

CANNVAS MEDTECH INC.

Consolidated Financial Statements
Year Ended December 31, 2018

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canvas Medtech Inc.

Opinion

We have audited the consolidated financial statements of Canvas Medtech Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 to the financial statements, which indicates that the Company incurred a net loss of \$4,737,755 during the year ended December 31, 2018 and, as of that date, the Company has a cumulative deficit of \$5,670,811. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists 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. The other information comprises the information included in Management's Discussion and Analysis.

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 audit 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, 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, 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 audit. 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
April 30, 2019

An independent firm associated with
Moore Stephens International Limited

MOORE STEPHENS

CANNVAS MEDTECH INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| As At | Notes | December 31, 2018 | December 31, 2017 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 217,505 | \$ 1,229,903 |
| Accounts receivable | | 20,758 | 2,394 |
| Prepays | 8 | 74,386 | 74,130 |
| Commodity tax recoverable | | 271,745 | - |
| | | 584,394 | 1,306,427 |
| Equipment | 4 | 73,381 | 62,517 |
| TOTAL ASSETS | | \$ 657,775 | \$ 1,368,944 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 8 | \$ 56,515 | \$ 25,140 |
| Accrued liabilities | 8 | 180,496 | 8,000 |
| Due to AgraFlora Organics International Inc. | 5 | - | 129,662 |
| Deferred lease recovery | 11 | - | 10,202 |
| Deferred revenue | | 9,375 | 12,500 |
| TOTAL CURRENT LIABILITIES | | 246,386 | 185,504 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 6 | 6,505,299 | 2,113,869 |
| Share subscriptions receivable | 8 | (744,475) | - |
| Share-based payment reserve | 6 | 321,376 | 2,627 |
| Deficit | | (5,670,811) | (933,056) |
| TOTAL SHAREHOLDERS' EQUITY | | 411,389 | 1,183,440 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 657,775 | \$ 1,368,944 |

Nature and continuance of operations (Note 1)

Commitments (Note 11)

Subsequent events (Note 12)

CANNVAS MEDTECH INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

| | Notes | Years ended | |
|--|-------|-----------------------|----------------------|
| | | December 31, 2018 | December 31, 2017 |
| Service Revenue | | \$ 130,920 | \$ - |
| | | 130,920 | - |
| Expenses | | | |
| Accounting and legal | | 47,158 | 17,031 |
| Advertising and marketing | 8 | 620,291 | 161,246 |
| Amortization | 4 | 21,580 | 1,901 |
| Compliance and regulatory | | 28,675 | - |
| Consulting | 8 | 758,051 | 97,444 |
| Hosting, licenses and subscriptions | | 59,010 | 33,215 |
| Investor relations | | 74,075 | - |
| Office and sundry | 11 | 101,273 | 29,889 |
| Platform development | 8 | 527,216 | 62,140 |
| Share based compensation | 6,8 | 2,435,109 | 54,066 |
| Travel and business development | | 379,615 | 17,963 |
| | | (5,052,053) | (474,895) |
| | | (4,921,133) | (474,895) |
| Other items | | | |
| Gain on forgiveness of loan | 5 | 129,662 | - |
| Recovery (write-off) of HST recoverable | | 53,716 | (40,098) |
| | | 183,378 | (40,098) |
| Net and comprehensive loss for the year | | \$ (4,737,755) | \$ (514,993) |
| Net loss per share – basic and diluted | | \$ (0.12) | \$ (0.07) |
| Weighted average number of shares outstanding | | 39,406,861 | 7,264,971 |

CANNVAS MEDTECH INC.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

| | Note | Share capital | | Share-based payment reserve | Share subscriptions receivable | Deficit | Total |
|--|------|---------------------|---------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------|
| | | Number of shares | Amount | | | | |
| Balance at December 31, 2016 | | 7,000,000 | \$ 64,937 | \$ - | \$ - | \$ (418,063) | \$ (353,126) |
| Issuance of common shares for private placement | 6 | 19,184,600 | 1,787,143 | - | - | - | 1,787,143 |
| Share issuance costs | 6 | - | (153,255) | - | - | - | (153,255) |
| Issuance of common shares for debt | 6 | 5,200,000 | 260,000 | - | - | - | 260,000 |
| Issuance of common shares upon exercise of options | 6 | 2,072,100 | 155,044 | (51,439) | - | - | 103,605 |
| Share based compensation | 6 | - | - | 54,066 | - | - | 54,066 |
| Net and comprehensive loss | | - | - | - | - | (514,993) | (514,993) |
| Balance at December 31, 2017 | | 33,456,700 | 2,113,869 | 2,627 | - | (933,056) | 1,183,440 |
| Issuance of common shares for private placement | 6 | 4,261,480 | 1,065,370 | - | - | - | 1,065,370 |
| Issuance of common shares for debt | 6 | 262,000 | 65,500 | - | - | - | 65,500 |
| Issuance of common shares upon exercise of options | 6 | 3,160,000 | 1,792,887 | (648,687) | (744,475) | - | 399,725 |
| Issuance of common shares upon milestone achievement | 6 | 4,250,000 | 1,461,250 | - | - | - | 1,461,250 |
| Cancellation of common shares at spin out | 7 | (7,000,000) | (350,000) | - | - | - | (350,000) |
| Issuance of common shares at spin out | 7 | 7,034,281 | 350,000 | - | - | - | 350,000 |
| Share based compensation | 6 | - | - | 973,859 | - | - | 973,859 |
| Stock options expired | 6 | - | 6,423 | (6,423) | - | - | - |
| Net and comprehensive loss | | - | - | - | - | (4,737,755) | (4,737,755) |
| Balance at December 31, 2018 | | 45,424,461 | \$ 6,505,299 | \$ 321,376 | \$ (744,475) | \$ (5,670,811) | \$ 411,389 |

See accompanying notes to the consolidated financial statements

CANNVAS MEDTECH INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | Year ended | |
|---|----------------------|----------------------|
| | December 31, 2018 | December 31, 2017 |
| Operating activities | | |
| Net loss for the year | \$ (4,737,755) | \$ (514,993) |
| Adjustments for: | | |
| Amortization | 21,580 | 1,901 |
| Share based compensation | 2,435,109 | 54,066 |
| Gain on forgiveness of loan payable | (129,662) | - |
| Recovery (write-off) of receivable | (53,716) | 40,098 |
| Changes in non-cash working capital items: | | |
| Accounts receivables | (18,364) | - |
| Other receivable | - | (32,228) |
| Prepays | (256) | (74,130) |
| HST recoverable | (218,029) | - |
| Accounts payable | 335,587 | 51,412 |
| Accrued liabilities | 172,496 | 8,000 |
| Deferred lease recovery | (10,202) | 10,202 |
| Deferred revenue | (3,125) | 12,500 |
| Net cash flows used in operating activities | (2,206,337) | (443,172) |
| Investing activities | | |
| Purchase of equipment | (32,444) | (64,418) |
| Net cash flows used in investing activities | (32,444) | (64,418) |
| Financing activities | | |
| Issuance of shares pursuant to private placement, net of cost | 1,065,370 | 1,633,888 |
| Issuance of shares pursuant to option exercise | 161,013 | 103,605 |
| Net cash flows provided by financing activities | 1,226,383 | 1,737,493 |
| Change in cash | (1,012,398) | 1,229,903 |
| Cash, beginning | 1,229,903 | - |
| Cash, ending | \$ 217,505 | \$ 1,229,903 |
| Non-cash transactions: | | |
| Subscriptions receivable on exercise of stock options | \$ (983,187) | \$ - |
| Accounts payables net-off by subscriptions receivable | 238,712 | - |
| Value transferred from reserves on exercise of stock options | 655,110 | - |
| Common shares issued for accounts payable | \$ 65,500 | \$ 260,000 |

1. NATURE AND CONTINUANCE OF OPERATIONS

Cannvas MedTech Inc. (the “Company”) was incorporated pursuant to the Canada Business Corporations Act on November 24, 2014. On June 23, 2017, the Company continued from the federal jurisdiction to the jurisdiction of British Columbia. The Company's corporate office is located at Suite 804, 750 Pender Street, Vancouver, British Columbia V6C 2T7.

On May 12, 2015, AgraFlora Organics International Inc. (formerly PUF Ventures Inc.) (“Agra”), a company listed on the Canadian Securities Exchange, acquired 100% of the Company's issued shares. At December 31, 2017, Agra owned 21% of the Company's issued shares. On January 16, 2018, Agra distributed its investment in the Company to its shareholders. The Company became a reporting issuer in British Columbia on July 3, 2018 and began to be listed in CSE.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred a net loss for the year ended December 31, 2018 of \$4,737,755, and had a deficit of \$5,670,811 as at that date. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 9. The Company relies upon the issuance of securities for financing of its operations. The Company intends to continue relying upon the issuance of securities to finance its operations to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the statement of financial position classifications used. These consolidated financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

Basis of preparation

The consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements of the Company for year ended December 31, 2018 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 30, 2019.

Basis of consolidation

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. These consolidated financial statements include the accounts of the Company and its Canadian wholly-owned subsidiaries, 1313 Wear Ltd., incorporated in British Columbia, Canada, Cannvas Creative Inc., incorporated in British Columbia, Canada, Cannvas Data Inc., incorporated in British Columbia, Canada and Cannvas Cannabis Acquisitions Corp., incorporated in British Columbia, Canada. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

2. BASIS OF PREPARATION (continued)

Presentation and functional currency

The functional currency of the parent company, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency of the Company's Canadian subsidiaries is also the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: impairment of non-financial asset and share-based compensation.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements.

Significant judgement is required in the determination of whether the Company will continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Changes in accounting policies – IFRS 9

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| | Original classification IAS 39 | New classification IFRS 9 |
|--|-----------------------------------|------------------------------|
| Cash | FVTPL | FVTPL |
| Accounts receivables | amortized cost | amortized cost |
| Accounts payable | amortized cost | amortized cost |
| Due to AgraFlora Organics International Inc. | amortized cost | amortized cost |

The Company did not restate prior periods as there was no impact at the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit on January 1, 2018.

Measurement

Financial assets at FVTOCI

Elected 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 recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in the statement of comprehensive.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of comprehensive loss.

Cash

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Equipment

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of property, plant and equipment are as follows:

| Class of property, plant and equipment | Amortization rate |
|---|--------------------------|
| Computer equipment | 33% |
| Furniture and fixtures | 20% |
| Leasehold improvements | Term of lease |

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in comprehensive loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in comprehensive loss for the year.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares.

Revenue

IFRS 15 Revenue from Contracts with Customers

The Company adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The following is the Company's new accounting policy for revenue from contracts with customers under IFRS 15:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Sales revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs when the product is received by the customer.

Revenue from services is recognized when the services are rendered, using the percentage of completion method based on the actual service provided as a proportion of the total services to be performed.

Share-based payment transactions

The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic and diluted earnings (loss) per share for its common shares, calculated by dividing the 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 income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

New accounting standards and interpretations not yet adopted

The following new standard has been issued but not yet applied:

IFRS 16 – Leases. IFRS 16 Leases will replace IAS 17 Leases

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019. As at January 1, 2019, the Company will recognize a right-of-use asset and lease liability approximately \$80,000 in the consolidated statement of financial position for its current office lease (note 11).

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's financial statements.

4. EQUIPMENT

| | Computer equipment | Furniture and fixtures | Leasehold improvements | Total |
|----------------------------|-----------------------|---------------------------|---------------------------|-----------|
| Cost: | | | | |
| Balance, December 31, 2016 | \$ - | \$ - | \$ - | \$ - |
| Additions | 18,209 | 19,639 | 26,570 | 64,418 |
| Balance, December 31, 2017 | \$ 18,209 | \$ 19,639 | \$ 26,570 | \$ 64,418 |
| Additions | 8,284 | 3,375 | 20,785 | 32,444 |
| Balance, December 31, 2018 | \$ 26,493 | \$ 23,014 | \$ 47,355 | \$ 96,862 |
| Amortization: | | | | |
| Balance, December 31, 2017 | \$ - | \$ - | \$ - | \$ - |
| Charge for the year | 919 | 982 | - | 1,901 |
| Balance, December 31, 2017 | \$ 919 | \$ 982 | \$ - | \$ 1,901 |
| Charge for the year | 7,818 | 3,979 | 9,783 | 21,580 |
| Balance, December 31, 2018 | \$ 8,737 | \$ 4,961 | \$ 9,783 | \$ 23,481 |
| Net book value: | | | | |
| Balance, December 31, 2017 | \$ 17,290 | \$ 18,657 | \$ 26,570 | \$ 62,517 |
| Balance, December 31, 2018 | \$ 17,756 | \$ 18,053 | \$ 37,572 | \$ 73,381 |

5. DUE TO AGRAFLORA ORANGICS INTERNATIONAL INC.

The balance due to Agra was unsecured, non-interest bearing, and had no fixed terms of repayment. During the year ended December 31, 2018, the full balance of the debt was forgiven by Agra. The Company recognized a gain on forgiveness of debt in the amount of \$129,662 during the year.

6. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

As at December 31, 2018, the Company has 45,424,461 (2017 – 33,456,700) common shares issued and outstanding.

On October 20, 2017, the Company issued 15,041,000 common shares at a price of \$0.05 per share for gross proceeds of \$752,050. The Company incurred share issuance costs of \$75,205 related to this private placement (Note 8).

On November 29, 2017, the Company issued 5,200,000 common shares with a fair value of \$260,000 for settlement of \$260,000 of accounts payable.

On November 30, 2017, the Company issued 2,072,100 common shares upon exercise of stock options at a price of \$0.05 for proceeds of \$103,605.

6. SHARE CAPITAL (continued)

a) Common shares (continued)

On December 1, 2017, the Company issued 4,143,600 common shares at a price of \$0.25 per share for gross proceeds of \$1,035,093. The Company incurred share issuance costs of \$78,050 related to this private placement (Note 8).

On January 11, 2018, the Company cancelled 7,000,000 common shares previously held by Agra (note 7) with fair value of \$350,000.

On January 16, 2018, the Company and Agra Inc. completed the Arrangement and issued 7,034,281 common shares with fair value of \$350,000 to the shareholders of Agra. (note 7).

On May 4, 2018, the Company issued 4,261,480 units pursuant to a private placement at a price of \$0.25 per unit for gross proceeds of \$1,065,370. Each unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to acquire one additional common share at a price of \$0.50 per share for a period of 2 years.

On May 4, 2018, the Company issued 202,000 common shares with a fair value of \$50,500 for settlement of \$50,500 of accounts payable.

On July 3, 2018, the Company issued 60,000 common shares with a fair value of \$15,000 for settlement of \$15,000 of accounts payable.

On July 3, 2018, the Company issued 1,800,000 common shares upon exercise of stock options at a price of \$0.25 for proceeds of \$450,000.

On July 3, 2018, the Company issued 3,500,000 common shares with a fair value of \$1,225,000 to directors and officers for milestone achievements attained during the year (note 8).

On October 22, 2018, the Company issued 1,360,000 common shares upon exercised of stock options at a price of \$0.51 for proceeds of \$694,200.

On November 19, 2018, the Company issued 750,000 common shares with a fair value of \$236,250 to directors and officers for milestone achievements attained during the year (note 8).

As at December 31, 2018, \$744,475 of proceeds from option exercise were outstanding. \$62,500 were due from a third party consultant and \$681,975 were due from the directors and officers. During the period subsequent to the year end of 2018, \$400,000 have been received from one of the directors and officer of the Company (Note 12).

b) Warrants

Warrant transactions are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|--|-------------------------------|--|
| Balance, December 31, 2017 | - | \$ - |
| Granted as part of private placement units – May 4, 2018 | 4,261,480 | 0.50 |
| Balance, December 31, 2018 | 4,261,480 | \$ 0.50 |

6. SHARE CAPITAL (continued)

b) Warrants (continued)

As at December 31, 2018, the Company had outstanding warrants as follows:

| Expiry date | Exercise price | Remaining life (years) | Warrants outstanding |
|--------------------|-----------------------|-------------------------------|-----------------------------|
| May 4, 2020 | \$ 0.50 | 1.34 | 4,261,480 |

c) 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, grant to directors, officers, and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares.

The changes in stock options during the years ended December 31, 2018 and 2017 are as follows:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|--------------------------------|---|--|---|--|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning | 112,000 | \$ 0.05 | - | \$ - |
| Options granted | 5,990,000 | 0.33 | 2,184,100 | 0.05 |
| Options exercised | (3,160,000) | 0.36 | (2,072,100) | 0.05 |
| Options expired | (137,500) | 0.05 | - | - |
| Options outstanding, ending | 2,804,500 | \$ 0.29 | 112,000 | \$ 0.05 |
| Options exercisable, ending | 2,784,500 | \$ 0.29 | 112,000 | \$ 0.05 |

Details of options outstanding as at December 31, 2018 are as follows:

| Weighted average exercise price | Weighted average contractual life | Number of options outstanding |
|--|--|--------------------------------------|
| \$0.00 | 0.01 years | 12,000 |
| \$0.03 | 0.12 years | 305,000 |
| \$0.07 | 0.32 years | 800,000 |
| \$0.02 | 0.09 years | 200,000 |
| \$0.03 | 0.18 years | 372,500 |
| \$0.00 | 0.00 years | 10,000 |
| \$0.04 | 0.19 years | 325,000 |
| \$0.08 | 0.19 years | 630,000 |
| \$0.02 | 0.05 years | 150,000 |
| \$0.29 | 1.15 years | 2,804,500 |

6. SHARE CAPITAL (continued)

c) Stock options (continued)

On September 19, 2017, the Company granted 700,000 stock options to directors and consultants of the Company, exercisable at \$0.05 for a period of two years. All options vest immediately on the date of grant.

On October 20, 2017, the Company granted 1,484,100 stock options to directors and officers of the Company, exercisable at \$0.05 for a period of three years. All options vest immediately on the date of grant.

On February 6, 2018, the Company granted 1,892,500 stock options to directors, officers and consultants of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On February 13, 2018, the Company granted 800,000 stock options to consultants of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On April 3, 2018, the Company granted 200,000 stock options to a consultant of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On May 4, 2018, the Company granted 292,500 stock options to directors, officers and consultants of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On May 4, 2018, the Company granted 80,000 stock options to a consultant of the Company, exercisable at \$0.25 for a period of two years. The options vest equally over four quarters starting June 1, 2018 through March 1, 2019.

On June 6, 2018, the Company granted 10,000 stock options to a consultant of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On July 1, 2018, the Company granted 250,000 stock options to a consultant of the Company, exercisable at \$0.25 for a period of two years. All options vest immediately on the date of grant.

On August 15, 2018, the Company granted 325,000 stock options to consultants of the Company, exercisable at \$0.34 for a period of two years. All options vest immediately on the date of grant.

On October 15, 2018, the Company granted 1,360,000 stock options to directors and officers of the Company, exercisable at \$0.51 for a period of five years. All options vest immediately on the date of grant.

On November 6, 2018, the Company granted 630,000 stock options to directors and consultants of the Company, exercisable at \$0.05 for a period of two years. All options vest immediately on the date of grant.

On December 18, 2018, the Company granted 150,000 stock options to consultants of the Company, exercisable at \$0.275 for a period of one year. All options vest immediately on the date of grant.

6. SHARE CAPITAL (continued)

c) Stock options (continued)

The Company recognized \$973,859 (2017: \$54,066) in share based compensation and \$1,461,250 (2017: \$nil) related to the issuance of common share compensation for milestone achievements for the year ended December 31, 2018.

The fair value of stock options granted was determined using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|--------------------------|---|---|
| Expected life of options | 1-5 years | 2-3 years |
| Annualized volatility | 80% | 80% |
| Risk-free interest rate | 1.50-2.33% | 1.50% |
| Dividend rate | 0% | 0% |

d) Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

7. SPIN-OUT TRANSACTION

On September 7, 2017, the Company entered into a Plan of Arrangement ("Arrangement") with Agra whereby Agra will distribute 100% of the Company's shares to Agra's shareholders on a pro rata basis. Agra's shareholders will be entitled to receive one share of the Company in exchange for every seven Agra shares held as at the record date.

Following completion of the Arrangement, (i) the Company will hold certain assets transferred to it by Agra, (ii) the Company will become a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, and intends to apply for and meet the listing requirements on a Canadian Stock Exchange, (iii) each Agra shareholder will continue to be a shareholder of Agra, and (iv) all Agra shareholders as at the record date will have become shareholders of the Company.

On January 16, 2018, the Company and Agra completed the Arrangement and the Company issued 7,034,281 common shares to the shareholders of Agra. As a result, the Company became a reporting issuer in the provinces of British Columbia, Alberta and Ontario.

On January 11, 2018, the Company cancelled 7,000,000 common shares previously held by Agra.

8. RELATED PARTY TRANSACTIONS

Included in subscriptions receivable was \$681,975 (2017 - \$Nil) (note 6) due from directors and officers of the Company. Included in prepaids was \$Nil (2017 - \$53,333) prepaid to a company controlled by a director. Included in accounts payable was \$5,000 (2017 - \$4,501) due to directors and officers of the Company. Included in accrued liabilities was \$26,250 (2017 - \$Nil) due to a director of the Company. Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand.

8. RELATED PARTY TRANSACTIONS (continued)

The Company incurred the following transactions with companies that are controlled by directors and related parties of the Company:

| | Years ended | |
|---|----------------------|----------------------|
| | December 31, 2018 | December 31, 2017 |
| Consulting fees, advertising and marketing fees | \$ 665,194 | \$ 260,000 |
| Development costs | - | 50,000 |
| Share-based compensation | | |
| Options granted (note 6) | \$657,323 | 45,995 |
| Milestone shares issued (note 6) | 1,461,250 | - |
| | <u>\$ 2,783,767</u> | <u>\$ 355,995</u> |

The Company paid finder's fees, which have been included in share issuance costs, totaling \$Nil (2017 - \$153,255) with a company controlled by a related director (Note 6).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The carrying values of cash, receivables and accounts payable approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

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

The Company's cash is measured using level 1 inputs.

Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with property exploration and development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at December 31, 2018 and expected cash flows for the next 12 months are sufficient to fund the Company's ongoing operational needs. The Company may need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof. Liquidity risk is assessed as high.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. Foreign currency risk is assessed as low.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consist of equity and cash. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

10. INCOME TAXES

A reconciliation of the expected income tax provision to the actual income tax provision is as follows:

| | Years ended | |
|--------------------------------|-------------------|-------------------|
| | December 31, 2018 | December 31, 2017 |
| Net loss before income taxes | \$ (4,737,755) | \$ (514,993) |
| Income tax rate | 27% | 26% |
| Expected income tax benefit | (1,279,194) | (133,898) |
| Non-deductible items and other | 674,537 | 38,068 |
| Change in valuation allowance | 604,657 | 95,830 |
| | \$ - | \$ - |

10. INCOME TAXES (continued)

The Company recognizes tax benefits on losses or other deductible amounts generated where it is probable the Company will generate taxable income to utilize its deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Non-capital losses | \$ 776,132 | \$ 164,109 |
| Share issuance costs | 24,827 | 31,877 |
| Equipment | (2,726) | (2,009) |
| Other items | 10,833 | 10,432 |
| Unrecognized deferred income tax assets | (809,066) | (204,409) |
| | \$ - | \$ - |

The Company has non-capital losses available for carryforward of \$2,874,561 which expire between 2035 and 2038.

11. COMMITMENTS

On November 1, 2017, the Company entered into a three year office lease agreement. Future payments required under this operating lease are as follows:

| | |
|------|-----------|
| 2019 | 47,515 |
| 2020 | 40,810 |
| | \$ 88,325 |

During the year ended December 31, 2018, the Company recognized an expense of \$46,641 (2017 - \$8,162) resulting from lease payments incurred.

The Company is renting 25% of the office space to Agra. During the year ended December 31, 2017, the Company received \$12,243 from Agra for one year of office rental, of which \$10,202 (2017 - \$2,041) was recognized as a recovery in office expenses and \$Nil (2017 - \$10,202) recognized as deferred lease recovery.

12. SUBSEQUENT EVENTS

On January 14, 2019, the Company granted 1,500,000 stock options to directors and officers of the Company, exercisable at \$0.28 for a period of five years. These options vest immediately on the date of grant.

On January 18, 2019, the Company issued 1,500,000 common shares to directors and officers of the Company on exercise of stock options for proceeds of \$420,000.

On January 21, 2019, the Company issued 1,000,000 common shares to directors and officers of the Company for milestone achievements attained after the year ended December 31, 2018.

On January 18, 2019, the Company issued 58,703 common shares with a fair value of \$17,611 for settlement of \$17,611 of accounts payable to consultants.

On January 24, 2019, the Company issued 487,500 common shares with a fair value of \$146,250 for settlement of \$146,250 of accounts payable to directors and consultants.

12. SUBSEQUENT EVENTS (continued)

On February 4, 2019, the Company granted 1,450,000 stock options to a consultant of the Company, exercisable at \$0.30 for a period of five years. 18% of the options vest on date of grant, with 12% of the options vesting every quarter for six quarters thereafter and with the final quarter vesting the remaining 10%.

On February 6, 2019, the Company granted 75,000 stock options to consultants of the Company, exercisable at \$0.30 for a period of one year. These options vest immediately on the date of grant.

On February 6, 2019, the Company granted 62,500 stock options to a consultant of the Company, exercisable at \$0.30 for a period of one year. 40% of the options vest on date of grant, with 20% of the options vesting every quarter for three quarters thereafter.

On March 14, 2019, the Company granted 200,000 stock options to a consultant of the Company, exercisable at \$0.29 for a period of one year. These options vest immediately on the date of grant.

On March 26, 2019, the Company issued 38,000 common shares to a consultant of the Company with a fair value of \$10,070 as settlement for services rendered.

On March 27, 2019, the Company issued 750,000 common shares to a consultant of the Company on exercise of stock options for proceeds of \$187,500.

On March 27, 2019, the Company granted 1,000,000 stock options to directors and officers of the Company, exercisable at \$0.275 for a period of five years. These options vest immediately on the date of grant.

Subsequent to the year ended December 31, 2018, the Company received \$400,000 in proceeds from one of directors and officers of the Company with respect to the exercise of options.

Subsequent to the year ended December 31, 2018, 50,000 stock options with exercise price of \$0.25 expired, and \$30,000 stock options with exercise prices between \$0.25 and \$0.34 were cancelled,