NEW LEAF VENTURES INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Directors of
New Leaf Ventures Inc.

Opinion

We have audited the accompanying financial statements of New Leaf Ventures Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended and for the period from incorporation on June 4, 2018 to December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended and for the period from incorporation on June 4, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company incurred a net loss of $1,171,103 during the year ended December 31, 2019 and, as of that date, the Company had a working capital deficiency of $396,764 and an accumulated deficit of $1,207,353. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Erez Bahar.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada | Chartered Professional Accountants

April 29, 2020

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New Leaf Ventures Inc.
Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Note(s)	December 31, 2019 $	December 31, 2018 $
ASSETS			
Current assets			
Cash		80,150	1
Amounts receivable	4	80,134	-
Prepaid deposits		30,750	-
TOTAL ASSETS		**191,034**	**1**
LIABILITIES			
Current liabilities			
Accounts payable and accrual liabilities	7	587,798	-
Loan payable	5	-	36,250
TOTAL LIABILITIES		**587,798**	**36,250**
SHAREHOLDERS' DEFICIENCY			
Share capital	6	736,251	1
Share subscription received	1	40,000	-
Stock options reserve	6	34,338	-
Accumulated deficit		(1,207,353)	(36,250)
TOTAL SHAREHOLDERS' DEFICIENCY		**(396,764)**	**(36,249)**
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		**191,034**	**1**

Nature and continuance of operations	1
Segmented information	8
Subsequent events	12

These financial statements were approved for issue by the Board of Directors and signed on its behalf by:

/s/ Mike Stier Director **/s/ Chris Cooper Director**

(Expressed in Canadian Dollars)

	Note(s)	For the year ended December 31, 2019 $	For the period from incorporation on June 4, 2018 to December 31, 2018 $
Expenses			
Bank charges		692	-
Consulting fees	6, 7	267,066	-
Directors' fees	7	11,355	-
General and administrative costs		106	-
Professional fees		840,365	36,250
Share-based payments	6, 7	34,338	-
Transfer agent, regulatory and listing fees		14,777	-
		(1,168,699)	**(36,250)**
Other expenses			
Foreign exchange loss		(2,404)	-
		(2,404)	**-**
Total loss and comprehensive loss		**(1,171,103)**	**(36,250)**
Basic and diluted loss per share for the year attributable to common shareholders		(0.11)	(181.25)
Weighted average number of common shares outstanding - basic and diluted		10,232,896	200

(Expressed in Canadian Dollars)

	Note(s)	Share capital: Number of shares	Share capital: Amount	Share subscription received	Stock options reserve	Accumulated deficit	Total
Incorporator's shares, June 4, 2018		200	1	-	-	-	**1**
Shares issued for exploration and evaluation assets		-	-	-	-	-	**-**
Net loss for the period		-	-	-	-	(36,250)	**(36,250)**
Balance as at December 31, 2018		**200**	**1**	**-**	**-**	**(36,250)**	**(36,249)**
Cancellation of incorporator's shares	6	(200)	-	-	-	-	**-**
Shares issued for cash - private placement	6	12,000,000	600,000	-	-	-	**600,000**
Share issue costs	6	-	(25,000)	-	-	-	**(25,000)**
Shares issued for restricted share rights	6	500,000	125,000	-	-	-	**125,000**
Settlement of the loan payable	5, 6	145,000	36,250	-	-	-	**36,250**
Subscriptions received in advance	1	-	-	40,000	-	-	**40,000**
Share-based payments	6	-	-	-	34,338	-	**34,338**
Net loss for the year		-	-	-	-	(1,171,103)	**(1,171,103)**
Balance as at December 31, 2019		**12,645,000**	**736,251**	**40,000**	**34,338**	**(1,207,353)**	**(396,764)**

(Expressed in Canadian Dollars)

	Note(s)	For the year ended December 31, 2019 $	For the period from incorporation on June 4, 2018 to December 31, 2018 $
Cash flows from OPERATING ACTIVITIES			
Net loss for the year		(1,171,103)	(36,250)
Adjustments for items not affecting cash:			
Share-based payments	6	34,338	-
Shares issued for restricted share rights	6	125,000	-
Change in non-cash working capital			
Amounts receivable		(80,134)	-
Prepaid expenses		(30,750)	-
Accounts payable and accrual liabilities		587,798	-
Cash flow used in operating activities		**(534,851)**	**(36,250)**
FINANCING ACTIVITIES			
Proceeds from issuance of common shares	6	600,000	1
Share issue costs	6	(25,000)	-
Subscriptions received in advance	1	40,000	-
Proceeds received from loan payable	5	-	36,250
Cash flow from financing activities		**615,000**	**36,251**
Increase in cash		**80,149**	**1**
Cash, beginning of year		**1**	**-**
Cash, end of year		**80,150**	**1**
Supplementary cash flow information			
Shares issued for debt settlement	5, 6	36,250	-
Cash paid during the year for interest		-	-
Cash paid during the year for income taxes		-	-

1. NATURE AND CONTINUANCE OF OPERATIONS

New Leaf Ventures Inc. (formerly known as "1166858 B.C. Ltd.") (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 4, 2018. The Company is currently in the process of identifying, evaluating and negotiating business opportunities.

The Company's head office, principal address and registered address and records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8, Canada.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and develop its business interests, and to commence profitable operations in the future. As at December 31, 2019, the Company had a working capital deficiency of $396,764 and an accumulated deficit of $1,207,353. These items may cast a significant doubt on the Company's ability to continue as a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

These financial statements of the Company for the year ended December 31, 2019 were reviewed, approved and authorized by the Board of Directors on April 29, 2020.

Proposed transactions

On September 13, 2019, the Company entered into the Share Purchase Agreement ("Acquisition Transaction") to purchase New Leaf USA Inc. ("New Leaf USA") and its subsidiaries (collectively the "New Leaf USA Entities"). Following completion of the Acquisition Transaction, the New Leaf USA Entities will be the core business of the Company.

To complete the Acquisition Transaction, the Company will:

- Issue 9,000,000 shares; and
- Issue 4,000,000 performance warrants ("Performance Warrants").

Each Performance Warrant will entitle the holder to purchase one common share of the Company at the price of $0.02 per common share for a period of three years, and will vest and become exercisable as follows:

i. 2,000,000 Performance Warrants will vest and become exercisable if the Company or the License Holder achieves at least $5,000,000 in annual gross revenue; and
ii. 2,000,000 Performance Warrants will vest and become exercisable the Company or License Holder achieves at least $7,500,000 in annual gross revenue.

In addition, New Leaf USA will enter into the employment agreements , pursuant to which Robert Colwell will be appointed to act as Chief Executive Officer of New Leaf USA, and Boris Gorodnitsky will be appointed to act as President of New Leaf USA , in each case, for a period of three years following the closing of the Acquisition Transaction, and pursuant to which the Company will issue 1,829,338 common shares to each of Boris Gorodnitsky and Robert Colwell.

In addition, during the year ended December 31, 2019, the Company entered into a Letter of Intent ("LOI") with New Leaf Enterprises, Inc. (the "License Holder"), a US cannabis company that holds a Tier 3 Producer/Processor license in Washington State. Under the LOI, the Company would acquire, directly or through New Leaf USA, certain rights in respect of the assets of New Leaf USA and subsequently complete a going public transaction.

1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

Proposed transactions (continued)

Assuming successful completion of the Acquisition Transaction, the New Leaf USA Entities will be wholly-owned subsidiaries of the Company (collectively "New Leaf Entities"), and through which the Company will provide consulting services, real property, intellectual property and equipment for lease and enhanced ancillary services to the License Holder.

New Leaf USA

New Leaf USA, a Washington corporation, was formed on May 2, 2019.

Following are the wholly-owned subsidiaries of New Leaf USA:

- New Leaf Real Estate, LLC ("RealEstateCo");
- New Leaf Equipment, LLC ("EquipmentCo");
- New Leaf IP, LLC ("IPCo");
- New Leaf Services LLC ("ServicesCo"); and
- New Leaf Hemp Company LLC ("HempCo").

The New Leaf USA Entities hold assets, comprised of real estate leases, equipment and other tangible and intangible assets, including intellectual property ("IP") (collectively the "Assets").

The New Leaf USA Entities acquired the Assets through the reorganization transaction involving the License Holder ("Reorganization Transaction"). In particular, in connection with the Reorganization Transaction, among other things, the License Holder:

- sold all the equipment to EquipmentCo effective October 1, 2019 in exchange for a promissory note in the amount of US$769,871,
- sold the intellectual property to IPCo effective October 1, 2019 in exchange for a promissory note in the amount of US$1,300,000, and
- transferred, in August 2019, the lease of the approximately 30,000 square foot integrated cultivation facility located at 460 and 470 South Kenyon Street, Seattle, Washington which is currently leased by the License Holder (the "Facility") to RealEstateCo.

Commencing on October 1, 2019,

- EquipmentCo leases the equipment to the License Holder in exchange for a monthly fee of US$6,000.
- IPCo leases the intellectual property to the License Holder in exchange for annual exclusivity fees of US$100,000 and the greater of US$1.07 per each unit sold and quarterly license fee of US$150,000.
- RealEstateCo leases the 30,000 square foot facility to the License Holder in exchange for monthly fees of US $36,860 (which includes the base rent and payment of property tax amounts pursuant to the terms of the subleases).
- ServicesCo provides the services, which include staffing and human resources, bookkeeping and payroll, advertising and marketing, IT, and other consulting and advisory services, to the License Holder in exchange for a monthly fee of US$251,000 for the services provided.

1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

Proposed transactions (continued)

In connection with the Acquisition Transaction, the Company intends to complete an initial public offering of up to 20,000,000 units ("Units") at a price of $0.25 per Unit, for aggregate gross proceeds of up to $5,000,000 (the "Offering"), and seek a listing of its common shares on the Canadian Securities Exchange (the "CSE"). Each unit will consist of one (1) Unit Share and one-half of one Warrant, with each whole Warrant entitling the holder thereof, subject to the terms and conditions of the Warrant Indenture, to purchase one warrant share ("Warrant Share") at a price of $0.40 per Warrant Share for a period of 24 months from the date the common shares of the Company are listed for trading on the CSE (the "Expiry Date"). If the closing price of the Common Shares on the CSE or any equivalent exchange is equal to or greater than $0.60 per common share for a period of 10 consecutive trading days (the "Early Expiry Event"), the Warrants will be expired 30 days following the date the Company provides an early expiry notice (the "Early Expiry Date"). The Company intends to allocate $0.249 of the issue price of each Unit as consideration for the issue of each Unit Share and $0.001 as consideration for the issue of each one-half Warrant. The Units will be offered pursuant to an agency agreement (the "Agency Agreement") between the Company and Mackie Research Capital Corporation (the "Agent") to be entered into in connection with the Offering. The Company will also grant the Agent an option, exercisable in whole or in part, for a period of 30 days from and including the closing date of the Offering, to purchase up to an additional 15% of the Units (being 3,000,000 Units) on the same terms as above, to cover over-allotments, if any; any such additional Units would comprise part of the Offering.

Pursuant to the terms of the Agency Agreement, in respect of the Offering, the Company will pay the Agent (the "Agent's Commission") a cash fee equal to 8.0% of the aggregate gross proceeds of the Offering in respect of purchasers of Units, provided that the amount of the cash fee payable in connection with gross proceeds received from purchasers of Units on the president's list of the Company (the "President's List") is 2.0%.

As additional compensation, the Company has also agreed to:

a) pay the Agent a corporate finance fee equal to $30,000 (plus GST); and

b) issue to the Agent such number of non-transferrable share purchase warrants (the "Agent Warrants") as is equal to 8.0% of the number of Units sold pursuant to the Offering, provided that the number of Agent Warrants issuable in connection Units sold to purchasers on the President's List is equal to 4.0% of the number of Units sold to such purchasers. Each Agent Warrant will be exercisable into one Unit (an "Agent Unit") at an exercise price of $0.25 until the Expiry Date, subject to an Early Expiry Date upon the occurrence of an Early Expiry Event. Each Agent Unit will consist of one Common Share and one-half of one common share purchase warrant (each whole warrant, an "Agent Warrant"). Each Agent Warrant will entitle the holder thereof to purchase an additional Common Share on the same terms and conditions as the Warrants.

As of December 31, 2019, a subscription of $40,000 was received and deposited in the trust account.

COVID-19

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, ability to raise funds and the completion of the proposed transactions.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance with International Financial Reporting Standards

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

Basis of preparation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Critical accounting estimates

The information about significant areas of estimation uncertainly considered by management in preparing the financial statements are as follows:

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income once the Company completed the proposed transaction. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Critical accounting judgments

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Determination of going concern (note 1)

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Determination of functional currency

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currency of the Company is Canadian dollar, as this is the currency of the primary economic environment in which the Company operates.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into a known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. The Company did not have any cash equivalents as of December 31, 2019 and 2018.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and share purchase warrants are classified as equity instruments. Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the quoted market price of the common shares at the time the units are priced, then to warrants on a residual value basis.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based payments

- **Share-based payment transactions**
  Employees (including directors and senior executives) of the Company, and individuals providing similar services to those performed by direct employees, receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

  In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments issued to non-employees are measured at the fair value of goods or services received.

- **Equity-settled transactions**
  The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a year represents the movement in cumulative expense recognized as at the beginning and end of that year and the corresponding amount is represented in stock option reserve. No expense is recognized for awards that do not ultimately vest. For those awards that expire after vesting, the recorded value is transferred to other reserve.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Share-based payments (continued)

- **Equity-settled transactions (continued)**
  Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

  The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share unless it is considered to be anti-dilutive.

- **Other reserve**
  Other reserve records the fair value of the expired options and warrants initially recorded in stock options reserve and warrants reserve.

- **Warrants reserve**
  The warrants reserve records the grant date fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to other reserve.

- **Stock options reserve**
  The stock options reserve records items recognized as share-based payments expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to other reserve.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity (deficiency), in which case it is recognized in shareholders' equity (deficiency). Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company is the Canadian dollar.

Foreign currency transactions are translated into the Canadian dollar using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign amounts are translated at the rate of exchange at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

- **Financial assets**

  Classification and measurement

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

  The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

  Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

  Financial assets at FVTPL – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges. As of December 31, 2019 and 2018, the Company has classified its cash as FVTPL.

  Financial assets at FVTOCI – Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. As of December 31, 2019 and 2018, the Company has no financial assets classified as FVOCI.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

- **Financial assets (continued)**

  Financial assets at amortized cost – Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. As of December 31, 2019 and 2018, the Company has classified its amounts receivable as amortized cost.

  Impairment of financial assets at amortized cost
  The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision.

  Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

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

- **Financial liabilities**

  Classification and measurement
  The Company classifies its financial liabilities into one of two categories as follows:

  Fair value through profit or loss (FVTPL) – This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

  Other financial liabilities – This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. As at December 31, 2019 and 2018, the Company has classified its accounts payable and accrued liabilities and loan payable as other financial liabilities

  Derecognition of financial liabilities
  A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

  When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of loss.

Refer to Note 10 for further disclosures.

(Expressed in Canadian Dollars)

3. NEW ACCOUNTING STANDARDS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company:

IFRS 16 – Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company completed an assessment and concluded that there is no significant change to its financial statements from adopting this new standard as the Company does not have any leases.

IFRIC 23 – Uncertainty over Income Tax Treatments: This standard was issued by the IASB in June 2017 and specifies the interpretation to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company completed an assessment and concluded that there is no significant change to its financial statements from adopting this new standard.

4. AMOUNTS RECEIVABLE

	December 31, 2019 $	December 31, 2018 $
Harmonized sales tax receivable and value-added tax receivable	31,744	-
Other receivables	48,390	-
	80,134	-

During the year ended December 31, 2019, the Company settled certain payables in cash on behalf of the License Holder, the amount of $48,390 was recognized as amounts receivable.

5. LOAN PAYABLE

During the period ended December 31, 2018, the Company received two advances totaling $36,250 from an arm's length party. These advances were unsecured, non-interest-bearing and payable on demand.

On December 12, 2019, the Company issued 145,000 common shares in settlement of the $36,250 loan payable.

6. SHARE CAPITAL

Authorized share capital

- Unlimited number of preferred shares without par value; and
- Unlimited number of common shares without par value.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (CONTINUED)

Issued share capital (continued)

Issued share capital

At December 31, 2019, the Company had 12,645,000 common shares issued and outstanding (December 31, 2018 – 200) with a value of $736,251 (December 31, 2018 – $1).

<u>During the year ended December 31, 2019</u>

- On February 26, 2019, the Company completed a private placement of 12,000,000 units at a price of $0.05 for gross proceeds of $600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at an exercise price of $0.05 at any time prior to February 26, 2021. No value was assigned to the warrants. In connection with the private placement, the Company incurred $25,000 in share issuance costs.

- On June 19, 2019, the Company cancelled the 200 shares issued to the incorporator on June 4, 2018.

- On November 14, 2019, the Company issued 500,000 common shares with a fair value of $125,000 to Mike Stier, in settlement of 500,000 fully-vested restricted share rights granted to Mike Stier on the same date.

- On December 12, 2019, the Company issued 145,000 common shares in settlement of the $36,250 loan payable.

<u>During the year ended December 31, 2018</u>

- On June 4, 2018, the Company issued 200 shares at $1 to the incorporator.

Warrants

The changes in warrants during the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019		December 31, 2018	
	Number outstanding	Weighted average exercise price ($)	Number outstanding	Weighted average exercise price ($)
Balance, beginning of year	-	-	-	-
Issued	12,000,000	0.05	-	-
Balance, end of year	**12,000,000**	**0.05**	**-**	**-**

The following summarizes information about warrants outstanding at December 31, 2019:

Expiry date	Exercise price ($)	Warrants outstanding	Estimated grant date fair value ($)	Weighted average remaining contractual life (in years)
February 26, 2021	0.05	12,000,000	-	1.16

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (CONTINUED)

Equity incentive plan

During the year ended December 31, 2019, the Company implemented an Equity Incentive Plan (the "EIP") which provides for the grant to eligible directors and employees (including officers) of stock options and Restricted Share Rights ("RSR"). The EIP also provides for the grant to eligible directors of Deferred Share Units ("DSU") which the directors are entitled to redeem for 90 days following retirement or termination from the Board of the Company (the "Board").

- **Stock options**

  The EIP authorizes the Board to grant options to eligible directors and employees (including officers). The number of options, the exercise price per option, the vesting period and any other terms and conditions of options granted from time to time pursuant to the EIP, are determined by the Board at the time of the grant, subject to the defined parameters of the EIP.

  The changes in options during the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019		December 31, 2018	
	Number outstanding	Weighted average exercise price ($)	Number outstanding	Weighted average exercise price ($)
Balance, beginning of year	-	-	-	-
Granted	500,000	0.25	-	-
Balance, end of year	**500,000**	**0.25**	**-**	**-**

<u>*During the year ended December 31, 2019*</u>

- 500,000 stock options of which 250,000 stock options issued to Chris Cooper and 250,000 stock options issued to Don Currie, with each option exercisable to acquire one common share of the Company at a price of $0.25 per common share, for a period of five years; one quarter of the options will vest every six months, with the first quarter vesting on the grant date.

The estimated grant date fair value of the options granted during the year ended December 31, 2019 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.50%
Expected annual volatility	100%
Expected life (in years)	5.00
Expected dividend yield	0%
Grant date fair value per option ($)	0.19
Share price at grant date ($)	0.25

During the year ended December 31, 2019, the Company recognized share-based payments expense of $34,338 (December 31, 2018 – $nil).

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (CONTINUED)

Equity incentive plan (continued)

- **Stock options (continued)**

  The following summarizes information about stock options outstanding and exercisable at December 31, 2019:

Expiry date	Exercise price ($)	Options outstanding	Options exercisable	Estimated grant date fair value ($)	Weighted average remaining contractual life (in years)
November 14, 2024	0.25	500,000	125,000	93,274	4.88
Weighted average exercise price ($)		**0.25**	**0.25**		

- **RSR**

  The EIP authorizes the Board to grant RSRs, in its sole and absolute discretion, to any eligible employee or director. Each RSR provides the recipient with the right to receive common shares of the Company as a discretionary payment in consideration of past services or as an incentive for future services. The terms including the vesting period of the RSRs are determined at the sole discretion of the Board.

  On November 14, 2019, 500,000 fully-vested RSRs were granted in lieu of $125,000 in consulting fees owing to Mike Stier. These RSRs were subsequently settled by the issuance of 500,000 common shares of the Company.

- **DSU**

  The EIP authorizes the Board to grant DSUs, in its sole and absolute discretion in a lump sum amount or on regular intervals to eligible directors of the Company.

  During the year ended December 31, 2019, no DSU was granted to the directors of the Company.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of its Executive Officers and Directors. Other related parties to the Company include companies in which key management have control or significant influence.

Total compensation of key company personnel for the years ended December 31, 2019 and 2018 is as follows:

	For the years ended December 31, 2019	For the period from incorporation on June 4, 2018 to December 31, 2018
	$	$
Directors' fees	11,355	-
Consulting fees	131,000	-
Share-based payments	34,338	-
	176,693	**-**

Consulting fees of $125,000 were settled by the issuance of 500,000 common shares on the Company (note 6).

During the year ended December 31, 2019, the Company incurred consulting fees of $6,000 to AMBE Holdings Ltd. which is controlled by the director of the Company (December 31, 2018 – $nil).

The balances due to the Company's directors and officer included in accounts payables and accrued liabilities were $6,000 as at December 31, 2019 and 2018.

8. SEGMENTED INFORMATION

The Company operates in one reportable segment (note 1). All of the Company's assets are located in Canada.

9. CAPITAL MANAGEMENT

The Company defines its components of equity (deficiency) as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue business opportunities and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may consider issuing new shares, and/or issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

The Company's investment policy is to keep its cash on deposit in an interest-bearing Canadian chartered bank account. There have been no changes to the Company's approach to capital management at any time during the year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS

Fair value

The carrying values of amounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short period to maturity of those financial instruments.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

As at December 31, 2019 and 2018, the financial instrument recorded at fair value on the statement of financial position is cash which is measured using Level 1 of the fair value hierarchy.

Set out below are the Company's financial assets and financial liabilities by category:

		FVTPL	Amortized costs	FVTOCI
	December 31, 2019	**$**	**$**	**$**
ASSETS				
Cash	80,150	80,150	-	-
Amounts receivable	80,134	-	80,134	-
LIABILITIES				
Accounts payable and accrual liabilities	587,798	-	587,798	-

		FVTPL	Amortized costs	FVTOCI
	December 31, 2018	**$**	**$**	**$**
ASSETS				
Cash	1	1	-	-
LIABILITIES				
Loan payable	36,250	-	36,250	-

10. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management

- **Credit risk**

  Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amount receivable. The carrying amount of financial assets represents the maximum credit exposure.

  The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

  The Company is exposed to concentration of credit risk on the amount receivables related to the License Holder.

  As at December 31, 2019, the Company determined that it is not subject to any material credit risk.

- **Liquidity risk**

  Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

  As of December 31, 2019, the Company had cash and accounts payable and accrual liabilities of $80,150 and $587,798, respectively. The Company will need to obtain additional financing through the issuance of equity or other means to meet current liabilities as they come due.

- **Market risk**

  The significant market risks to which the Company is exposed are interest rate risk and currency.

  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. It is management's opinion that the Company is not exposed to significant interest rate risk.

  Currency risk

  The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

  The Company's cash, amounts receivable and accounts payable and accrued liabilities are held in Canadian Dollars ("CAD") and US Dollars ("USD"); therefore, USD accounts are subject to fluctuation against the Canadian dollar.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

- **Market risk (continued)**

The Company had the following balances in foreign currency as at December 31, 2019:

-	CA$	US$
Cash	80,150	-
Amounts receivable	80,134	-
Accounts payable and accrual liabilities	(532,304)	(42,635)
	(372,020)	**(42,635)**
Rate to convert to $1.00 CA$	1.0000	1.3016
Equivalent to CA$	**(372,020)**	**(55,494)**

Based on the above net exposures as at December 31, 2019, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD would increase/decrease comprehensive loss by $5,500.

11. INCOME TAXES

The Company is subject to federal and British Columbia provincial taxes in Canada.

The Company has non-capital losses for Canadian income tax purposes of $1,178,015 (December 31, 2018 – $36,250), which are available for carry-forward to reduce future years' taxable income. These non-capital losses expire as follows:

Year ending December 31,	$
2038	36,250
2039	1,141,765
	1,178,015

Income tax rate reconciliation

	December 31, 2019 $	December 31, 2018 $
Statutory rates	27.00%	27.00%
Income tax provision at statutory rate	(316,198)	(9,788)
Permanent differences	7,921	-
Change in unrecognized deferred tax assets	313,677	9,788
Others	(5,400)	-
Provision for income taxes	-	-

(Expressed in Canadian Dollars)

11. INCOME TAXES (CONTINUED)

Deferred tax assets not recognized consist of the following:

	December 31, 2019		December 31, 2018	
	$	Expiry date	$	Expiry date
Non-capital loss	318,064	Year 2038 to 2039	9,788	Year 2038
Share issue cost	5,400	Year 2043	-	
	323,464		9,788	

Deferred tax assets are recognized for temporary differences to the extent that the realization of the related benefit through future taxable profit is probable. The Company did not recognize deferred tax assets of $323,464 as at December 31, 2019 (December 31, 2018 – $9,788). This may change in the future if the Company's estimate of future taxable profit changes.

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2019

- On March 9, 2020, the Company filed and obtained a receipt for the final long form prospectus dated February 10, 2020 (the "Prospectus") from the securities regulatory authorities in British Columbia, Alberta and Ontario per their decision document filed on February 11, 2020.