XPHYTO THERAPEUTICS CORP.

Consolidated Financial Statements

For the year ended December 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
XPhyto Therapeutics Corp.

Opinion

We have audited the accompanying consolidated financial statements of XPhyto Therapeutics Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits 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 consolidated financial statements, which indicates that the Company has a working capital deficiency of $666,856 at December 31, 2019 and incurred a loss of $7,668,712 for the year then ended. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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 Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 28, 2020

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2019	December 31, 2018
Assets			(Restated – Note 3)
Current assets			
Cash		$ 295,014	$ 2,365,597
Amounts receivable		292,858	95,314
Prepaid expenses		126,255	8,849
		714,127	**2,469,760**
Non-current assets			
Deposits	4	-	543,353
Equipment	7	1,089,182	9,513
Intangible assets	8	386,873	653,103
Right-of-use asset	9	4,830,846	5,256,408
Goodwill	8	1,634,859	-
Total assets		**$ 8,655,887**	**$ 8,932,137**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	$ 772,064	$ 387,826
Lease liability	9	131,434	73,581
Convertible debt	11	477,485	-
		1,380,983	**461,407**
Non-current liabilities			
Lease liability	9	788,280	708,405
Deferred tax liability	19	163,000	-
Total liabilities		**2,332,263**	**1,169,812**
Equity			
Shareholders' equity			
Share capital	12	12,249,855	6,590,003
Special warrants	12	-	1,778,200
Share-based payments reserve		2,576,147	259,207
Equity component of convertible debt	11	43,230	-
Accumulated other comprehensive loss		(11,811)	-
Accumulated deficit		(8,533,797)	(865,085)
Total shareholders' equity		**6,323,624**	**7,762,325**
Total liabilities and shareholders' equity		**$ 8,655,887**	**$ 8,932,137**

Approved by the Directors on April 28, 2020

Hugh Rogers (signed) ***Wolfgang Probst (signed)***

Nature and continuance of operations (Note 1)
Commitments (Note 17)
Subsequent events (Note 21)

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenues	$ 208,119	$ -
Operating Expenses		
Depreciation and amortization (Note 7,8 and 9)	945,281	97,112
Professional fees	600,642	249,393
Consulting fees (Note 14)	1,123,723	360,525
Salaries and benefits (Note 14)	1,107,462	13,782
Share-based compensation (Note 13)	1,773,281	7,192
Regulatory fees	30,716	13,139
Marketing and advertising	924,742	-
Office and miscellaneous	284,399	22,177
Travel and related	160,344	96,811
Rent	105,180	7,838
Research and lab fees	268,601	-
Foreign exchange (gain)	48,096	(12,713)
Operating Loss	(7,164,348)	(855,256)
Finance costs (Notes 9 and 11)	105,061	5,344
Deferred tax recovery (Note 19)	(45,021)	-
Impairment of intangible asset (Note 8)	444,324	-
Loss for the year	(7,668,712)	(860,600)
Cumulative translation adjustment	(11,811)	-
Comprehensive loss for the year	(7,680,523)	(860,600)
Loss Per Share – Basic and Diluted	$ (0.17)	$ (0.04)
Weighted Average Number of Common Shares Outstanding	45,252,733	22,774,247

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31	
	2019	**2018**
Cash flow from operating activities		
Net loss for the year	$ (7,668,712)	$ (860,600)
Items not involving cash:		
Depreciation and amortization	945,281	97,112
Share-based compensation	1,773,281	7,192
Non-cash consulting fees	614,000	-
Impairment of intangible asset	444,324	-
Finance costs	105,061	5,344
Foreign exchange	(38,211)	-
Deferred tax recovery	(45,021)	-
Changes in non-cash working capital items		
Amounts receivable	(14,728)	(7,457)
Prepaid expenses	(104,670)	(3,536)
Accounts payable and accrued liabilities	299,106	139,030
Net cash provided by (used in) operating activities	(3,690,289)	(622,915)
Cash flows from investing activities		
Deposits	-	(543,353)
Equipment additions	(98,277)	(5,150)
Intangible assets additions	(21,031)	-
Cash paid on acquisition of Vektor	(517,170)	-
Cash assumed on acquisition of Vektor	174,198	-
Funds advanced to Bunker	-	(780,660)
Cash assumed on Bunker Acquisition	-	116,746
Acquisition costs	-	(327,240)
Intangible asset acquisition	-	(31,157)
Net cash provided by (used in) investing activities	(462,280)	(1,570,814)
Cash flow from financing activities		
Proceeds from issuance of shares	811,282	3,176,750
Proceed from special warrants	448,000	1,778,200
Proceeds from exercise of warrants	1,001,063	-
Share issue costs	(76,440)	(395,624)
Convertible debenture payments	(15,850)	-
Repayment of lease liabilities	(88,995)	-
Net cash provided by (used in) financing activities	2,079,060	4,559,326
Effect of exchange rate on cash	2,926	-
Change in cash during the year	(2,070,583)	2,365,597
Cash, beginning of year	2,365,597	-
Cash, end of year	$ 295,014	$ 2,365,597

Supplemental disclosure with respect to cash flows (Note 18)

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Special Warrants	Reserves	Equity component of convertible debt	Accumulated other comprehensive loss	Accumulated Deficit	Total Shareholder's equity
Balance, January 1, 2018	**500,000**	**$ 25,000**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (4,485)**	**$ 20,515**
Share issuances, financings	25,214,000	3,151,750		-		-	-	3,151,750
Issue costs	-	(395,624)	-	-	-	-	-	(395,624)
Finders warrants	-	(178,623)	-	178,623	-	-	-	-
Share based compensation	-	-	-	7,192	-	-	-	7,192
Special warrant financing	-	-	1,778,200	-	-	-	-	1,778,200
Shares issued for intangible assets	5,500,000	687,500	-	-	-	-	-	687,500
Shares issued to acquire Bunker	8,250,000	3,300,000	-	-	-	-	-	3,300,000
Finder warrants issued to acquire Bunker	-	-	-	73,392	-	-	-	73,392
Loss for the year	-	-	-	-	-	-	(860,600)	(860,600)
Balance, December 31, 2018	39,464,000	6,590,003	1,778,200	259,207	-	-	(865,085)	7,762,325
Share issuances, financings	2,028,205	811,282	-	-	-	-	-	811,282
Issue costs	-	(76,440)	-	-	-	-	-	(76,440)
Finders warrants	-	(31,581)	-	31,581	-	-	-	-
Shares issued per consultant agreements	320,000	354,000	-	-	-	-	-	354,000
Shares issued per corporate advisory agreement	200,000	260,000	-	-	-	-	-	260,000
Share based compensation	-	-	-	1,773,281	-	-	-	1,773,281
Shares issued to acquire Vektor	837,064	1,088,183	-	-	-	-	-	1,088,183
Warrants issued to acquire Vektor	-	-	-	539,223	-	-	-	539,223
Issuance of convertible debt	-	-	-	-	43,230	-	-	43,230
Issuance of shares on exercise of warrants	1,760,500	1,028,208	-	(27,145)	-		-	1,001,063
Special warrant financing	-	-	448,000	-	-	-	-	448,000
Special warrant conversion	5,565,500	2,226,200	(2,226,200)	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	(11,811)	-	(11,811)
Loss for the year	-	-	-	-	-		(7,668,712)	(7,668,712)
Balance, December 31, 2019	50,175,269	$ 12,249,855	$ -	$2,576,147	$ 43,230	$ (11,811)	$ (8,533,797)	$ 6,323,624

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

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

XPhyto Therapeutics Corp. (the "Company" or "XPhyto") was incorporated under the Business Corporations Act (British Columbia) on December 12, 2017. The principal business of the Company is developing a testing, manufacturing and research business in Canada and a research, cultivation, import, manufacturing and distribution business in Germany. The Company's shares are trading on the Canadian Securities Exchange ("CSE").

The Company's head office is located at Suite 270 – 1820 Fir Street, Vancouver, British Columbia, Canada, V6J 3B1 The Company's registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available or that it will be on terms that are acceptable to the Company. The Company has a working capital deficiency of $666,856 at December 31, 2019 and incurred a loss of $7,668,712 for the year then ended. The Company anticipates it will need further funding to maintain its operations and activities for the upcoming fiscal year. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments related to the recoverability of assets and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

a) Statement of compliance to International Financial Reporting Standards

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

These consolidated financial statements were authorized by the Company's directors on April 28, 2020.

b) Basis of Consolidation

The following entities have been consolidated within these financial statements:

Entity	Registered	Holding
XPhyto Therapeutics Corp.	British Columbia, Canada	Parent company
XPhyto Laboratories Inc.	Alberta, Canada	100% owned
Bunker Pflanzenextrakte GmbH	Germany	100% owned
Bunker Biopharma GmbH	Germany	100% owned
Vektor Pharma TF GmbH	Germany	100% owned
SCUR-Alpha 1108 GmbH	Germany	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and can affect those returns through its power over the investee.

2. BASIS OF PRESENTATION (cont'd)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

c) Basis of measurement

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

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

Key sources of estimation uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

i) Share-based compensation

The inputs used in calculating the fair value for share-based compensation included in profit or loss. The share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company`s common shares, the expected life of the options, and the estimated forfeiture rate.

ii) Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

2. BASIS OF PRESENTATION (cont'd)

iii) Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in the scope of IFRS 16, determining the contract term and determining the interest rate used for the discounting of cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that options.

The present value of the lease payment is determined using a discount rate representing the rate of its loan payable observed in the period when the lease agreement commences or is modified.

iv) Economic recoverability and probability of future economic benefits of intangible assets and amortization

Management has determined that capitalized intangible asset costs may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life.

The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.

Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

i) Business combinations

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Bunker Pflanzenextrakte GmbH was determined to constitute an acquisition of assets (Note 5). The transaction with Vektor Pharma TF GmbH was determined to constitute a business acquisition (Note 6).

ii) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Amounts receivable are measured at amortized cost with subsequent impairments recognized in profit or loss. Cash is classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted as the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities, lease liability and convertible debt are classified as other financial liabilities and carried on the statement of financial position at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Intangible assets

Intangible assets consist of website design, acquired exclusivity rights to a license issued pursuant to the Canadian Controlled Drugs and Substances Act and related research and intellectual property as well as several narcotic licenses and permits pursuant to European Union good manufacturing practices ("EU GMP") certification and other governing regulations as part of the Vektor business combination (Note 6).

Intangible assets with finite useful lives are measured at cost less accumulated amortization and impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful life being the exclusivity period of approximately three years. Website design is amortized over three years. Narcotic licenses and permits pursuant to EU GMP certification are amortized on a straight-line basis over five years.

d) Right-of-use assets and lease liability

The Company has applied IFRS 16, *Leases* since its inception. The Company assesses whether a contract is or contains a lease at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term unless another systematic basis is more representative of the usage of the economic benefits from the leased asset.

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrow rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, payments made on or before the lease commencement and any direct costs. They are subsequently measured at cost less depreciation and any impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

During the year ended December 31, 2019, the Company incurred $64,104 for short-term leases not included in lease liabilities.

e) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated annually on a straight-line basis over the estimated useful life of the assets. Both office equipment and computer hardware are depreciated over a useful life of 3 years. Testing, lab equipment and machines are depreciated over useful lives ranging up to 15 years.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

f) Impairment of non-current assets

At each reporting date, the carrying amounts of the Company's non-current 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.

The recoverable amount of an asset 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 profit or loss.

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, to the extent the revised 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 profit or loss.

g) Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in profit or loss immediately. Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their correspondence tax bases, with the corresponding offset recorded as goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition less accumulated impairment losses, if any. Goodwill is allocated to each of the Company's cash-generating units that is expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

i) Convertible debt

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

j) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized include the costs of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred.

k) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Service revenues are recognized over a period of time as performance obligations are completed. The Company is engaged with contract development services and consulting services in the German market.

l) Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds.

The value of common shares and warrants issued as private placement units is measured using the residual value method, which first allocated value to the more easily measurable component based on fair value (common shares in the private placements) and then the residual value, if any, to the less easily measurable component (warrants in the private placements). Warrants that are issued as agency compensation or other transaction costs are accounted for as share issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m) Share-based payments

The Company grants stock options to directors, officers, employees and/or consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

For vested options that have expired or were cancelled unexercised, the Company reverses the share-based payment reserve against deficit.

n) Reserves

Reserve records items recognized as share-based compensation until such time that the options or compensatory warrants are exercised, at which time the corresponding amount is reallocated to share capital. Amounts recorded for forfeited or expired options or warrants are transferred to deficit.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the options or compensatory warrants, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option or warrant.

o) Income taxes

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

Current tax expense 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 adjustments to tax payable in respect of previous years.

Deferred tax is provided for using temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 statement of financial position date. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset, and they relate to the income taxes levied by the same tax authority and the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and tax liabilities will be realized simultaneously.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

p) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as finance costs in profit or loss.

q) Loss per share

Basic and diluted loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. For all years presented, the loss available to common shareholders equals the reported loss. Diluted loss per share does not adjust the loss attributable to common shareholders when the effect is anti-dilutive. Contingently returnable shares are not considered outstanding for loss per share calculations.

As the Company incurred net losses for the years presented, outstanding options and warrants were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

r) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations.

s) Foreign currency translation

The functional currency of XPhyto Therapeutics Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currencies for the subsidiaries of XPhyto are as follows:

- Canadian dollars for XPhyto Laboratories Inc., Bunker Pflanzenextrake GmbH, Bunker Biopharma GmbH, and SCUR-1108 Alpha GmbH.
- Euros for Vektor Pharma TF GmbH.

Transactions in currencies other than the functional currency of an entity are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Where applicable, the functional currency of an entity is translated into the presentation currency using the period-end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

t) Restatement of prior period

The Company has determined that the lease liability recognized on the acquisition of Bunker Pflanzenextrakte GmbH (Note 5) should not have included variable lease payments that depend on usage of the underlying asset. Instead, these payments should be recognized in profit or loss in the period in which they are incurred. The effect of the restatement is a decrease in the lease liability and right-of-use asset recognized on acquisition by $267,356 to $776,642 and $5,283,313, respectively. The effect on the statement of financial position at December 31, 2018 is a decrease in the lease liability and right-of-use asset of $267,356. Supplemental cash flow disclosure (Note 18) related to fiscal 2018 has also been amended.

u) New standards not yet adopted

Certain new accounting standards and interpretation have been issued that are not mandatory for reporting periods ending December 31, 2019 and have not been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

4. COMMERCIAL ANALYTICAL LAB DEVELOPMENT AND SERVICES AGREEMENT

The Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences of the University of Alberta ("UoA"). Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the University of Alberta, executed a Commercial Analytical Lab Development and Services Agreement with respect to the co-development of a commercial grade analytical lab at UoA for the purpose of testing cannabis and other plant-based medicines.

The Company is responsible to fund the development and construction of the analytical testing facility.

The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

As at December 31, 2019, the Company had paid deposits totaling $Nil (December 31, 2018 - $543,353) towards equipment purchases for the testing and manufacturing facility.

5. ASSET ACQUISITION

<u>Bunker Pflanzenextrakte GmbH</u>

On October 22, 2018, the Company entered into a share exchange agreement to acquire all the issued and outstanding shares of Bunker Pflanzenextrakte GmbH ("Bunker") replacing an earlier letter of intent. As consideration, the Company will issue to Bunker shareholders 7,500,000 common shares of the Company. In addition, the Company shall reserve for issuance an aggregate of 2,500,000 common shares in the Company (the "Milestone Shares"). In the event that Bunker either (i) is granted a cultivation licence(s) within 24 months or (ii) generates EUR 2,500,000 gross revenue in an 18-month period within 36 months after the date of this agreement, then the Company will issue the Milestone Shares to Bunker shareholders.

(Expressed in Canadian dollars)

5. ASSET ACQUISITION (cont'd)

The Company closed the share exchange agreement on December 13, 2018 and issued the 7,500,000 shares at a value of $3,000,000 to Bunker shareholders. The 7,500,000 shares are subject to escrow and will be released in tranches over 36 months on the earlier of (i) the date of listing on the CSE and (ii) 6 months after the effective date of the agreement. For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares. The Company also advanced funds to Bunker prior to closing and incurred costs relating to the transaction totaling $1,286,722.

Canaccord Genuity Corp. ("Canaccord") provided the Company with certain corporate advisory services as part of the transaction. As consideration, the Company issued 750,000 common shares at a value of $300,000 and 250,000 share purchase warrants, exercisable at $0.125 per share for a period of two years from date of listing on the CSE to Canaccord. The fair value of the 250,000 warrants was $73,392 (Note 12).

The acquisition has been accounted for as an asset acquisition as at the time of the transaction, as Bunker did not meet the definition of a business. The consideration paid has been allocated to the right-of-use asset and intangible asset at the date of acquisition. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price	
Fair value of common shares issued	$3,000,000
Fair value of finders' shares issued	300,000
Funds advanced to Bunker	780,660
Acquisition costs	506,062
Fair value of warrants issued	73,392
	$4,660,114

Cash	$116,746
Amounts receivable	87,857
Prepaid expenses	5,313
Equipment	5,103
Intangible asset	3,913
Accounts payable and accrued liabilities	(65,489)
Lease liability	(776,642)
Right-of-use asset	5,283,313
	$4,660,114

6. BUSINESS COMBINATION

Management is in the process of gathering the relevant information to determine the fair value of the net identifiable assets acquired. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. The values assigned are, therefore preliminary and subject to change. The Company is continuing to obtain information to finalize its purchase price allocation for the fair value of identifiable intangible assets and the allocation of goodwill.

6. BUSINESS COMBINATION (cont'd)

Vektor Pharma TF GmbH

On August 26, 2019, the Company entered into a definitive share purchase agreement to acquire all the issued and outstanding shares of Vektor Pharma TF GmbH ("Vektor") As consideration, the Company shall issue the following; 1) 350,000 € cash due upon closing; 2) 200,000 common shares due upon closing; 3) 400,000 € units in the capital of the Company at $1.00 per unit (the "Payment Units") due upon closing. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares are subject to a three-year escrow matrix. The warrants are exercisable into one common share of the Company at an exercise price of $1.00 per share for a period of three years from closing; and 4) 200,000 € ($293,532) convertible debenture with a maturity date that is six months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at $293,532 and is convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of $1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR.

The Company closed the share purchase agreement on September 13, 2019 and paid 350,000 € ($517,170) and issued 787,064 shares at a value of $1,023,183 to the Vektor shareholders of which 587,064 shares are subject to escrow and will be released in tranches over 36 months. The Company also issued 587,064 share purchase warrants as part of the Payment Units with a value of $496,902. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years. The Company also issued a convertible debenture in the amount of $293,532 (Note 11).

The Company also issued 50,000 common shares at a value of $65,000 and 50,000 share purchase warrants at a value of $42,321. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years.

Separate from the Vektor business combination, the Company also entered into an equipment purchase agreement with an affiliated company of Vektor to purchase certain equipment. As consideration, the Company issued a convertible debenture in the amount of 150,000 € ($220,149) with a maturity date that is twelve months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at $220,149 and convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of $1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR. The Company incurred acquisition related costs of $239,699 for professional fees and $260,000 for consulting fees that have been expensed.

(Expressed in Canadian dollars)

6. BUSINESS COMBINATION (cont'd)

The acquisition has been accounted for as a business combination as at the time of the transaction, as Vektor met the definition of a business. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price	
Cash	$ 517,170
Fair value of common shares issued	1,088,183
Fair value of convertible debenture issued	275,923
Equity component of convertible debenture issued	17,609
Fair value of warrants issued	539,223
	$2,438,108

Cash	$ 174,198
Amounts receivable	182,816
Prepaid expenses	12,736
Equipment	309,627
Right-of-use asset	125,514
Intangible assets	389,772
Goodwill	1,643,779
Accounts payable and accrued liabilities	(63,449)
Lease liability	(127,729)
Deferred tax liability	(209,156)
	$2,438,108

The above acquisition contributed revenue of $208,119 and a net loss of $154,227 to the Company's consolidated results since the date of acquisition. If the acquisition had occurred on January 1, 2019, management estimates that the Company's consolidated revenue would have increased by $498,984 and the net loss would have increased by $128,539 for the year ended December 31, 2019.

Goodwill arising from the acquisition represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

(Expressed in Canadian dollars)

7. EQUIPMENT

	Office equipment & Fixtures	Computer hardware	Testing, Lab equipment & machines	Total
Cost				
Balance at January 1, 2018	$ -	$ -	$ -	$ -
Additions	4,626	5,628	-	10,254
Balance at December 31, 2018	4,626	5,628	-	10,254
Additions	2,510	14,848	866,104	883,462
Additions from acquisition (Note 6)	46,851	-	262,776	309,627
Cumulative translation adjustment	(264)	(19)	(2,592)	(2,875)
Balance at December 31, 2019	**$ 53,723**	**$ 20,457**	**$ 1,126,288**	**$ 1,200,468**
Accumulated Depreciation				
Balance at January 1, 2018	$ -	$ -	$ -	$ -
Depreciation	27	714	-	741
Balance at December 31, 2018	27	714	-	741
Depreciation	3,172	4,711	103,183	111,066
Cumulative translation adjustment	(33)	(11)	(477)	(521)
Balance, December 31, 2019	**$ 3,166**	**$ 5,414**	**$ 102,706**	**$ 111,286**
Carrying amounts				
As at January 1, 2018	$ -	$ -	$ -	$ -
As at December 31, 2018	$ 4,599	$ 4,914	$ -	$ 9,513
As at December 31, 2019	**$ 50,557**	**$ 15,043**	**$ 1,023,582**	**$ 1,089,182**

8. INTANGIBLE ASSETS AND GOODWILL

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the license issued pursuant to the Canadian Controlled Drugs and Substance Act held by Loebenberg and Loebenberg's cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from the exercise of Loebenberg's rights under the license.

In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares (the "Consideration Shares"), to a company controlled by Loebenberg with a fair value of $625,000. The Consideration Shares are subject to voluntary pooling ("Escrow") for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listed for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Escrow. If the license is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. The eligibility for earning the revenue-based bonus payments expires at the end of the exclusivity period, being July 31, 2022. If the Company generates at least $10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of $200,000. If the Company generates at least $5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of $200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg $1,000,000 per each bonus entitlement.

Canaccord provided the Company with certain corporate advisory services with respect to the intangible assets. In consideration, the Company issued 500,000 common shares on September 4, 2018 with a value of $62,500 to Canaccord. Additional transaction costs of $30,259 relating to the intangible assets were also incurred.

The Company acquired several narcotic licences and permits pursuant to EU GMP certification and other governing regulations as part of the Vektor business acquisition.

(Expressed in Canadian dollars)

8. INTANGIBLE ASSETS AND GOODWILL (cont'd)

	Right-to-use License	Web Design & Software	Licenses & Permits	Total
Cost				
Balance at January 1, 2018	$ -	$ -	$ -	$ -
Additions	717,759	4,811	-	722,570
Balance at December 31, 2018	717,759	4,811	-	722,570
Additions	-	21,031	-	21,031
Additions from acquisition (Note 6)	-	772	389,000	389,772
Cumulative translation adjustment	-	(4)	(2,111)	(2,115)
Write-down	(717,758)	-	-	(717,758)
Balance at December 31, 2019	**$ 1**	**$ 26,610**	**$ 386,889**	**$ 413,500**
Accumulated Depreciation				
Balance at January 1, 2018	$ -	$ -	$ -	$ -
Amortization	68,358	1,109	-	69,467
Balance at December 31, 2018	68,358	1,109	-	69,467
Amortization	205,076	3,228	22,692	230,996
Cumulative translation adjustment	-	(11)	(391)	(402)
Write-down	(273,434)	-	-	(273,434)
Balance, December 31, 2019	**-**	**$ 4,326**	**$ 22,301**	**$ 26,627**
Carrying amounts				
As at January 1, 2018	$ -	$ -	$ -	$ -
As at December 31, 2018	$ 649,401	$ 3,702	$ -	$ 653,103
As at December 31, 2019	**$ 1**	**$ 22,284**	**$ 364,588**	**$ 386,873**

The net change in goodwill is as follows:

As at December 31, 2018	$ -
Additions from acquisition of Vektor (Note 6)	1,643,779
Cumulative translation adjustment	(8,920)
As at December 31, 2019	**$ 1,634,859**

During the year ended December 31, 2019, the Company performed an impairment assessment on the right-to-use license and determined the license is impaired. Accordingly the Company recorded an impairment charge of $444,324.

(Expressed in Canadian dollars)

9. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company and its wholly owned subsidiaries have various property rental lease agreements in place ranging from 3 to 10 years in length of term. Right-of-use assets consist of corporate office spaces, the Bunker facility (Note 5) and lab and operational space for Vektor.

	December 31, 2019	December 31, 2018
Right-of-Use Asset		
Opening balance	$ 5,256,408	$ -
Additions from acquisitions (Note 5 and 6)	125,514	5,283,313
Additions	52,677	-
Depreciation	(603,219)	(26,905)
Cumulative translation adjustment	(534)	-
	$ 4,830,846	$ 5,256,408
Lease Liability		
Opening balance	$ 781,986	$ -
Additions from acquisitions (Note 5 and 6)	127,729	776,642
Additions	52,677	-
Payments	(88,995)	-
Accrued interest	82,177	5,344
Cumulative translation adjustment	(574)	-
Foreign exchange adjustment	(35,286)	-
	$ 919,714	$ 781,986
Current portion	$ 131,434	$ 73,581
Non-current portion	$ 788,280	$ 708,405

Using the December 31, 2019 period end exchange rate, the estimated annual commitment over the term of the leases is as follows:

2020	$ 131,434
2021	$ 138,547
2022	$ 152,320
2023	$ 221,465
2024	$ 188,009
2025 and beyond	$ 534,979

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
Trades payables	$ 257,707	$ 120,476
Accrued liabilities	514,357	267,350
	$ 772,064	**$ 387,826**

(Expressed in Canadian dollars)

11. CONVERTIBLE DEBT

On September 13, 2019, the Company issued two (2) unsecured convertible debentures in accordance with the Vektor acquisition and equipment purchase agreement (Note 6).

The principal amount of the first debenture of $293,532 matures six (6) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date. The principal amount of the second debenture of $220,149 matures twelve (12) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date. The first debenture was converted by the holder on March 13, 2020 (Note 21).

The principal amounts of the debentures are convertible into Payment Units, at a conversion price of $1.00 per Payment Unit, at the option of the holder, at any time prior to the maturity date. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares will be subject to three-year escrow. The warrants are exercisable into one common share of the Company at an exercise price of $1.00 per share for a period of three years from closing.

The debentures are compound instruments and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be $470,542 with the residual portion of $43,230 allocated to equity.

	December 31, 2019
Principal amount	$513,681
Less equity component of convertible debt	(43,230)
Less payments	(15,850)
Accrued interest	22,884
	$477,485

12. SHARE CAPITAL

a) Common Shares

Authorized

The authorized capital stock of the Company is an unlimited number of common shares without par value.

Issued

On January 31, 2018, the Company issued 17,340,000 units at $0.125 per unit for gross proceeds of $2,167,500. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 1,387,200 finders warrants to purchase an aggregate of 1,387,200 common shares at a price of $0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $85,386 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 1.84%, dividend rate of 0% and expected life of 2 years.

12. SHARE CAPITAL (cont'd)

On May 31, 2018, the Company issued 5,762,000 units at $0.125 per unit for gross proceeds of $720,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 460,960 finders warrants to purchase an aggregate of 460,960 common shares at a price of $0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $28,397 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 1.92%, dividend rate of 0% and expected life of 2 years.

On July 31, 2018, the Company issued 1,250,000 units at $0.125 per unit for gross proceeds of $156,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 100,000 finders warrants to purchase an aggregate of 100,000 common shares at a price of $0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $6,169 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 2.05%, dividend rate of 0% and expected life of 2 years.

On August 17, 2018, the Company issued 5,000,000 common shares at a value of $625,000 for the acquisition of intangible assets (Note 8). These shares are considered contingently returnable and are excluded from loss per share calculations.

On September 4, 2018, the Company issued 500,000 common shares at a value of $62,500 to Canaccord in consideration of corporate advisory services relating to the acquisition of intangible assets (Note 8).

On November 30, 2018, the Company issued 862,000 units at $0.125 per unit for gross proceeds of $107,750. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. Included in the issued shares are 200,000 escrowed shares issued to an officer of the Company which will be released from escrow in tranches over 36 months from date of listing on the CSE.

On December 13, 2018 the Company issued 7,500,000 common shares at a value of $3,000,000 for the acquisition of Bunker (Note 5). For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares.

On December 13, 2018, the Company issued 750,000 common shares at a value of $300,000 to Canaccord in consideration of corporate advisory services relating to the asset acquisition of Bunker (Note 5). The Company also issued 250,000 finders warrants to purchase an aggregate of 250,000 common shares at a price of $0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $73,392 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 2.06%, dividend rate of 0% and expected life of 2 years.

12. SHARE CAPITAL (cont'd)

On December 28, 2018, the Company issued 4,445,500 Special Warrants at $0.40 per Special Warrant for gross proceeds of $1,778,200. Each Special Warrant will automatically convert, for no additional consideration, into one common share of the Company and one share purchase warrant on the earlier of (i) the third business day after final prospectus receipt, and (ii) 4 months and one day after the issue date of the Special Warrants. Each warrant issued on conversion will entitle the holder to purchase one common share at a price of $1.20 per share for a period equal to the shorter of (i) two years after the listing date on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the Special Warrants. The Company paid finders fees of $140,656 and issued 351,640 finders warrants to purchase an aggregate of 351,640 common shares at a price of $0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $58,762 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 2.19%, dividend rate of 0% and expected life of 2 years. On April 29, 2019, the Company issued 4,445,500 common shares and 4,445,500 share purchase warrants on conversion of the Special Warrants.

On February 28, 2019, the Company issued 1,120,000 Special Warrants at $0.40 per Special Warrant for gross proceeds of $448,000 on the same terms and conditions as those issued on December 28, 2018. The Company paid finders fees of $35,840 and issued finders warrants to purchase an aggregate of 89,600 common shares at a price of $0.40 per share for a period of 2 years from date of listing on the CSE. The finders' warrants had a fair value of $14,863 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years. On May 28, 2019, the Company issued 1,120,000 common shares and 1,120,000 share purchase warrants on conversion of the Special Warrants.

On February 28, 2019, the Company issued 457,500 units at $0.40 per unit for gross proceeds of $183,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of $14,640 and also issued 36,600 finders warrants to purchase an aggregate of 36,600 common shares at a price of $0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $6,071 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years.

On March 29, 2019, the Company issued 805,000 units at $0.40 per unit for gross proceeds of $322,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of $25,760 and also issued 64,400 finders warrants to purchase an aggregate of 64,400 common shares at a price of $0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of $10,647 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years.

On April 11, 2019, the Company issued 765,705 units at $0.40 per unit for gross proceeds of $306,282. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units.

On April 11, 2019, the Company issued 50,000 common shares at a value of $20,000 pursuant to a consultancy agreement.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (cont'd)

On September 13, 2019, the Company issued 270,000 common shares at a value of $351,000 pursuant to two consultancy agreements of which 50,000 of those common shares at a value of $65,000 have been determined to be partial consideration relating to the business acquisition of Vektor (Note 6).

On September 13, 2019, the Company issued 787,064 common shares at a value of $1,023,183 in partial consideration relating to the business acquisition of Vektor (Note 6).

On September 13, 2019, the Company issued 200,000 common shares at a value of $260,000 to Canaccord in consideration of corporate advisory services relating to the acquisition of Vektor (Note 6).

On December 11, 2019, the Company issued 50,000 common shares at a value of $48,000 pursuant to a consulting agreement. These shares are subject to escrow and will be released in tranches over 36 months.

During the year ended December 31, 2019, the Company issued 1,760,500 common shares for proceeds of $1,001,063 in connection with the exercise of 1,760,500 share purchase warrants.

As at December 31, 2019, there are 11,704,108 common shares subject to escrow which includes 675,000 common shares issued to officers of the Company which will be released from escrow in tranches over 36 months from date of listing on the CSE.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2018 to December 31, 2019:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2018	-	$ -
Issued warrants	15,156,800	0.61
Balance at December 31, 2018	15,156,800	0.61
Issued warrants	8,421,369	1.17
Exercised warrants	(1,760,500)	0.57
Balance at December 31, 2019	21,817,669	0.83

(Expressed in Canadian dollars)

12. SHARE CAPITAL (cont'd)

As at December 31, 2019, the Company had outstanding warrants as follows:

Number	Exercise Price	Expiry Date
8,466,000	$ 0.70	July 31, 2021
1,046,700	$ 0.125	July 31, 2021
2,408,500	$ 0.70	July 31, 2021
460,960	$ 0.125	July 31, 2021
37,500	$ 0.70	July 31, 2021
419,000	$ 0.70	July 31, 2021
250,000	$ 0.125	July 31, 2021
351,640	$ 0.40	July 31, 2021
89,600	$ 0.40	July 31, 2021
457,500	$ 1.20	July 31, 2021
36,600	$ 0.40	July 31, 2021
761,000	$ 1.20	July 31, 2021
64,400	$ 0.40	July 31, 2021
765,705	$ 1.20	July 31, 2021
4,445,500	$ 1.20	July 31, 2021
1,120,000	$ 1.20	July 31, 2021
637,064	$ 1.00	September 13, 2022
21,817,669		

13. SHARE-BASED COMPENSATION

The Company held its shareholder meeting on December 10, 2018 where the shareholders approved adoption of the Stock Option Plan in accordance with the policies of the CSE. The directors are authorized to grant stock options to directors, officers, consultants or employees. Options granted under the plan will have the term, exercise price and vesting determined by the directors.

During the year ended December 31, 2018, 1,000,000 stock options were issued to officers of the Company. The options are exercisable into one common share of the Company at an exercise price of $0.50 per share until December 20, 2023. The stock options will vest 25% every 6 months commencing 6 months after the grant date.

On April 11, 2019, the Company issued 100,000 stock options to a consultant of the Company. The stock options vest immediately from the date of grant. The stock options are exercisable for a period of two years at an exercise price of $0.50 per common share.

On August 7, 2019, the Company issued 2,500,000 stock options to certain officers and consultants of the Company exercisable for a period ranging from one year to five years at a price of $1.25 per common share.

(Expressed in Canadian dollars)

13. SHARE-BASED COMPENSATION (cont'd)

Share option transactions from January 1, 2018 to December 31, 2019 are as follows:

	Number of options	Weighted Average Exercise Price
Balance at January 1, 2018	-	$ -
Issued options	1,000,000	0.50
Balance at December 31, 2018	1,000,000	0.50
Issued options	2,600,000	1.22
Balance at December 31, 2019	3,600,000	$ 1.02
Exercisable at December 31, 2019	2,620,000	$ 1.08

As at December 31, 2019, the following stock options were outstanding and exercisable;

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
700,000	700,000	1.25	August 7, 2020
100,000	100,000	0.50	April 11, 2021
400,000	400,000	1.25	August 7, 2021
1,000,000	500,000	0.50	December 20, 2023
1,400,000	920,000	1.25	August 7, 2024
3,600,000	2,620,000		

.

The Company recorded share-based compensation of $1,773,281 during the year ended December 31, 2019 (December 31, 2018 – $7,192). The fair value of the options granted during the year ended December 31, 2019 was $1,850,466 (2018 - $228,870) or $0.71 (2018 - $0.23) per option. All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2019	2018
Volatility	75.00 – 95.00%	75.00%
Risk-free interest rate	1.20% - 1.59%	1.90%
Expected life of option	1 year to 5 years	5 years
Dividend yield	0%	0%

14. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for planning, directing, and controlling the activities of the Company and include both executive and non-executive directors, and entities controlled by such persons. The Company considers its directors, Chief Executive Officer and Chief Financial Officer of the Company, Managing Director of Vektor and Managing Director and Chief Financial Officer of Bunker to be key management personnel.

(Expressed in Canadian dollars)

14. RELATED PARTY TRANSACTIONS (cont'd)

The following is a summary of the Company's key management compensation:

	December 31, 2019	December 31, 2018
Consulting fees	$ 108,000	$ 234,078
Salaries and benefits	756,559	-
Share-based compensation	896,309	7,192

As at December 31, 2019, $13,582 (December 31, 2018 - $ 20,598) remained unpaid and has been included in accounts payable and accrued liabilities.

Included in amounts receivable at December 31, 2019 is $88,349 owing from the former Managing Director of Bunker for funds previously advanced.

The Company issued an unsecured convertible debenture in the amount of $220,149 to the Managing Director of Vektor for the purchase of certain equipment (Note 11).

15. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital. There have been no changes to the management of capital during the current fiscal period.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

Cash is carried at fair value using level 1 fair value measurement. The carrying value of amounts receivables, and accounts payable and accrued liabilities and convertible debt approximate their fair value because of the short-term nature of these instruments. The carrying value of lease liability approximates fair value as there has not been any significant changes in interest rates since initial recognition.

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at December 31, 2019 under its financial instruments is approximately $0.6 million.

Most of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant. The Company actively monitors its amounts receivable and believes the exposure to credit risk is insignificant.

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 currently has no debt subject to variable interest rates. Accordingly, the Company has limited exposure to interest rate movements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

The following is a summary of the maturities for the Company's lease liabilities as at December 31, 2019.

	Up to 1 year ($)	1 year to 2 years ($)	More than 2 years ($)
Lease liabilities	131,434	138,547	1,096,772
TOTAL:	131,434	138,547	1,096,772

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign exchange rate risk

The Company operates in Canada and Germany and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following Canadian dollar equivalents:

December 31, 2019	Euro	Total
Cash	$ 185,303	$ 185,303
Amounts receivable	274,862	274,862
Total financial assets	460,165	460,165
Less: accounts payable and accrued liabilities	(246,459)	(246,459)
Less: Lease liability	(873,710)	(873,710)

At December 31, 2019, a 10% appreciation (depreciation) in the value of the Euro against the Canadian dollar, with all other variables held constant, would result in approximately a $66,000 decrease (increase) in the Company's net loss for the year.

17. COMMITMENTS

On December 7, 2018, the Company and the UoA executed an exclusive five-year product manufacturing agreement pursuant to which the Faculty of Pharmacy and Pharmaceutical Sciences agreed to manufacture cannabis-based extracts and isolates. The Company is responsible to provide any necessary equipment for the manufacture of the extracts and isolates and will pay UoA an annual fee estimated at $140,000.

Effective January 2019, the Company entered into a 3-year fixed term employment agreement with the Chief Financial Officer of Bunker and Director of the Company at an annual salary of EUR 120,000. Should the employment relationship be terminated with due notice by the Company during the fixed term period of employment, the individual shall be entitled to receive a severance payment in the amount of the gross salary which would have otherwise have been accrued between the effective period of the notice and December 31, 2021.

17. COMMITMENTS (cont'd)

In August 2019, the Company entered into a 2-year consultancy agreement. As consideration the Company will pay USD $20,000 per month to the consultant in addition to stock based compensation in the form of stock options and common shares to vest and be issued, respectively, over a two year period: 1) 600,000 stock options, each of which is exercisable into one common share of the Company for a period of five years at an exercise price of $1.25 per share, of which 120,000 will vest immediately and 120,000 will vest every six months thereafter; and 2) 700,000 common shares of the Company, of which 220,000 will be issued immediately and 120,000 will be issued every six months thereafter.

In September 2019, the Company entered into a 3-year Managing Director agreement. The agreement provides for an annual salary of EUR 162,000 paid in equal monthly installments.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2019 consisted of:

1) The issuance of 190,600 finder warrants with a fair value of $31,581 relating to the issuance of shares.

2) Deposits totaling $543,353 reclassified to equipment.

3) The issuance of 5,565,500 common shares and 5,565,500 share purchase warrants on conversion of the Special Warrants of $2,226,200.

4) The issuance of 837,064 common shares valued at $1,088,183, 637,064 warrants valued at $539,223 and a convertible debenture of $293,532 towards the acquisition of Vektor.

5) The issuance of a convertible debenture of $220,149 relating to an equipment purchase agreement.

6) Equipment purchases of $21,683 included in accounts payable and accrued liabilities.

7) Lease liability and right-of-use asset of $52,677.

Significant non-cash transactions for the year ended December 31, 2018 consisted of:

1) The issuance of 2,299,800 finder warrants with a fair value of $178,623 relating to the issuance of shares.

2) The issuance of 5,500,000 common shares with a value of $687,500 towards the acquisition of intangible assets.

3) The issuance of 8,250,000 common shares with a value of $3,300,000 towards the acquisition of Bunker.

4) The issuance of 250,000 finder warrants with a fair value of $73,392 towards the acquisition of Bunker.

(Expressed in Canadian dollars)

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)

5) Bunker acquisition costs of $178,822 included in accounts payable.

6) Lease liability and right-of-use asset of $776,642 and additional non-cash transactions as disclosed in Note 5.

19. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2019	December 31, 2018
Loss for the year	$ (7,713,733)	$ (860,600)
Expected income tax (recovery)	(2,083,000)	(232,000)
Change in statutory, foreign tax, foreign exchange rates and other	(65,021)	6,000
Permanent differences	658,000	12,000
Share issue cost	(21,000)	(107,000)
Change in unrecognizable deductible temporary differences	1,466,000	321,000
Income tax expense (recovery)	$ (45,021)	$ -
Current income tax	$ -	$ -
Deferred tax recovery	$ (45,021)	$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
Deferred tax assets (liabilities)		
Property and equipment	$ 146,000	$ -
Share issue costs	81,000	85,000
Intangible assets	(108,000)	23,000
Non-capital losses available for future period	1,506,000	214,000
	1,625,000	322,000
Unrecognized deferred tax assets	(1,788,000)	(322,000)
Net deferred tax liability	$ (163,000)	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary Differences				
Property and equipment	$ 845,000	No expiry date	$ -	No expiry date
Share issue costs	299,000	2040 to 2043	316,000	2039 to 2042
Intangible assets	4,000	No expiry date	102,000	No expiry date
Non-capital losses available for future periods	5,312,000		824,000	
Canada	3,841,000	2037 to 2039	753,000	2037 to 2038
Germany	$ 1,471,000	No expiry date	$ 71,000	No expiry date

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian dollars)

20. SEGMENTED INFORMATION

The Company has one operating segment. Information on geographical area is as follows:

		December 31, 2019		December 31, 2018
Revenues				
Germany	$	208,119	$	-
Non-current assets				
Canada	$	622,376	$	1,192,754
Germany		7,319,384		5,269,623
	$	7,941,760	$	6,462,377

21. SUBSEQUENT EVENTS

1) On January 22, 2020 the Company signed a three-year definitive supply, import and distribution agreement (the "Agreement") with PharmaCielo Ltd. ("PharmaCielo").

   Pursuant to the Agreement, the Company closed a subscription receipt whereby PharmaCielo agreed to purchase $500,000 of convertible debentures units of the Company. The convertible debentures were issued on January 31, 2020 as part of the private placement described below. The Company also issued PharmaCielo an additional 500,000 share purchase warrants exercisable by the holder into common shares of the Company at a price of $2.00 per common share for a period of two years.

2) On January 31, 2020, the Company closed the sale of 2,000 convertible debenture units for gross proceeds of $2,000,000 pursuant to a non-brokered private placement. Each debenture unit consists of: (i) $1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debentures bear interest at 8.0% per annum, calculated and payable semi-annually and mature two years following the date of issuance. The debentures are convertible at the option of the holder into common shares of the Company at a conversion price of $1.00 per common share. Conversion of the debentures may be forced in part or in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds $2.50 per share. Each warrant is exercisable to acquire one common share at an exercise price of $1.50 per share until January 31, 2022. In connection with the offering, the Company paid a cash fee of $120,000 and issued 120,000 finder warrants to Canaccord Genuity Corp. Each finder warrant entitles the holder thereof to purchase one common share at an exercise price of $1.00 per share until January 31, 2022.

3) On February 13, 2020, the Company issued 500,000 stock options to a consultant of the Company exercisable at $2.00 per share for a period of 2 years.

4) On February 19, 2020, the Company issued 50,000 stock options to a consultant of the Company exercisable at $2.10 per share for a period of 1 year.

5) On February 19, 2020, the Company issued 100,000 stock options to a consultant of the Company exercisable at $2.10 per share for a period of 2 years.

6) On March 13, 2020, the Company issued 293,532 common shares and 293,532 warrants pursuant to a debenture conversion.

21. SUBSEQUENT EVENTS (cont'd)

7) On March 13, 2020, the Company issued 120,000 common shares pursuant to a consultancy agreement.

8) On March 17, 2020, the Company issued 500,000 stock options to a consultant of the Company exercisable at $1.70 per share for a period of 6 months.

9) On March 25, 2020, the Company issued 50,000 stock options to a consultant of the Company exercisable at $2.50 per share for a period of 2 years.

10) In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

11) The Company issued 4,448,644 common shares for proceeds of $3,031,864 in connection with the exercise of 4,448,644 share purchase warrants.

12) The Company issued 400,000 common shares for proceeds of $500,000 in connection with the exercise of 400,000 stock options.

13) In April 2020, the Company signed a development, technology purchase and license agreement with 3a-Diagnostics GmbH ("3a") for the development and commercialization of an oral screening test for the detection of infectious diseases. The Company has committed to fund EUR 250,000 in stages through to October 2020 and up to an additional EUR 1,073,000 based on certain development milestones. The Company will also issue 50,000 common shares on signing, 200,000 common shares based on certain development milestones and 250,000 common shares upon achieving EUR 25,000,000 in gross sales within 24 months. 3a will retain 5% royalty on net sales of related products sold by the Company.

14) 200,000 stock options with an exercise price of $1.25 per share were cancelled.