian dollars)

9. SHARE CAPITAL

a) Authorized

- Unlimited number of voting common shares without par value
- Unlimited number of Special Class C Shares without par value subject to special rights or restrictions
- Unlimited number of Class B Preferred Shares without par values subject to special rights or restrictions

As at December 31, 2021, and 2020, there were 112,417,435 common shares outstanding.

b) Issued shares

There were no common share transactions during the year ended December 31, 2021.

The Company had the following common share transactions during the year ended December 31, 2020:

- The Company issued 417,536 common shares to settle liabilities with a fair value of $33,402 or $0.08 per common share.
- The Company issued 400,000 common shares to settle liabilities with a fair value of $40,000 or $0.10 per common share.

c) Stock options

The Company has adopted a stock option plan for its directors, officers, employees, and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the stock options are determined by the Board of Directors.

During the years ended December 31, 2021 and 2020, the Company had the following grants:

a) On November 5, 2021, the Company granted 1,500,000 stock options to directors of the Company with an exercise price of $0.05. The options vest in two equal tranches on November 5, 2022 and 2023, respectively, and expire on October 26, 2026.

b) On July 31, 2020, the Company granted 1,500,000 stock the Company granted 1,500,000 stock options to directors of the Company with an exercise price of $0.08. The options vest in two equal tranches on 31, 2021 and 2022, respectively, and expire on July 31, 2025.

A summary of stock option transactions are as follows:

	Number of stock options	Weighted average exercise price
	#	$
Balance, December 31, 2019	400,000	1.60
Granted	1,500,000	0.08
Forfeited	(200,000)	1.60
Balance, December 31, 2020	1,700,000	1.60
Granted	1,500,000	0.04
Expired	(200,000)	1.60
Balance, December 31, 2021	**3,000,000**	**0.06**

(Expressed in Canadian dollars)

9. SHARE CAPITAL (continued)

The following table summarizes stock options outstanding and exercisable as at December 31, 2021, and December 31, 2020:

Grant date	Expiry date	Exercise price	**2021**	2020
		$	**#**	#
October 19, 2018	October 19, 2021	1.60	**-**	400,000
July 31, 2020	July 31, 2025	0.08	**1,500,000**	1,500,000
November 5, 2021	October 26, 2026	0.05	**1,500,000**	-
Total outstanding			**3,000,000**	1,700,000
Total exercisable			**750,000**	200,000
Weighted average remaining contractual life of stock options outstanding at the end of the year			**4.2 years**	3.8 years

The fair value of stock options granted during the years ended December 31, 2021 and 2020 were estimated using the Black-Scholes option pricing model using the following assumptions:

	2021	2020
Risk-free interest rate	**1.26%**	0.26%
Annualized volatility	**100%**	100%
Expected dividend yield	**0.00%**	0.00%
Expected life	**5 years**	5 years

During the year ended December 31, 2021, the Company recognized share-based compensation of $52,327 (2020 - $27,966) that was recorded in the consolidated statement of loss and comprehensive loss. The share-based compensation represents the fair value of stock options vested during the period.

d) Share purchase warrants

A summary of share purchase warrant activities are as follows:

	Number of warrants	Weighted average exercise price
	#	$
Balance, December 31, 2019	6,796,039	0.87
Expired	(401,159)	6.39
Balance, December 31, 2020	6,394,880	0.52
Expired	(1,037,737)	1.68
Balance, December 31, 2021	**5,357,143**	**0.28**

As at December 31, 2021, and 2020, the Company had share purchase warrants outstanding to acquire common shares of the Company as follows:

Grant date	Expiry date	Exercise price	**2021**	2020
		$	**#**	#
February 1, 2016	February 1, 2021	20.00	**-**	12,592
February 16, 2016	February 16, 2021	20.00	**-**	5,242
March 4, 2016	March 4, 2021	20.00	**-**	2,700
April 18, 2016	April 18, 2021	20.00	**-**	14,712
August 16, 2016	August 16, 2021	20.00	**-**	1,866
October 3, 2018	October 3, 2021	1.00	**-**	1,000,000
October 19, 2018	October 19, 2021	1.60	**-**	625
November 21, 2019	November 21, 2023	0.28	**5,357,143**	5,357,143
Total outstanding and exercisable			**5,357,143**	6,394,880
Weighted average remaining contractual life of share purchase warrants outstanding at the end of the period			**1.9 years**	2.5 years

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Fair value measurement of financial assets and liabilities

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are 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 data.

The fair value of cash, restricted cash, accounts payable and the loans payable are held at amortized cost and approximate their respective fair values due to the short-term nature of these instruments. Investments are a level 1 financial asset with fair value determined in whole by reference to the bid price of the shares at each reporting date.

As at December 31, 2021, the Company’s financial instruments consist of cash, restricted cash, investments, accounts payable and loans payable.

Financial risk management objectives and policies

The risks associated with the Company’s financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company operates primarily in Canadian dollars and as such is not significantly affected by the fluctuations of the Canadian dollar with other currencies.

(*ii*) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

(*iii*) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s cash. At present, the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The Company has established guidelines, including diversification, credit ratings and maturities, to ensure safety and liquidity of its cash.

As at December 31, 2021, the Company’s exposure is the carrying value of the financial instruments. The Company’s maximum exposure to credit risk is the carrying value of its financial assets excluding investments.

(iv) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves any material transactions outside the ordinary course of business. Management regularly reviews the Company’s operating and capital budgets and maintains short-term cash flow forecasts.

(Expressed in Canadian dollars)

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

The Company monitors its risk of shortage of funds by monitoring the maturity dates of debt and other accounts payable relative to the sale of investments (marketable securities). Due to the ongoing COVID 19 pandemic, liquidity risk has been assessed as high.

(v) *Maturity risk*

As at December 31, 2021, the Company did not have derivative financial liabilities with contractual maturities.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses and commitments for a period of 90 days.

The following table summarizes the maturities of the Company's financial liabilities As at December 31, 2021, based on the undiscounted contractual cash flows:

	Carrying value	Principal amount	Less than 1 year
	$	$	$
Accounts payable and accrued liabilities	1,138,584	1,138,584	1,138,584
Loans payable	3,506,295	3,510,178	3,510,178
Total	**4,644,879**	**4,648,762**	**4,648,762**

(vi) *Market risk*

The Company is exposed to market risk because of the fluctuating values of its publicly traded investment in IMC. The Company has no control over these fluctuations and does not hedge its investments. Based on the December 31, 2021, value of investments, a 10% increase or decrease in the share price of IMC would have impacted income (loss) for the period, up or down, by approximately $1,024,914 (2020 - $1,115,294) before income taxes.

11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, contributed surplus and deficit as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

12. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered 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. Related parties may be individuals or corporate entities. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

(Expressed in Canadian dollars)

12. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Key management includes directors and key officers of the Company, including the President, Chief Executive Officer and Chief Financial Officer. During the years ended December 31, 2021 and 2020, key management compensation consisted of the following:

	2021	2020
	$	$
Share-based compensation	52,327	-
Deferred compensation	60,000	-
Professional fees	364,006	-
Consulting fees	-	1,056,700
Interest expense	-	23,800
	476,333	1,080,500

Amounts payable to related parties as at December 31, 2021 and 2020 consisted of the following:

	2021	2020
	$	$
Accounts payable and accrued liabilities	194,324	325,906
Loans payable	1,250,000	1,250,000
	1,444,324	1,575,906

As at December 31, 2021, accounts payable and accrued liabilities include $194,324 due to related parties comprised of the following:

- $60,000 in deferred compensation to directors of the Company related to the sale of HGI. The amount has been recorded in salaries, wages and benefits in the statement of loss and comprehensive loss. The deferred compensation is payable at the earlier of November 5, 2022, or IMC shares trading at greater than $8.86 per share.
- $127,500 for accrued management fees to the Chief Executive Officer related to services from 2020 and 2021 authorized during the year. The amount has been recorded in professional fees on the statement of loss and comprehensive loss.
- $6,824 for amounts owed to the Chief Executive Officer for expenses incurred on behalf of the Company

As at December 31, 2020, accounts payable and accrued liabilities include $325,906 due to related parties comprised of the following:

- $220,985 in wages for consulting expenses to an entity which is under common control of a former director of the Company. The amount is unsecured, non-interest bearing and due on demand.
- $104,921 for fees payable to the former Chief Financial Officer of the Company. The amount was unsecured, non-interest bearing and due on demand.

As at December 31, 2021, the Company has loans payable totaling $1,250,000 (December 31, 2020 - $1,250,000) to an entity under control of a significant shareholder of the Company (Note 8(b)). The balance payable is secured by promissory notes, non-interest bearing and due on demand.

(Expressed in Canadian dollars)

13. INCOME TAX

The Company accounts for income taxes using the taxes payable method. As a result, the Company's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	2021	2020
	$	$
Net income (loss) before income taxes	**(139,929)**	(1,717,080)
Rate	**27%**	27%
Expected income tax (recovery)	**(38,000)**	(477,000)
Non-deductible expenditures and non-taxable revenues	**15,000**	-
Change in statutory, foreign tax, foreign exchange rates and other	**-**	(1,382,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	**(614,000)**	-
Change in unrecognized deferred tax assets	**1,497,000**	1,859,000
Deductible temporary differences not recognized	**(608,000)**	-
Unrecognized temporary differences realized in current period	**(252,000)**	-
Net deferred tax (recovery)	**-**	-

Significant components of the company's deferred income tax assets (liabilities) are as follows:

	2021	2020
	$	$
Non-capital loss carry forward	**6,555,000**	6,998,000
Capital assets	**866,000**	788,000
Share issuance and financing costs	**39,000**	70,000
Investments	**(979,000)**	(515,000)
Deferred tax assets not recognized	**(6,481,000)**	(7,341,000)
Deferred tax asset (liability)	**-**	-

As of December 31, 2021 the Company has losses of approximately $24,277,000 (2020 - $26,232,000) available for carry-forward to reduce future years' taxable income. These losses begin to expire in 2034 thru 2041.

14. COMMITMENTS

From time to time, the Company enters into contracts for services in the normal course of operations. The Company's current contractual commitments vary in terms and can be terminated upon sufficient notice. From time to time, the Company is engaged in various legal proceedings and claims that have arisen in the normal course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company.

15. SUBSEQUENT EVENT

As a result of decline in IMC share price subsequent to December 31, 2021, the Company is currently renegotiating the term of the IMC loan.