

AREV NANOTEC BRANDS INC.
(FORMERLY AREV BRANDS INTERNATIONAL LTD.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
STATED IN CANADIAN DOLLARS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AREV NanoTec Brands Inc. (formerly AREV Brands International Ltd.)

Opinion

We have audited the consolidated financial statements of AREV NanoTec Brands Inc. (formerly AREV Brands International Ltd.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$3,192,836 during the year ended December 31, 2019 and, as of that date, the Company has a working capital deficit of \$1,319,647 and an accumulated deficit of \$14,064,573. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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 auditors' report is Lonny Wong.

A handwritten signature in cursive script that reads "Saturna Group LLP".

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

June 15, 2020

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

Stated in Canadian dollars

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2019	As at December 31, 2018
(Restated - Note 17)			
ASSETS			
Current Assets			
Cash		\$ 29,681	\$ 8,374
Amounts receivable	4	21,837	29,342
Prepaid expenses and deposits		34,053	81,998
Loan receivable		—	526,592
Total Current Assets		85,571	646,306
Non-current Assets			
Property and equipment	5	793,853	1
Intangible assets	6	—	1
Total Assets		\$ 879,424	\$ 646,308
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	7,10	\$ 370,815	\$ 197,274
Due to related parties	10	461,221	86,766
Loan payable	9	100,000	—
Convertible debentures	8	473,182	427,684
Total Liabilities		1,405,218	711,724
SHAREHOLDERS' DEFICIT			
Share capital		11,315,076	9,648,627
Shares issuable		7,500	7,500
Share subscriptions receivable		(12,500)	(12,500)
Equity portion of convertible debentures		49,841	45,000
Share based payment reserve		2,178,608	1,117,562
Accumulated other comprehensive income		254	132
Deficit		(14,064,573)	(10,871,737)
Total Shareholders' Deficit		(525,794)	(65,416)
Total Liabilities and Shareholders' Deficit		\$ 879,424	\$ 646,308
Nature of Operations and Going Concern	1		
Commitments	15		
Subsequent events	18		

Approved and authorized for issuance on behalf of the Board of Directors on June 15, 2020:

/s/ Mike Withrow

Mike Withrow, Director

/s/ Denby Greenslade

Denby Greenslade, Director

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Note	Year ended December 31, 2019	Year ended December 31, 2018
			(Restated - Note 17)
REVENUE		\$ 194,686	\$ –
EXPENSES			
Advertising and marketing		42,983	108,879
Amortization and depreciation	5	65,560	52,469
Bad debt		41,423	–
Consulting and management fees	10	368,716	458,085
Office and administration		78,562	97,088
Professional fees	10	136,146	129,547
Property expenses		50,740	6,458
Research and development	11	1,148,664	195,000
Rent and utilities		44,090	41,618
Share-based payments	10,11	1,193,046	602,923
Transfer agent and regulatory fees		46,540	36,273
Travel and accommodation		45,813	41,298
Total expenses		3,262,283	1,769,638
Loss Before Other Income (Expense)		(3,067,597)	(1,769,638)
Other Income (Expense)			
Accretion of discount on convertible debentures		(26,931)	(22,315)
Gain on forgiveness of debt		17,484	18,313
Gain on settlement of debt	11	27,879	–
Impairment of equipment		–	(564,728)
Impairment of goodwill		–	(47,690)
Impairment of intangible assets		–	(5,819,998)
Interest expense		(46,289)	(17,852)
Write-down of inventory		–	(41,876)
Write-down of deposits		(97,382)	–
Total other income (expense)		(125,239)	(6,496,146)
Net Loss		(3,192,836)	(8,265,784)
Other Comprehensive Income (Loss)			
Unrealized gain on foreign currency translation		122	132
Total Comprehensive Loss		\$ (3,192,714)	\$ (8,265,652)
Basic and Diluted Loss per Share		\$ (0.36)	\$ (1.31)
Weighted Average Number of Shares Outstanding		8,956,040	6,326,933

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares	Amount	Share Subscriptions Receivable	Shares Issuable	Equity Portion of Convertible Debentures	Share-based Payment Reserve	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity (Deficit)
BALANCE, DECEMBER 31, 2017	3,830,701	\$ 3,037,378	\$ (37,500)	\$ 7,500	\$ 43,193	\$ 514,639	\$ —	\$ (2,605,953)	\$ 959,257
Shares issued for convertible debenture	1,000,000	327,499	—	—	(43,193)	—	—	—	284,306
Shares issued for warrant exercises	1,600,000	605,000	—	—	—	—	—	—	605,000
Shares returned to treasury	(58,333)	—	—	—	—	—	—	—	—
Shares issued for debt settlement	83,333	150,000	—	—	—	—	—	—	150,000
Shares issued for exchange of services	8,333	13,750	—	—	—	—	—	—	13,750
Shares issued for intangible assets	1,583,333	5,515,000	—	—	—	—	—	—	5,320,000
Shares issued to acquire research and development	83,333	195,000	—	—	—	—	—	—	195,000
Equity portion of convertible debenture	—	—	—	—	45,000	—	—	—	45,000
Share subscriptions received	—	—	25,000	—	—	—	—	—	25,000
Share-based payments	—	—	—	—	—	602,923	—	—	602,923
Foreign currency translation loss	—	—	—	—	—	—	132	—	132
Net loss for the year	—	—	—	—	—	—	—	(8,265,784)	(8,265,784)
BALANCE, DECEMBER 31, 2018									
(RESTATE — NOTE 17)	8,130,700	9,648,627	(12,500)	7,500	45,000	1,117,562	132	(10,871,737)	(65,416)
Shares issued for cash	138,890	250,002	—	—	—	—	—	—	250,002
Shares issued for debt settlement	154,884	204,447	—	—	—	—	—	—	204,447
Shares issued for services	366,666	132,000	—	—	—	—	—	—	132,000
Shares issued for acquisition of research and development	666,667	1,080,000	—	—	—	—	—	—	1,080,000
Share-based payments	—	—	—	—	—	1,061,046	—	—	1,061,046
Equity portion of convertible debenture	—	—	—	—	4,841	—	—	—	4,841
Foreign currency translation loss	—	—	—	—	—	—	122	—	122
Net loss for the year	—	—	—	—	—	—	—	(3,192,836)	(3,192,836)
BALANCE, DECEMBER 31, 2019	9,457,807	\$ 11,315,076	\$ (12,500)	\$ 7,500	\$ 49,841	\$ 2,178,608	\$ 254	\$ (14,064,573)	\$ (525,794)

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2019	Year ended December 31, 2018
		(Restated - Note 17)
OPERATING ACTIVITIES		
Net loss for the year	\$ (3,192,836)	\$ (8,265,784)
Items not involving cash:		
Amortization and depreciation	65,560	52,469
Accretion of discount on convertible debentures	26,931	22,315
Bad debts	41,423	—
Impairment of equipment	—	564,728
Impairment of goodwill	—	47,690
Impairment of intangible assets	—	5,819,998
Gain on settlement of debt	(27,879)	—
Gain on forgiveness of debt	(17,484)	—
Share-based payments	1,061,046	602,923
Shares issued for research and development acquired	1,080,000	195,000
Shares issued for services	132,000	13,750
Write-down of inventory	—	41,876
Write-down of deposits	97,382	—
Changes in non-cash working capital:		
Amounts receivable	(33,919)	12,912
Prepaid expenses and deposits	(49,437)	(29,592)
Accounts payable and accrued liabilities	361,251	(215,128)
Due to related parties	342,205	33,099
Net cash used in operating activities	(113,757)	(1,103,744)
INVESTING ACTIVITIES		
Purchase of intangible assets	—	(50,000)
Purchase of property and equipment	(215,060)	—
Loan receivable	—	(526,592)
Net cash used in investing activities	(215,060)	(576,592)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	250,002	—
Proceeds from loan payable	100,000	—
Proceeds from warrant exercises	—	605,000
Share subscriptions received	—	25,000
Net cash provided by financing activities	350,002	630,000
Effects of foreign exchange rate changes on cash	122	132
Change in cash	21,307	(1,050,204)
Cash, beginning of year	8,374	1,058,578
Cash, end of year	\$ 29,681	\$ 8,374

Supplemental cash flow information (Note 14)

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

For the Year Ended December 31, 2019 and 2018

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1) Nature of operations and going concern

AREV NanoTec Brands Inc. (formerly AREV Brands International Ltd.) (the "Company") was incorporated under the Business Corporations Act (Alberta) on November 22, 2005. The Company was a research company engaged in the business of developing and commercializing technology related to the growth and extraction of active ingredients from American ginseng. During 2014, the Company ceased its ginseng operations. The Company moved its focus to R&D of formulations and is currently developing and plans on distributing its line of branded natural health and cannabis infused products.

On March 19, 2020, the Company consolidated its share capital on a 6-for-1 basis. These consolidated financial statements reflect this share consolidation on a retroactive basis.

The registered address of the Company is Suite 440, 890 West Pender Street, Vancouver, BC, V6C 1J9. The principal place of business of the Company is 109 - 91 Golden Drive, Coquitlam, BC, V3K 6R2. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "AREV" and on October 9, 2019, the common shares began trading on the OTCQB Market ("OTCQB") under the symbol "AREVF".

On March 11, 2020, the World Health Organization declared the coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, as well as financial markets globally, potentially leading to an economic downturn. Efforts to contain the virus has severely limited the mobility of people and businesses. However, it is not possible for the Company at this time to predict the duration or magnitude of the impact towards the Company's business or results from its operations.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2019, the Company has not generated any revenues from operations and had a working capital deficit of \$1,319,647 and an accumulated deficit of \$14,064,573. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast doubt on the ability of the Company to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2) Significant accounting policies

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

For the Year Ended December 31, 2019 and 2018

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Significant accounting policies (continued)

c) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned inactive subsidiary, Deutsche Medizinal Cannabis UG, incorporated in Munich, Germany. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when an investor has existing rights that give it the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a Company's share capital. All significant inter-company transactions and balances have been eliminated.

d) Application of New IFRS

The Company has adopted IFRS 16, Leases, ("IFRS 16") which is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The adoption of IFRS 16 did not have a material impact on the Company's consolidated financial statements.

e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

Significant areas requiring the use of estimates include the collectability of amounts receivable and loans receivable, incremental borrowing rate used to calculate the fair value of the convertible debentures and the useful lives and recoverability of property and equipment and intangible assets, fair value of share-based payments and convertible debentures, and unrecognized deferred income tax assets.

Management reviews objective evidence each reporting period to assess whether there are indications of impairment of the intangible assets and make judgments about their period of use. These determinations and their individual assumptions require that management make a decision based on the best and most reliable information available at each reporting period.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

f) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

For the Year Ended December 31, 2019 and 2018

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Significant accounting policies (continued)

g) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they are incurred.

Depreciation of property and equipment is provided using the declining balance and straight-line method at the following rates approximating their estimated useful lives:

Equipment	30%
Leasehold improvements	3 years

h) Intangible assets

Intangible assets that are acquired by the Company such as formulations and intellectual development, have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. These assets are reviewed for impairment or obsolescence when events or changes in circumstances indicate that the carrying amount may not be recoverable. If impaired, intangible assets are written down to fair value based on discounted cash flows or other valuation techniques.

i) Impairment of non-current assets

The carrying value of long-term assets is reviewed annually for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in the consolidated statement of operations.

The recoverable amount of an asset or cash generating unit is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the asset or cash generating unit in its present form.

Reversals of impairments are recognized when there are indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. In this event, the carrying amount of the asset or cash generating unit is increased to its revised recoverable amount with an impairment reversal recognized in the consolidated statement of operations. The revised recoverable amount is limited to the original carrying amount less amortization as if no impairment had been recognized for the asset or cash generating unit for prior periods.

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

For the Year Ended December 31, 2019 and 2018

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Significant accounting policies (continued)

j) Comprehensive loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. As at December 31, 2019, other comprehensive loss includes foreign currency translation gains or losses.

k) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same, as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at December 31, 2019, the Company had 664,952 (2018 – 156,083) potentially dilutive shares outstanding.

l) Share-based payments

The fair value of the stock options is measured at the grant date and recognized as share-based payments expense, with a corresponding increase in share-based payment reserve over the vesting period. The fair value of the stock is measured using the Black Scholes option pricing model taking into account the terms and conditions upon which the stock options were granted. The Company measures share-based compensation to non-employees at the fair value of the goods or services received. If the fair value of the goods or services cannot be measured reliably, the value of the options is used, measured using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of stock options that will ultimately vest. When stock options are exercised, the amount previously recorded as share based payments is recorded as share capital.

m) Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the consolidated statement of financial position date, plus any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2) Significant accounting policies (continued)****n) Reclassifications**

Certain of the prior year figures have been reclassified to conform to the current year's presentation.

o) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of operations.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Amounts receivable	Amortized cost
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Due to related parties	Amortized cost
Convertible debentures	Amortized cost

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Significant accounting policies (continued)

o) Financial instruments (continued)

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issuance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Significant accounting policies (continued)

o) Financial instruments (continued)

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

p) Revenue recognition

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company adopted this standard for the year beginning January 1, 2018.

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligations within the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The adoption of IFRS 15 did not result in any transition adjustments recognized in the year ended December 31, 2018.

Revenue is recognized when the amount of revenue can be measured reliably, the economic benefits associated with the revenue will flow to the Company, the stage of completion can be measured reliably, and the costs incurred for the transaction can be measured reliably.

Revenue is derived from the short-term rental of the Company's equipment. Customers are billed upon the completion of the rental period and revenue is recognized when the rental period has ended.

q) Foreign currency translation

The Company's functional currency is Canadian dollars and the functional currency of Deutsche Medizinal Cannabis UG is the Euro. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3) Financial instruments and risk management****a) Fair Values**

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which include cash, amounts receivable, loan receivable, accounts payable and accrued liabilities, loans payable, convertible debt, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if any counterparty fails to discharge its obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, amounts receivable and loan receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable consists primarily of GST receivable from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

c) Interest Rate Risk

The Company's cash may contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations as they become due.

4) Amounts receivable

	December 31, 2019	December 31, 2018
GST receivable	\$ 18,902	25,813
Miscellaneous	2,935	3,529
	\$ 21,837	\$ 29,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
5) Property and equipment

COST:		Land	Equipment	Leasehold Improvements	Total
Balance, December 31, 2017	\$	-	\$ 520,131	\$ 3,200	\$ 523,331
Additions		-	150,000	-	150,000
Impairment		-	(670,130)	-	(670,130)
Balance, December 31, 2018		-	1	3,200	3,201
Additions		572,300	287,112	-	859,412
Balance, December 31, 2019	\$	572,300	287,113	3,200	862,613

ACCUMULATED DEPRECIATION:

Balance, December 31, 2017	\$	-	53,644	2,489	56,133
Additions		-	51,758	711	52,469
Impairment		-	(105,402)	-	(105,402)
Balance, December 31, 2018		-	-	3,200	3,200
Additions		-	65,560	-	65,560
Balance, December 31, 2019	\$	-	\$ 65,560	\$ 3,200	\$ 68,760

CARRYING AMOUNTS:

As at December 31, 2018	\$	-	\$ 1	\$ -	\$ 1
As at December 31, 2019	\$	572,300	\$ 221,551	\$ -	\$ 793,853

During the year ended December 31, 2019, the Company closed a purchase and sale agreement to acquire a 100% interest in real estate located in Sorrento, B.C. from a company controlled by the Chief Executive Officer of the Company. The purchase price was \$572,300 of which \$23,408 was paid by way of a convertible debenture issued by the Company accruing interest at 8% per annum. The remaining balance was paid in cash, of which \$526,592 was paid in fiscal 2018 and the remaining \$22,300 paid in fiscal 2019. The outstanding principal amount and outstanding accruing interest of the convertible debenture is convertible into common shares of the Company at a price of \$1.80 per common share.

As at December 31, 2018, the Company recorded an impairment of \$564,728 for equipment due to the Company's inability to generate cash flows from using the equipment.

6) Intangible assets

On July 3, 2018, the Company entered into an asset purchase and sale agreement with Matthew Harvey, carrying on business under the branding, BC Bud Depot ("BCBD"), to acquire 100% of the assets under the BCBD brand in consideration for the issuance of 9,500,000 common shares of the Company with a fair value of \$5,320,000 and \$500,000, of which \$50,000 is payable in cash (paid) and \$450,000 is payable by way of a convertible debenture issued by the Company (issued) (Refer to Note 8) accruing interest at 8% per annum, for an aggregate value of \$5,820,000. The outstanding principal amount and outstanding accruing interest of the convertible debenture shall be convertible into common shares of the Company at the price of \$0.50 per common share.

As at December 31, 2018, the Company recorded an impairment of intangible assets to a carrying value of \$1 due to the uncertainty of future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**7) Accounts payable and accrued liabilities**

	December 31, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 306,673	\$ 179,422
Accrued interest payable (Notes 8 and 9)	64,142	17,852
	\$ 370,815	\$ 197,274

8) Convertible debentures

On July 3, 2018, the Company issued a \$450,000 convertible debenture related to the asset purchase and sale agreement with Matthew Harvey. The debenture accrues interest at 8% per annum, is due on July 3, 2019, and is convertible into common shares of the Company at a price of \$3.00 per common share. As at December 31, 2019, the accrued interest on the debenture totalled \$53,852 (2018 - \$17,852) and is included in accounts payable and accrued liabilities.

On January 17, 2019, the Company closed a purchase and sale agreement to acquire a 100% interest in real estate located in Sorrento, B.C. from a company controlled by the Chief Executive Officer of the Company. The purchase price was \$572,300 of which \$23,408 was paid by way of a convertible debenture issued by the Company accruing interest at 8% per annum. The remaining balance was paid in cash, of which \$526,592 was paid in fiscal 2018 and the remaining \$22,300 paid in fiscal 2019. The outstanding principal amount and outstanding accruing interest of the convertible debenture is convertible into common shares of the Company at a price of \$1.80 per common share. As at December 31, 2019, the accrued interest on the debenture totalled \$3,693 (2018 - \$nil) and is included in accounts payable and accrued liabilities.

9) Loan payable

On March 5, 2019, the Company loaned \$100,000 (2018 - \$nil) from an arm's length party, which bears interest at 8% compounded annually, is unsecured and due on demand. As at December 31, 2019, the accrued interest on the loan payable totalled \$6,597 (2018 - \$nil) and is included in accounts payable and accrued liabilities.

10) Related party transactions

As at December 31, 2019, the Company owed \$52,531 (2018 - \$5,250) to a company where the former Chief Financial Officer of the Company is a partner. The amount owing is non-interest bearing, unsecured, and due on demand and is included in accounts payable and accrued liabilities. During the year ended December 31, 2019, the Company incurred \$60,000 (2018 - \$25,000) of accounting fees to a company where the former Chief Financial Officer of the Company is a partner.

As at December 31, 2019, the Company owed \$64,616 (2018 - \$nil) to a director of the Company. The amount owing is non-interest bearing, unsecured, and due on demand. During the year ended December 31, 2019, the Company incurred \$72,000 (2018 - \$nil) of consulting fees to the director.

As at December 31, 2019, the Company owed \$nil (2018 - \$3,607) to the former Chief Executive Officer of the Company. The amount owing is non-interest bearing, unsecured, and due on demand.

As at December 31, 2019, the Company incurred \$nil (2018 - \$80,000) of management fees to the former Chief Executive Officer of the Company.

As at December 31, 2019, the Company owed \$nil (2018 - \$6,300) to a company controlled by the former Chief Executive Officer of the Company. The amount owing is non-interest bearing, unsecured and due on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10) Related party transactions

As at December 31, 2019, the Company owed \$396,605 (2018 - \$70,421) to the Chief Executive Officer of the Company, of which, \$32,250 is related to the acquisition of property and equipment. The amount owing is non-interest bearing, unsecured, and due on demand. During the year ended December 31, 2019, the Company received a convertible debenture of \$23,182 from a Company controlled by the Chief Executive Officer of the Company. (See note 8).

As at December 31 2019, the Company owed \$nil (2018 - \$1,188) to a Company formerly controlled by the Chief Executive Officer of the Company. The amount is non-interest bearing, unsecured, and due on demand.

During the year ended December 31, 2019, the Company incurred \$20,800 (2018 - \$nil) of consulting fees to companies of former Directors of the Company.

During the year ended December 31, 2019, the Company incurred \$nil (2018 - \$15,385) of consulting fees to the former Chief Financial Officer of the Company.

During the year ended December 31, 2019, the Company granted stock options with a fair value of \$983,083 (2018 - \$109,772) to key management personnel.

11) Share capital

a) Authorized capital:

- unlimited common shares without par value
- 20,000,000 preferred shares, issuable in one or more series
- 20,000,000 redeemable preferred shares, issuable in one or more series

b) Issued or allotted and fully paid:

Share issuances during the year ended December 31, 2019:

On February 19, 2019, the Company issued 666,667 common shares with a fair value of \$1,080,000 to acquire branding and intellectual property under the name Canna Gold, which has been recorded under research and development.

On April 25, 2019 the Company issued 154,884 common shares with a fair value of \$204,447 to settle debts of \$232,327 owing to two vendors, resulting in a gain on settlement of debt of \$27,879.

On May 6, 2019, the Company issued 138,890 units at a price of \$1.80 per unit, for proceeds of \$250,002. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable at \$3.00 per share for a period of 12 months from the date of issuance.

On November 21, 2019, the Company issued 366,666 common shares with a fair value of \$132,000 as a milestone success fee to a director and Chief Executive Officer of the Company.

Share issuances during the year ended December 31, 2018:

On January 8, 2018, the Company issued 1,000,000 units for the conversion of the \$300,000 convertible debenture at \$0.30 per share to a company controlled by Chief Executive Officer of the Company. Each unit consisted of one common share and one share purchase warrant with each share purchase warrant exercisable at \$0.30 per share expiring on January 8, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11) Share capital (continued)

During the year ended December 31, 2018, the Company issued 1,600,000 common shares for proceeds of \$605,000 pursuant to the exercise of share purchase warrants. Included in this issuance were 833,333 common shares for proceeds of \$250,000 to a Company owned by the Chief Executive Officer of the Company, 16,667 common shares for proceeds of \$5,000 to the Chief Financial Officer of the Company and 116,667 common shares for proceeds of \$45,000 to a director of the Company.

During the year ended December 31, 2018, the former Chief Financial Officer of the Company returned 58,333 common shares to the Company which was returned to treasury.

On September 4, 2018 the Company issued 1,583,333 common shares with a fair value of \$5,320,000 to acquire 100% of the assets under the BCBD brand (Note 6).

On November 9, 2018, the Company issued 83,333 common shares with a fair value of \$195,000 to a company controlled by the Chief Executive Officer of the Company, to acquire the Bare Topicals formulations, which have been recorded as research and development.

On November 13, 2018 the Company issued 83,333 common shares with a fair value of \$150,000 to settle debt of \$150,000 owing to a company controlled by the Chief Executive Officer of the Company.

On November 29, 2018 the Company issued 8,333 common shares with a fair value of \$13,750 to a consultant.

c) Stock options

The Company has a stock option plan pursuant to which the Board of Directors may grant options to purchase common shares to the officers, directors, and employees of the Company or affiliated companies and to consultants retained by the Company. The aggregate number of common shares reserved for issuance under the stock option plan is set at a maximum of 10% of the total number of shares outstanding at the time the options are granted. Furthermore, the aggregate number of shares issuable to one individual may not exceed 5% of the total number of issued and outstanding common shares of the Company. The exercise price of all options issued under the stock option plan may not be less than the closing market price on the last business day prior to the date the option was granted.

On February 8, 2018, the Company granted 67,500 stock options to officers and consultants of the Company at a price of \$3.36 per option for a period of 5 years from the date of issuance. During the year ended December 31, 2018, the Company cancelled these options.

On September 14, 2018, the Company granted 233,333 stock options to officers and consultants of the Company at a price of \$2.40 per option for a period of 5 years from the date of issuance. During the year ended December 31, 2019, the Company cancelled 83,333 of these options.

On September 20, 2018, the Company granted 50,000 stock options to officers and consultants of the Company at a price of \$1.95 per option for a period of 5 years from the date of issuance. During the year ended December 31, 2019, the Company cancelled these options.

On November 9, 2018, the Company granted 83,333 stock options to a consultant of the Company at a price of \$2.46 per option for a period of 5 years from the date of issuance.

On February 12, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of \$1.44 per option for a period of 5 years from the date of issuance.

On April 25, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of \$1.32 per option for a period of 5 years from the date of issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
11) Share capital (continued)
c) Stock options (continued)

On May 2, 2019, the Company granted 533,333 stock options to officers and consultants of the Company at a price of \$1.95 per option for a period of 5 years from the date of issuance.

On June 10, 2019, the Company granted 100,000 stock options to directors, officers and consultants of the Company at a price of \$1.56 per option for a period of 5 years from the date of issuance.

On July 16, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of \$1.38 per option for a period of 5 years from the date of issuance.

Option activity during the year is summarized as follows:

	<i>Number of stock options</i>	<i>Weighted average exercise price (\$)</i>
<i>Outstanding, December 31, 2017</i>	33,333	0.90
<i>Granted</i>	434,167	2.04
<i>Cancelled</i>	(67,500)	3.36
<i>Outstanding, December 31, 2018</i>	400,000	2.34
<i>Granted</i>	683,333	1.55
<i>Cancelled</i>	(870,833)	1.99
<i>Outstanding, December 31, 2019</i>	212,500	2.19

Additional information regarding stock options outstanding as at December 31, 2019, is as follows:

Exercise prices \$	Outstanding and exercisable	
	Number of options	Weighted average remaining contractual life (years)
2.94	8,333	2.9
2.40	145,833*	3.7
1.32	16,667	4.3
1.95	16,667	4.3
1.56	8,333	4.4
1.38	16,667	9.1
	212,500	3.9

During the year ended December 31, 2019, the Company recorded share-based compensation of \$1,061,046 (2018 - \$602,923). The weighted average grant date fair value of stock options granted during the year ended December 31, 2019 was \$1.55 (2018 - \$1.62) per share. The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends or forfeitures and the following weighted average assumptions:

	Year ended December 31, 2019	Year ended December 31, 2018
Risk-free interest rate	1.60%	2.27%
Expected life (in years)	5	5
Expected volatility	89.8%	80%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
11) Share capital (continued)
d) Share purchase warrants

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2017	1,176,434	0.30
Issued	1,000,000	0.30
Exercised	(1,600,000)	0.36
Expired	(16,667)	0.60
Balance, December 31, 2018	559,767	2.22
Issued	138,890	3.00
Expired	(443,100)	2.40
Balance, December 31, 2019	255,557	1.77

As at December 31, 2019, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
116,667	0.30	January 8, 2020
138,890	3.00	May 6, 2020
255,557		

12) Acquisition of subsidiary

On June 27, 2018, the Company entered into an agreement whereby the Company is to acquire 100% of Deutsche Medizinal Cannabis UG ("DMC"), a company incorporated in Munich, Germany. On July 18, 2018, pursuant to the agreement, the Company paid \$28,521 (EUR\$18,000) to the shareholders of DMC in exchange for 100% of the issued and outstanding shares of DMC. In accordance with IFRS 3, Business Combinations, the agreement was deemed to be a business combination for accounting purposes. Assets acquired and liabilities assumed are reported at their fair values as at the acquisition date. The following table summarizes the consideration paid, the fair value of assets acquired, and liabilities assumed at the acquisition date:

	\$
Total consideration paid	28,521
Amounts receivable	3,484
Goodwill	47,690
Accounts payable and accrued liabilities	(22,653)
Net assets acquired	28,521

As at December 31, 2018, the Company recognized an impairment of goodwill of \$47,690 due to the uncertainty of future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**13) Capital management**

The Company manages its capital to maintain its ability to continue as a going concern and to sustain future development of the business. The capital structure of the Company consists of cash and equity comprised of issued share capital, share subscriptions receivable, and contributed surplus.

The Company manages its capital structure and makes adjustments to it according to economic market conditions. Management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses expected capital requirements for the fiscal period. In order to maintain or adjust the capital structure, the Company may adjust spending, issue new shares, sell assets, or incur debt.

The Company is not subject to externally imposed capital requirements and there have been no changes to the Company's capital management policy during the year ended December 31, 2019.

14) Supplemental cash flow information

	Year ended December 31, 2019	Year ended December 31, 2018 (restated Note 17)
Non-cash investing and financing activities:		
Shares issued for conversion of convertible debenture	\$ —	\$ 327,499
Shares issued for amounts due to a related party	—	150,000
Shares issued for debt settlement	204,447	-
Shares issued for intangible assets	—	5,515,000
Acquisition of property and equipment paid by an arm's length party	32,100	—
Acquisition of property and equipment paid by related party	32,250	—
Acquisition of land paid by convertible debenture issued	18,567	—

15) Commitments

On December 2, 2019, the Company entered into an industrial lease agreement until December 2, 2022. The lease commenced on January 2, 2020. Expected annual payments under this lease arrangement are as follows:

	\$
2020	52,611
2021	53,623
2022	54,635
	<u>160,869</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
16) Income taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2019	2018 (restated Note 17)
Canadian statutory income tax rate	27%	27%
Income tax recovery at statutory rate	\$ (862,065)	\$ (2,231,762)
Tax effect of:		
Permanent differences and other	322,122	162,789
Change in enacted tax rates and valuation true up	43,478	–
Change in unrecognized deferred income tax assets	496,465	2,068,973
Income tax provision	\$ –	\$ –

The significant components of deferred income tax assets and liabilities are as follows:

	2019	2018 (restated Note 17)
Deferred income tax assets		
Non-capital losses carried forward	\$ 3,130,117	\$ 2,605,909
Property and equipment	400,658	382,957
Share issuance costs	3,931	5,897
Total gross deferred income tax assets	\$ 3,534,706	\$ 2,994,763
Unrecognized deferred income tax assets	(3,534,706)	(2,994,763)
Net deferred income tax assets	\$ –	\$ –

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**16) Income taxes (continued)**

As at December 31, 2019, the Company has the following non-capital losses carried forward, which are available to offset future years' taxable income. These losses expire as follow:

Year of expiry	\$
2026	270,129
2027	302,300
2028	175,433
2029	265,794
2030	80,537
2031	17,965
2032	107,630
2033	90,057
2034	127,109
2035	132,874
2036	297,329
2037	776,356
2038	7,008,002
2039	1,941,510
	11,593,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17) Restatements

The Company has restated its consolidated financial statements as at December 31, 2018 to reflect the following:

- a) Reverse the amounts payable to a related party of \$44,941 related to purchase of property and equipment, which had been impaired.
- b) Reallocate payments totalling \$116,031 that were incorrectly expensed and \$4,266 from amounts receivable to loan receivable.

Consolidated statement of financial position

As at December 31, 2018			
	As reported	Adjustment	As restated
ASSETS			
Current Assets			
Amounts receivable	\$ 33,608	\$ (4,266)	\$ 29,342
Loan receivable	406,235	120,357	526,592
Total Current Assets	530,215	116,091	646,306
Intangible assets	2	(1)	1
Total Assets	\$ 530,218	\$ 116,090	\$ 646,308
LIABILITIES			
Current Liabilities			
Due to related parties	\$ 131,707	\$ (44,941)	\$ 86,766
Total Liabilities	756,665	(44,941)	711,724
SHAREHOLDERS' EQUITY (DEFICIT)			
Deficit	(11,032,768)	161,031	(10,871,737)
Total Shareholders' Equity (Deficit)	(226,447)	161,031	(65,416)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 530,218	\$ 116,090	\$ 646,308

AREV NANOTEC BRANDS INC. (FORMERLY AREV BRANDS INTERNATIONAL LTD.)

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17) Restatements (continued)

Consolidated statements of operations and comprehensive loss

Year ended December 31, 2018

	As reported	Adjustment	As restated
EXPENSES			
Consulting and management fees	\$ 467,056	\$ (8,971)	\$ 458,085
Office and administration	126,568	(29,480)	97,088
Property expenses	-	6,458	6,458
Rent and utilities	121,110	(79,492)	41,618
Research and development	-	195,000	195,000
Travel and accommodation	45,903	(4,605)	41,298
Loss Before Other Expense	(1,690,728)	(78,910)	(1,769,638)
Other Income (Expense)			
Impairment of equipment	(609,669)	44,941	(564,728)
Impairment of intangible assets	(6,014,998)	195,000	(5,819,998)
Total other income (expense)	(6,736,087)	239,941	(6,496,146)
Net Loss	(8,426,815)	161,031	(8,265,784)
Total Comprehensive Loss	(8,426,683)	\$ 161,031	\$ (8,265,652)
Basic and Diluted Loss per Share	\$ (1.33)	\$	\$ (1.31)

Consolidated statement of changes in equity

Year ended December 31, 2018

	As reported	Adjustment	As restated
Deficit	\$ (11,032,768)	\$ 161,031	\$ (10,871,737)
Total Shareholders' Equity (Deficit)	(226,447)	161,031	(65,416)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
17) Restatements (continued)

Consolidated statement of cash flows

	Year ended December 31, 2018		
	As reported	Adjustment	As restated
OPERATING ACTIVITIES			
Net loss for the year	\$ (8,426,815)	\$ 161,031	\$ (8,265,784)
Items not involving cash:			
Impairment of equipment	609,669	(44,941)	564,728
Changes in non-cash working capital:			
Amounts receivable	8,645	4,267	12,912
Net cash used in operating activities	<u>(1,252,622)</u>	<u>120,357</u>	<u>(1,132,265)</u>
INVESTING ACTIVITIES			
Loan receivable	(406,235)	(120,357)	(526,592)
Net cash used in investing activities	<u>(427,714)</u>	<u>(120,357)</u>	<u>(548,071)</u>

18) Subsequent events

On January 29, 2020, the Company commenced litigation in the Supreme Court of British Columbia against the Defendant, Matthew Harvey, the vendor of the BC Bud Depot Assets. The Company is seeking damages, punitive damages, interest, injunctive relief, and costs relating to breach of contract between Matthew Harvey and the Company. The outcome of the litigation cannot be reasonably determined at this time.

On April 3, 2020, the Company issued 3,750,001 units at \$0.06 per unit for proceeds of \$225,000. Each unit was comprised of one common share and one share purchase warrant with each warrant being exercisable at \$0.08 per share expiring two years from the date of issuance.

On April 17, 2020, the Company issued 3,750,000 units at \$0.06 per unit for proceeds of \$225,000. Each unit was comprised of one common share and one share purchase warrant with each warrant being exercisable at \$0.08 per share expiring two years from the date of issuance.

On April 4, 2020, the Company entered into an asset purchase agreement with a company controlled by the Chief Executive Officer of the Company. Pursuant to the agreement, the Company agreed to purchase a flash freezing extraction method, engineering know-how, business models, and trade secrets consideration of \$200,000.