

XPHYTO THERAPEUTICS CORP.
SELECTED FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL INFORMATION

The following table sets forth summary financial information for the Company for the year ended December 31, 2019, and for the year ended December 31, 2018. This information has been summarized from the Company’s audited consolidated financial statements and should only be read in conjunction with the Company’s audited consolidated financial statements, including the notes thereto for the year ended December 31, 2019.

	For the year ended December 31, 2019 (audited)	For the year ended December 31, 2018 (audited)
Total Revenues	\$ 208,119	Nil
Consulting fees	\$1,123,723	\$360,525
Professional fees	\$600,642	\$249,393
Comprehensive loss for the year	(\$7,680,523)	(\$860,600)
Loss per share (basic and diluted)	(\$0.17)	(\$0.04)
Total Assets	\$8,655,887	\$8,932,137
Long term financial liabilities	\$951,280	\$708,405
Cash dividends per share	Nil	Nil

MANAGEMENT DISCUSSION AND ANALYSIS:

The following Management Discussion and Analysis (“**MD&A**”) of the operating results and financial position of the Company is prepared as of April 28, 2020 and provides information concerning the Company’s financial condition as at December 31, 2019 and December 31, 2018. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2019. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements that may constitute “forward-looking statements”. Forward-looking statements include but are not limited to, statements regarding future anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company’s ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE

XPhyto Therapeutics Corp. (the “Company” or “XPhyto”) formally known as Cannabunker Development Corp. 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 trades on the Canadian Securities Exchange (“CSE”) under the symbol “XPHY” and on the Frankfurt exchange under the symbol “4XT”.

The Company’s head office and principal address is #270 – 1820 Fir Street, Vancouver, British Columbia, Canada, V6J 3B1. The Company’s records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7

To December 31, 2019, the Company has incurred losses totaling \$8,545,608 as it pursues and executes on its plan to co-develop a commercial grade analytical lab at the University of Alberta for the purpose of testing cannabis and other plant-based medicines as well as pursuing medicinal cannabis opportunities in Germany.

The following table summarizes selected information from the Company's audited consolidated financial statements for the year ended December 31, 2019 and for the year ended December 31, 2018.

	For the year ended December 31, 2019	For the year ended December 31, 2018
Net revenues	\$208,119	Nil
Comprehensive loss for the year	(\$7,680,523)	(\$860,600)
Deficit	(\$8,533,797)	(\$865,085)
Total assets	\$8,655,887	\$8,932,137
Loss per share	(\$0.17)	(\$0.04)

REPORT ON OPERATIONS

During 2019, the Company continued to focus on developing its opportunities with Dr. Raimar Loebenberg and the University of Alberta while also focusing on pursuing medicinal cannabis opportunities in Germany. During the year ended December 31, 2019 and the year ended December 31, 2018, the Company executed the following agreements:

- The Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences (the "Faculty") of the University of Alberta (the "UoA"). Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the UoA, executed a Commercial Analytical Lab Development and Services Agreement with respect to the co-development of a commercial grade analytical lab at the 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 originally budgeted at \$695,000.

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 and operating costs 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.

The Company has paid substantially all expected development costs including equipment, training, and facility upgrades.

- On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the licence 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 licence.

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 value of \$625,000. The Consideration Shares are subject to voluntary pooling (the "Loebenberg 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 listing for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. On completion of the prospectus and listing, the Consideration Shares will also be subject to mandatory escrow. 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 licence 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. 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 Genuity Corp. ("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.

- 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.

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 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.

- In August 2019, the Company entered into a 2-year exclusive European consultancy agreement with its Global Cannabis expert. 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 August 2019, the Company's wholly owned subsidiary, Bunker entered into an exclusive cannabis research and development agreement with the department of biochemistry at the Technical University of Munich. Pursuant to the agreement, initial research will focus on the identification and assessment of novel research and development approaches to utilize the cannabis plant and its derivatives, including cannabinoids, terpenes, terpenoids, polyphenols, and flavones. Promising targets will be advanced through pilot studies and pending preliminary success, pursued via separate joint research projects on a case-by-case basis for potential commercialization.
- 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 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 Company also issued a convertible debenture in the amount of \$293,532.

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.

- 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 is convertible into Payment Units at the option of the holder, at any time prior to the maturity date and is denominated in Canadian dollars. 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.
- 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.
- In September 2019, the Company's wholly owned subsidiary, Bunker entered into an exclusive cannabis research and development agreement with the chair of brewing and beverage technology at the Technical University of Munich, School of Life Sciences Weinhenstephan. Pursuant to the agreement, initial research will focus on the identification and development of new research approaches targeting potential commercial applications for the use and inclusion of cannabis plants, parts thereof, or derived ingredients, active ingredients and flavours for the production of beverages, food and dietary supplements. Preliminary testing will include analysis of the chemical-physical suitability of the cannabis derived materials for use in various food and beverages. Specific cannabis applications with prospective commercial viability will be pursued via separate joint research projects on a case-by-case basis
- In November 2019, the Company announced that it had signed a term sheet with a major cannabis grower and supplier for exclusive distribution of EU GMP flower, extracts, isolates, and crystallites in Germany. The supplier is a major international grower and extractor in the process of EU GMP certification of its facilities and with scalable production in excess of 100,000 hectares which includes, indoor medical-grade hydroponic high-THC flower and outdoor high and low-THC cannabis strains for extraction purposes. The Company and the cannabis grower and supplier are working towards executing a definitive agreement.

RESULTS ON OPERATIONS

YEAR ENDED DECEMBER 31, 2019

During the year ended December 31, 2019, the Company recorded a net loss and comprehensive loss of \$7,680,523 compared to a net loss and comprehensive loss of \$860,600 for the year ended December 31, 2018. The significant fluctuations are largely a result of the Bunker acquisition in December 2018, the Vektor acquisition in September 2019, the associated operating fixed costs of the Bunker, the share-based compensation expense, and the marketing expense as we began publicly trading in August 2019. Additionally, at this time, the corporate structure is comprised of the parent company along with one wholly owned Canadian subsidiary as well as four wholly owned German subsidiaries. At December 31, 2018, there was only the parent company, a newly set up Canadian subsidiary plus the recent acquisition of Bunker. For the year ended December 31, 2019, with the acquisition of Vektor, the Company now has approximately nineteen employees as well as evolving operations and infrastructure build out in both Canada and Germany. Comparatively speaking, for the year ended December 31, 2018, the Company was less than a year into its existence. As a result, for the year ended December 31, 2018, the Company had only incurred consulting fees related to its CEO and CFO as well as professional fees (legal) for contract work, travel and related expenses for Germany, and other minor general and administrative costs.

Operating expenses for the year ended December 31, 2019 increased to \$7,164,348 from \$855,256 for the comparable period due to the Company's effort to set up and execute on its business plan covering Canada and Germany. Significant operating expenses for the year ended December 31, 2019 were largely comprised of salaries and benefits of \$1,107,462 as compared to \$13,782 for the comparable period as the Company now has corporate staff in Canada as well as staff in Germany related to the Bunker and recent Vektor acquisition. Professional fees increased to \$600,642 as compared to \$249,393 for the year ended December 31, 2018. For the year ended December 31, 2019, a significant portion of the professional fees incurred related to the German based legal counsel fees associated with the Vektor acquisition. As the acquisition was treated as a business combination as opposed to an asset acquisition, these legal fees are expensed to the profit and loss statement as incurred. As a result of the execution of the Exclusivity Dealing Agreement with Dr. Loebenberg, the execution of the Product Manufacturing Agreement, payment associated with work related to the Technical University of Munich, School of Life Sciences Weinhenstephan, and the Vektor acquisition, the Company incurred \$268,601 of research and lab fees for the year ended December 31, 2019 as compared to \$nil for the comparable period. Depreciation and amortization totaled \$945,281 compared to \$97,112 for the year ended December 31, 2018 largely as a result of depreciation and amortization related to the right-of-use asset as a result of the Bunker acquisition, the right-to-use licence acquired in the Exclusivity Dealing Agreement and the depreciation on the newly acquired and installed testing equipment and equipment additions as a result of the Vektor acquisition. Consulting fees increased to \$1,123,723 from \$360,525 for the comparable period as the Company engaged additional consulting services as the Company went public. Additionally, of the \$1,123,723 expensed, \$614,000 was non-cash payments made in common shares related to both consulting services for the Global Cannabis expert's contract and corporate advisory services performed by Canaccord with respect to the Vektor acquisition. With the Company listing and trading on the CSE in August 2019, the Company initiated several marketing programs which resulted in marketing and advertising expenses of \$924,742 for the year ended December 31, 2019 as compared to \$nil for the comparable period. As the Company went public in August 2019, the Company granted 2,500,000 stock options to certain directors, officers, and consultants of the Company at an exercise price of \$1.25 per share with varying vesting stages and expiry dates. Prior to going public, the Company issued 100,000 stock options to a consultant in April 2019, as well as there was share-based compensation expense associated to the 1,000,000 stock options granted to officers of the Company in December 2018 which had a 2-year vesting provision. Stock options are valued using the Black-Scholes Option Pricing model. The expense for the year ended December 31, 2019 was \$1,773,281 as compared to \$7,192 for the comparable period. Additionally, office and miscellaneous increased to \$284,399 from \$22,177 from increased corporate activity as the Company has grown since the comparable period.

Finance costs for the year ended December 31, 2019 were \$105,061 compared to \$5,344 for the year ended December 31, 2019 largely due to the accrued interest related to the lease liability obligations associated with the 10-year lease of the Bunker facility, Vektor's rented premise, and the new Canadian corporate office leased effective August 1, 2019. Of the \$105,061 finance costs, \$22,884 relates to accrued interest on the two unsecured convertible debentures issued in accordance with the Vektor acquisition and related equipment purchase agreement. Impairment testing was conducted on the right-to-use licence. As a result, it was deemed impaired and therefore the Company wrote down the right-to-use licence by \$444,324. The Company recognized a deferred tax recovery of \$45,021 for the year ended December 31, 2019.

THREE MONTHS ENDED DECEMBER 31, 2019

During the three months ended December 31, 2019, the Company recorded a net loss and comprehensive loss of \$2,202,694 compared to a net loss and comprehensive loss of \$501,005 for the three months ended December 31, 2018. The significant fluctuations are largely a result of the Bunker acquisition in December 2018 and the associated operating fixed costs of the Bunker, the incremental costs of operating the Vektor business, and the marketing expense as we began publicly trading in August 2019. Additionally, at this time, the corporate structure is comprised of the parent company along with one wholly owned Canadian subsidiary as well as four wholly owned German subsidiaries. At December 31, 2018, there was the parent company and only 18 days of operating results related to Bunker. For the three months ended December 31, 2019, with the acquisition of Vektor, the Company now has approximately twenty employees as well as evolving operations and infrastructure build out in both Canada and Germany. Comparatively speaking, for the three months ended December 31, 2018, the Company was less than a year into its existence. As a result, for the three months ended December 31, 2018, the Company had only incurred consulting fees related to its CEO and CFO as well as professional fees (legal) for contract work, travel and related expenses for Germany, other minor general and administrative costs and just 18 days of operating expenses related to the recently acquired Bunker.

Operating expenses for the three months ended December 31, 2019 increased to \$1,812,559 from \$495,661 for the comparable period due to the Company's effort to set up and execute on its business plan covering Canada and Germany, accounting for the operating costs associated with the Vektor acquisition in 2019, and the additional costs related to the Company going public in 2019. Significant operating expenses for the three months ended December 31, 2019 were largely comprised of salaries and benefits of \$384,123 as compared to \$13,782 for the comparable period as the Company now has corporate staff in Canada as well as staff in Germany related to the Bunker and recent Vektor acquisition. As a result of the execution of the Exclusivity Dealing Agreement with Dr. Loebenberg, the execution of the Product Manufacturing Agreement, payment associated with work related to the Technical University of Munich, School of Life Sciences Weinhenstephan, and the Vektor acquisition, the Company incurred \$120,390 of research and lab fees for the three months ended December 31, 2019 as compared to \$nil for the comparable period. Depreciation and amortization totaled \$235,397 compared to \$97,112 for the three months ended December 31, 2018 largely as a result of depreciation and amortization related to the right-of-use asset as a result of the Bunker acquisition, the right-to-use licence acquired in the Exclusivity Dealing Agreement and the depreciation on the newly acquired Vektor equipment and installed testing equipment in 2019. Consulting fees increased to \$290,975 from \$182,815 for the comparable period as the Company engaged additional consulting services as the Company went public. With the Company listing and trading on the CSE in August 2019, the Company initiated several marketing programs which resulted in marketing and advertising expenses of \$417,416 for the three months ended December 31, 2019 as compared to \$nil for the comparable period. Additionally, office and miscellaneous increased to \$95,238 from \$9,569 from increased corporate activity as the Company has grown since the comparable period.

The following selected financial information is a summary of the eight most recently completed quarters up to December 31, 2019

	Dec 31, 2019	Sept 30 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018
Comprehensive Loss	\$2,202,694	\$3,731,418	\$869,626	\$876,785	\$501,005	\$83,268	\$192,603	\$83,724
Basic and Diluted Loss per Share	0.05	0.08	0.02	0.02	0.02	0.01	0.01	0.01

In terms of comparative and trend discussion from quarter to quarter the Company operations are still in their infancy as the Company continues to grow and build out in both Canada and Germany, but here are a few highlights discussing the comparable quarterly results.

The comprehensive loss for the quarter ended December 31, 2019 decreased to \$2,202,694 as compared to the previous quarter net loss of \$3,731,418 largely due to a reduction in the share-based compensation expense quarter over quarter. As the Company went public in the third quarter in August 2019, the Company granted 2,500,000 stock options to certain directors, officers, and consultants of the Company at an exercise price of \$1.25 per share with varying vesting and expiry dates. The expense for the three months ended September 30, 2019 was \$1,501,801 as compared to \$142,369 for the quarter ended December 31, 2019.

The net loss for the quarter ended September 30, 2019 increased from \$3,731,418 as compared to the previous quarter net loss of \$869,626 largely due to an increase in the share-based compensation expense and marketing expenses quarter over quarter. As the Company went public during the third quarter in August 2019, the Company granted 2,500,000 stock options to certain directors, officers, and consultants of the Company at an exercise price of \$1.25 per share with varying vesting and expiry dates. The expense for the three months ended September 30, 2019 was \$1,501,801 as compared to \$70,267 for the three months ended June 30, 2019. Marketing and advertising costs for the quarter ended September 30, 2019 were \$507,326 compared to nil for the quarter ended June 30, 2019.

Liquidity and Capital Resources

The Company had a working capital deficit of \$666,856 which included cash of \$295,014 at December 31, 2019 compared to working capital of \$2,008,353 which included cash of \$2,365,597 at December 31, 2018.

During the year ended December 31, 2019, the Company completed a Special Warrant offering in February 2019 whereby 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 finder 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. 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. Additionally, 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 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 units. The Company paid finder fees of \$14,640 and 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. 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 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 units. The Company paid finder fees of \$25,760 and 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. 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 29, 2019, the Company issued 4,445,500 common shares and 4,445,500 share purchase warrants on conversion of the Special Warrants that were issued in December 2018. 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.

During 2018, the Company completed a private placement in January 2018 and 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 closed another private placement in May 2018 whereby 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 completed a third private placement in July 2018 whereby 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 completed a fourth private placement in November 2018 whereby 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 for a period of two years from date of listing on the CSE. The Company completed a Special Warrant offering in December 2018 whereby 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 has forecast its cash requirements for the next fiscal year and believes it will have sufficient cash resources and liquidity to sustain its current planned activities. This assessment is based on the Company's budget, its available cash and future planned financing activities. Future planned activities related to the Bunker and Vektor operations will require the Company to raise additional capital which the Company plans to do.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Proposed Transactions

The Company does not have any proposed transactions as at December 31, 2019 other than as disclosed elsewhere in this document. *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 of Bunker to be key management personnel.

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

	Dec 31, 2019	Dec 31, 2018
Compensation – Hugh Rogers, CEO & Director	\$ 180,000	\$ 155,000
Compensation – Christopher Ross, CFO	150,000	43,750
Consulting fees – Dr. Raimar Löbenberg, Director	60,000	20,000
Consulting fees (shares) – Thomas Beckert, Managing Director, Vektor	48,000	-
Compensation – Wolfgang Probst, Director	178,197	7,644
Compensation - Robert Barth, Managing Director, Bunker	178,197	7,644
Compensation – Thomas Beckert, Managing Director, Vektor	70,165	-
Share-based payments ⁽¹⁾ – Hugh Rogers, CEO & Director	294,450	4,675
Share-based payments ⁽¹⁾ – Christopher Ross, CFO	241,670	2,517
Share-based payments ⁽¹⁾ – Wolfgang Probst, Director	180,094	-
Share-based payments ⁽¹⁾ – Robert Barth, Managing Director, Bunker	180,094	-

(1) Share-based payments are the fair value of options granted to key management personnel and directors of the Company under the Company's Stock Option Plan.

As at December 31, 2019, \$13,582 (December 31, 2018 - \$20,598) remained unpaid and due to key management 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 a company controlled by the Managing Director of Vektor for the purchase of certain equipment.

All related transactions are in the normal course of business and are measured at the exchange amount.

Outlook

The Company, through its wholly owned subsidiaries, is developing a testing, manufacturing, and research business in Canada and a research, cultivation, import, manufacturing, and distribution business in Germany.

Canada

XPhyto Laboratories Corp., a wholly owned Alberta subsidiary is focused on development of an analytical testing and extract manufacturing business in collaboration with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta, and intends to subsequently pursue the invention and clinical study of proprietary cannabis-based formulas for medical indications. Analytical testing, manufacturing, formulation and clinical studies will be carried out pursuant to an exclusive agreement with Dr. Raimar Loebenberg in respect of the use of his Health Canada dealer's licence. Analytical testing and manufacturing will be carried out in laboratories at the University of Alberta.

Exclusive Dealing Agreement - Health Canada Licence

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg (“Loebenberg”) with respect to commercial operations under the licence 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 licence.

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 licence 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 February 20, 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.

Testing and Manufacturing - Canada

The initial phase of XPhyto’s business development is founded on two strategic cannabis-related collaborations with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta: 1) an exclusive five year agreement to co-develop and operate a commercial grade analytical lab for the testing of cannabis and other plant-based medicines (the “Testing Agreement”); and 2) an exclusive five year product manufacturing agreement to extract cannabis-derived compounds and produce pharmaceutical grade isolates (the “Manufacturing Agreement”).

Pursuant to both agreements, XPhyto provided the necessary start-up funding for any testing and manufacturing equipment and equipment and facility upgrades, as well as all ongoing operational expenses and business marketing. The Faculty of Pharmacy shall provide qualified staff, certified laboratory facilities, and ongoing regulatory support. Any necessary testing or manufacturing services not available within the Faculty’s facilities shall be outsourced and coordinated by the Faculty.

With respect to analytical testing, 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. 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 for the co-develop of a commercial grade analytical lab at UoA for the purpose of testing cannabis and other plant-based medicines.

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.

The Company is responsible to fund the development and construction of the analytical testing facility. The Company has paid substantially all expected development costs including equipment, training, and facility upgrades.

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. The equipment has been delivered and is awaiting commissioning. Commissioning has currently been delayed due to the COVID-19 situation as the supplier has an employee travel ban in place.

The purpose of XPhyto's analytical testing agreement is two-fold: 1) to provide third-party testing services to Canadian cannabis cultivators, wholesalers and retailers; and 2) to provide in-house testing for XPhyto's manufacturing business. XPhyto does not intend to cultivate cannabis in Canada nor does it intend to sell cannabis in Canada. Accordingly, XPhyto believes it will be well positioned to provide independent analytical services to both growers and purchasers.

Manufacturing capability, focused on production of pharmaceutical grade isolates, is designed to provide XPhyto with access to materials for use in subsequent phases of its business development, namely formulation and pilot studies. Certified in-house testing combined with its manufacturing capability is expected to help facilitate access to quality product on a consistent and timely basis.

Subject to the resolution of the COVID-19 situation and the resumption of normal business in Canada, the Company will work towards moving its testing and manufacturing business forward towards operations.

Formulations and Pilot Studies - Canada

Successful development of XPhyto's testing and manufacturing business (Phase I) is intended to lay the foundation for the development of proprietary formulations and related clinical studies. Using the pharmaceutical grade isolates from its manufacturing program, XPhyto intends to develop formulations for certain key medical indications, including but not limited to: pain, inflammation, and sleep disorders.

The Company expects to take a cautionary approach to formulation which entails advancing the formulation process with anecdotal data in mind but testing a number of different combinations of cannabinoid isolates for efficacy, regardless of presumed or historic status. XPhyto will also be investigating several delivery methods, including oral, sublingual, aerosol, and topical systems.

Dr. Löbenberg will be overseeing the formulation and delivery programs and related pilot studies. The Faculty of Pharmacy, in collaboration with the Company, has recruited a PhD post-doc researcher (the "Post-Doc") to work on formulations and pilot studies for the Company. The Post-Doc will conduct research activities under the supervision of Dr. Löbenberg. The Post-Doc commenced work in early April 2019.

XPhyto's formulation business is expected to be underway late in Q3 subject to the resolution of the COVID-19 situation and the resumption of normal business in Canada. Pending success in its formulation business the Company may proceed with human pilot studies to explore the efficacy of specific formulations.

Independent Licencing - Canada

The Company is preparing to draft an application for a corporately held dealer's licence or other Health Canada licences at a location outside the University of Alberta. The Company is exploring alternate locations and expects to make a formal application to Health Canada in Q3 2020.

Germany

XPhyto acquired 100% ownership of two German companies: Bunker and Vektor. Bunker is focused on cannabis cultivation and extraction research while Vektor is specialized in thin film drug delivery systems and holds a number of German narcotics permits, including a commercial cannabis import licence.

Bunker

XPhyto's wholly owned German subsidiary, Bunker, holds a long-term lease on a decommissioned former military command centre in Bavaria. Built in 1984, the Bunker 88 Facility is a former avionics station and nuclear bunker used by the German Bundeswehr Tornado fighter bomber squadron. The Bunker 88 Facility is located in Memmingerberg, Bavaria, on a historic Luftwaffe air force base that dates back to 1935. In 2004, the airport was released by the German government for civilian use and is now an operating commercial airport, Allgäu Airport (Munich West).

Constructed with radiation-proof doors, thick concrete double walls, back-up power, air filtration, and a dedicated internal water well, the Bunker 88 Facility was designed for self-sufficient survival for up to two weeks in the event of a nuclear disaster. Approximately 30 military staff operated the avionics station until it was put on care and maintenance in the eighties.

The five-sided outer shell (walls and roof) of the Bunker 88 Facility is formed with 1.4 m thick statically reinforced concrete walls with dimensions as follows: 18.75 m (H) x 54.9 m (W) x 31.3 m (D), with 6 m of the height below ground. There is also a 4.7m porch/loading area outside the North entrance. The six-sided inner shell (walls, floor and ceiling) is formed by statically reinforced concrete ranging in thickness from 0.95 m to 1.4 m. The internal floor space of the Facility is approximately 10,740 square feet.

The first stage of renovations to the Bunker 88 Facility include upgrades to the electrical systems, fire protection systems, security systems, lighting, plumbing, painting, floor or ceiling coverings, cleaning, and minor landscaping. The estimated total cost of the first stage of renovations is \$900,000. The first stage of renovations will be necessary to finalize any Cannabis-related licence associated with the Bunker 88 Facility; however, it is not necessary to carry out the renovation until preliminary approval has been received for a given licence.

Scientific Cultivation & Extraction Licence – Bunker

In 2017, Bunker submitted an application to BfArM for a cannabis research and development licence, based on proposed research to be conducted at the Bunker 88 Facility. On July 25, 2018, Bunker submitted a revised joint application for a research and development licence in collaboration with TUM. The majority of proposed work is to be conducted at the Bunker 88 Facility over a period of approximately three years.

The application was made to the Competent Authority BOPST for permission to cultivate and breed cannabis for research purposes pursuant to §3 BtMG (82.02-46383140214/16). TUM expressly supported this application in writing and requested early approval from the BOPST.

On March 29, 2019, Bunker was granted a licence for the cultivation of cannabis for scientific purposes valid until December 31, 2022. A maximum of 960 cannabis plants may be grown per year with a maximum of 480 plants to be grown at one time.

The application generally related to “production of high-quality cannabis raw material for medical and pharmaceutical uses”. The more specific objective was determination of differential composition and biosynthesis of cannabinoids and related metabolites of cannabis trichomes depending on genetic background of different cultivars and cultivation conditions.

The working group collaborators at TUM are expected to contribute their experience in the analysis of metabolites, metabolic pathways and ¹³C labelling studies on cannabis plant or trichomes, while Bunker will contribute its planned technical infrastructure for the large-scale and controlled cultivation of cannabis plants, as well as know-how in the cultivation of cannabis and the isolation and processing of cannabis trichomes. The preliminary research will systematically observe the influence of external conditions (e.g. substrate, light, nutrient solution) on the metabolite spectrum of 80 strains x 2 grow cycles/year x 4 replicates (960 total samples).

Extracts and isolation of cannabis trichomes will be carried out at the Bunker 88 Facility. The quantitative detection of the cannabinoids and other bioactive ingredients via HPLC, GC-MS and NMR will be carried out at TUM. The dynamics of metabolism in cannabis trichomes and the spectrum of comparative data from trichomes will be investigated. Approximately five chemo-strains will be selected out of 80.

To grow cannabis under the scientific cultivation licence, the Company will be required to invest in additional equipment and facility upgrades.

Commercial Cultivation Licence – Bunker

The first German cannabis cultivation tender was initiated by German health authority in 2017 but was cancelled after the proceedings had been successfully challenged in German courts. BfArM announced a second tender in mid-2018 with applications due December 11, 2018.

Bunker submitted an application to BfArM in December 2018 for a cannabis cultivation licence pursuant to the tender process. The specific licences sought were authorizations for handling narcotic drugs from the BOPST pursuant to §3 BtMG and a cultivation specific manufacturing licence from the local authority, RO pursuant to §13 AMG. On April 3, 2019, BfArM advised Bunker that it was not successful in the application process.

The Company expects that the German health authority may initiate another commercial cultivation licence tender in the next 12 months and that Bunker will participate in this application process. The criteria related to a potential tender process are unknown at this time.

Collaborations - Bunker

In Q3 2019, the Bunker signed two exclusive collaboration agreements with the Technical University of Munich (“TUM”). The first exclusive agreement was signed with the Faculty of Chemistry whereby initial research will focus on the identification and assessment of novel research and development approaches to utilize the cannabis plant and its derivatives, including cannabinoids, terpenes, terpenoids, polyphenols and flavones. Promising targets will be advanced through pilot studies and pending preliminary success, pursued via separate joint research projects on a case-by-case basis for potential commercialization. This agreement is for 12 months and is renewable for an additional 12 months.

The second exclusive agreement was signed with the chair of brewing and beverage technology at TUM, School of Life Sciences Weihenstephan. The initial research will focus on the identification and development of new research approaches targeting potential commercial applications for the use and inclusion of cannabis plants, parts thereof, or derived ingredients, active ingredients and flavours for the production of beverages, food and dietary supplements. Preliminary testing will include analysis of the chemical-physical suitability of the cannabis derived materials for use in various food and beverages. Specific cannabis applications with prospective commercial viability will be pursued via separate joint research projects on a case-by-case basis. This agreement is for 12 months and is renewable for an additional 12 months.

Vektor

In Q3 2019, XPhyto acquired 100% of Vektor, a German-based narcotics company focused on the research, development and production of therapeutic films for pharmaceuticals, cosmetics and food. The company had established itself as an expert in the design, testing and manufacture of thin film drug delivery systems, including transdermal patches and sub-lingual (oral) strips. Vektor also holds a number of valid narcotics licences pursuant to EU GMP certification and other governing regulations: Import Permit for drug dosage forms; Import Permit for cannabis; Manufacturing Permit for clinical samples; Manufacturing Permit for final drug product release; Analytical Permit for chemical and physical testing; Permit to handle narcotic drugs; and a Permit to handle animal tissue. Vektor’s various narcotics licences include authorizations related to conventional and cannabis-related prescription medications, including but not limited to: Buprenorphine, cannabis, Dronabinol, Fentanyl, Hydromorphone, Oxycodone, and THC. Vektor’s cannabis licences and EU GMP facility are important assets for XPhyto’s import and distribution business.

Vektor's managing director is a licensed German pharmacist with a doctorate degree in pharmacy and the following regulated qualifications in Germany: Qualified Person (QP), Production Manager (AMG), Control Manager (AMG), Narcotics Officer (BtMG and EU-QPPV), EU Qualified Person (QP) for Pharmacovigilance, and RP (GDP and Information Officer).

Vektor – Drug Delivery and Test Development Programs

The current drug product development programs are focused on precision dosing of tetrahydrocannabinol ("THC") and CBD using Vektor's proprietary thin-film sub-lingual (oral) strip technology. Target medical conditions include serious disorders such as epilepsy and appetite regulation. Based on Vektor's deep understanding of thin-film drug delivery systems, its current THC and CBD-focused clinical programs, and anticipated future demand for anti-viral therapeutics, the Company has initiated a CBG and quercetin-focused research and development program, starting with in-vitro delivery studies at its lab in Germany. Pending successful results, the Company will evaluate opportunities for further development.

Over the last several months, Vektor has completed the initial stage of product development and established a number of critical parameters necessary for an efficient and well-defined dissolvable oral CBD dosage form related to its cannabidiol ("CBD") based Epilepsy product. The Company is now finalizing the formulation and preparing for European-based clinical studies in Q2 and Q3 of 2020.

As part of its infectious disease initiatives, Vektor has also commenced several research and development programs related to infectious disease including in-vitro study of thin-film delivery of cannabigerol ("CBG") for potential anti-bacterial and anti-viral treatments. Vektor is also reviewing other potential anti-microbial compounds for activity such as quercetin.

Additionally, Vektor has recently entered into a binding standstill agreement with a European biotechnology company for the development of a low-cost rapid real-time oral pathogen screening platform. The Company is working towards a definitive agreement.

As part of its commitment to further its infectious disease initiatives, the Company has recently announced the addition of Prof. Dr. Wolfgang Eisenreich to its team via an exclusive infectious disease advisory agreement. Prof. Dr. Eisenreich leads a research group at the Department of Chemistry, Technical University of Munich and the Central NMR Analytics Facility at Garching.

Supply, Import, and Distribution

In January 2020, the Company announced that it had signed a three-year definitive supply, import and distribution agreement with PharmaCielo Ltd. ("PharmaCielo") Pursuant to the Agreement and subject to all necessary regulatory approvals, XPhyto plans to commence the commercial import of cannabis oils and isolates in late-2020 with a three year minimum sales target of approximately 30,000 kg for a full range of extracted products including 99% pure CBD and THC isolates, broad spectrum CBD oils, and full spectrum THC oils. Import and commercial sales of extracts in Germany are expected to commence in Q4 2020.

In preparation for import and commercial sales in Germany the Company has worked with PharmaCielo to identify specific products for the Germany market, engaged in the design of expanded vault capacity for storage of imported extracts and flower, planned its import permitting strategy, and engaged with narcotics wholesalers and distributors.

The Company is actively engaged with several Canadian Licenced Producers to procure flower for export to German patients. The Company is planning to commence the import of flower in Q4 2020.

Critical Accounting Estimates

The preparation of the 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 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 and 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.

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 acquired intangible assets 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, considering 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. The transaction with Vektor Pharma TF GmbH was determined to constitute a business acquisition.

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.

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.

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 approximate their fair value because of the short-term nature of these instruments.

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.

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. There is very limited interest rate risk as the Company has no interest-bearing debt.

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

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		(246,549)	(246,549)
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.

Subsequent Events to December 31, 2019

- 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.
- 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 licence 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 a 5% royalty on net sales of all products sold by the Company.
- 14) 200,000 stock options with an exercise price of \$1.25 per share were cancelled.

Risks and Uncertainties

Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

Negative Operating Cash Flows

As the Company is an early stage start-up it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

Risks Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

Reliance on Key Personnel and Advisors

The Company relies heavily on its officers and directors. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

Management’s Responsibility for the Financial Statements

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Risk Factors

Market Risk for Securities

We are an issuer company whose common shares are not listed for trading on a stock exchange. There can be no assurance that an active trading market for our common shares will be established and sustained. Upon a listing, the market price for our common shares could be subject to wide fluctuations. Factors such as government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Uninsured or Uninsurable Risk

We may become subject to liability for risks against which we cannot insure or against which we may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for our usual business activities. Payment of liabilities for which we do not carry insurance may have a material adverse effect on our financial position and operations.

Conflicts of Interest Risk

Certain of our directors and officers are also directors in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors' and officers' conflict with or diverge from our interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to our best interests. However, in conflict of interest situations, our directors and officers may owe the same duty to another company and will need to balance their competing interests with duties to us.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to us.

Key Personnel Risk

Our success will depend on our directors and officers to develop our business and manage our operations, and on our ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants once operations begin. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on our business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that we will be able to attract or retain key personnel in the future, which may adversely impact our operations.

No Established Market for Shares Risk

There is currently no established trading market through which common shares in our authorized capital may be sold. Even if a trading market develops, there can be no assurance that such market will continue in the future. You may lose your entire investment.

Dividend Risk

We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain any earnings to finance further growth and, when appropriate, retire debt.

Share Price Volatility Risk

It is anticipated that our common shares will be listed for trading on the Exchange. As such, external factors outside of our control such as announcements of quarterly variations in operating results, revenues and costs, and sentiments toward the cannabis sector stocks may have a significant impact on the market price of our common shares. Global stock markets including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

Nature of the Business Model

Probable lack of business diversification.

Because the Company will be focused on developing its business ancillary to the cannabis industry, and potentially directly in the cannabis industry, the prospects for the Company's success will be dependent upon the future performance and market acceptance of the Company's intended facilities, products, processes, and services. Unlike certain entities that have the resources to develop and explore numerous product lines, operating in multiple industries or multiple areas of a single industry, the Company does not anticipate the ability to immediately diversify or benefit from the possible spreading of risks or offsetting of losses. Again, the prospects for the Company's success may become dependent upon the development or market acceptance of a very limited number of facilities, products, processes or services.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Common Shares may significantly decrease.

The Company may be subject to additional regulatory burden resulting from its public listing on the CSE.

The Company has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the CSE. The Company is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to the Company's financial management control systems to manage its obligations as a public company listed on the CSE. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. The Company has made, and will continue to make, changes in these and other areas, including the Company's internal controls over financial reporting. However, the Company cannot assure holders of Company's shares that these and other measures that the Company might take will be sufficient to allow us to satisfy the Company's obligations as a public company listed on the CSE on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies listed on the CSE will create additional costs for the Company and will require the time and attention of management. The Company cannot predict the amount of the additional costs that the Company might incur, the timing of such costs or the impact that management's attention to these matters will have on the Company's business.

There is no assurance that the Company will turn a profit or generate immediate revenues.

There is no assurance as to whether the Company will be profitable, earn revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.

The Company has grown by acquisition. If the Company implements its business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Common Shares.

The Company may be unable to adequately protect its proprietary and intellectual property rights

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;

- the Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;
- another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some U.S. state jurisdictions or under U.S. federal law, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.

An increase in the number of companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's Chief Executive Officer, Chief Financial Officer, and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

There is no assurance that the Company will obtain and retain any relevant licences.

If obtained, any licences are expected to be subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licences or any failure to maintain licences would have a material adverse impact on the business, financial condition and operating results of the Company.

The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.

Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability. The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Stock Option Plan and upon the exercise of outstanding Warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate government regulations. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company will be reliant on information technology systems and may be subject to damaging cyberattacks.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

In certain circumstances, the Company's reputation could be damaged.

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

No guarantee on the use of available funds by the Company.

The Company cannot specify with certainty the particular uses of available funds. Management has broad discretion in the application of its proceeds. Accordingly, a holder of Common Shares will have to rely upon the judgment of management with respect to the use of available funds, with only limited information concerning management's specific intentions. The Company's management may spend a portion or all of the available funds in ways that the Company's shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser's investment. The failure by management to apply these funds effectively could harm the Company's business. Pending use of such funds, the Company might invest the available funds in a manner that does not produce income or that loses value.

Currency Fluctuations.

A significant portion of the Company's German subsidiary expenses are expected to be denominated in Euros, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the Euro and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Outstanding Share Data

Authorized and issued share capital as at April 28, 2020:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	55,437,445

- As at April 28, 2020, there were 4,200,000 stock options outstanding.
- As at April 28, 2020, there were 20,282,557 warrants outstanding

Other Information

Additional information on the Company is available on SEDAR at www.sedar.com.