Baymount Incorporated

Consolidated Financial Statements

For the Years Ended December 31, 2018 and December 31, 2017

All Amounts Expressed in Canadian Dollars

INDEX

RSM

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Baymount Incorporated

Opinion

We have audited the consolidated financial statements of Baymount Incorporated, (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 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, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 $349,998 during the year ended December 31, 2018 (December 31, 2017 – $196,421) and, as of that date, the Company had a working capital deficiency of $2,171,500 (December 31, 2017 – $1,919,281) and shareholders' deficiency of $2,145,400 (December 31, 2017 – $1,795,402). 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 Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the MD&A, but does not include the 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 23, 2019
Toronto, Ontario

Baymount Incorporated

Consolidated Statements of Financial Position
As at December 31, 2018 and December 31, 2017
Expressed in Canadian Dollars

		December 31, 2018		December 31, 2017
Assets				
Current assets				
Cash	**$**	**604**	$	373
Accounts receivable		**-**		2,500
Total current assets		**604**		2,873
Investment (note 6)		**26,100**		123,879
Total assets	**$**	**26,704**	$	126,752
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**1,397,923**	$	1,147,973
Deferred payables (note 8)		**774,181**		774,181
Total current liabilities		**2,172,104**		1,922,154
Shareholders' deficiency				
Share capital (note 9)		**13,285,030**		13,285,030
Contributed surplus		**3,057,041**		3,057,041
Deficit		**(18,487,471)**		(18,137,473)
		(2,145,400)		(1,795,402)
Total liabilities and shareholders' deficiency	**$**	**26,704**	$	126,752

Nature and Continuance of Operations, and Going Concern (note 1)
Related Party Transactions (note 10)
Commitments (note 12)
Subsequent Events (note 14)

Approved on behalf of the Board of Directors:

(signed) "Graham Simmonds", Director (signed) "Gerry Goldberg", Director

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

Baymount Incorporated

Consolidated Statements of Operations and Comprehensive Loss
Years Ended December 31, 2018 and December 31, 2017
Expressed in Canadian Dollars

		2018		2017
Expenses				
Administrative and general	$	**18,360**	$	12,405
Bad debts		**2,500**		-
Professional fees		**96,575**		85,047
Wages, salaries and benefits (note 10)		**193,000**		193,000
Change in fair value of investment (note 6)		**97,779**		1,170
Less: gain on extinguishment of accounts payables		**(58,216)**		-
Less: gain on settlement of accounts receivable		-		(31,849)
Less: gain on sale of investments (note 7)		-		(56,966)
Less: interest income		-		(6,386)
		349,998		196,421
Net loss and comprehensive loss	$	**(349,998)**	$	(196,421)
Loss per share – basic and diluted	$	**(0.013)**	$	(0.007)
Weighted average number of common shares outstanding -basic and diluted		**27,493,286**		27,493,286

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

Baymount Incorporated

Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2018 and 2017
Expressed in Canadian Dollars

	Number of Common Shares		Share Capital		Contributed Surplus		Deficit		Total
Balance as at January 1, 2017	27,493,286	$	13,285,030	$	3,057,041	$	(17,941,052)	$	(1,598,981)
Net loss for the year	-		-		-		(196,421)		(196,421)
Balance as at December 31, 2017	**27,493,286**	**$**	**13,285,030**	**$**	**3,057,041**	**$**	**(18,137,473)**	**$**	**(1,795,402)**
Net loss for the year	-		-		-		(349,998)		(349,998)
Balance as at December 31, 2018	**27,493,286**	**$**	**13,285,030**	**$**	**3,057,041**	**$**	**(18,487,471)**	**$**	**(2,145,400)**

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

Baymount Incorporated

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
Expressed in Canadian Dollars

	2018	2017
Cash Flows from Operating Activities		
Net loss	**$ (349,998)**	$ (196,421)
Adjustments for:		
Accrued interest income	**-**	(6,386)
Bad debts	**2,500**	**-**
Change in fair value of investment (note 6)	**97,779**	1,170
Gain on extinguishment of accounts payables	**(58,216)**	-
Gain on settlement of accounts receivable	-	(31,849)
Gain on sale of investments (note 7)	-	(56,966)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	-	15,741
Deposits	-	2,985
Accounts payable and accrued liabilities	**308,166**	214,500
Cash provided by (used in) operating activities	**231**	(57,226)
Cash Flows from Investing Activities		
Proceeds from sale of equity investments	-	56,966
Cash flows from (used in) investing activities	-	56,966
Increase (Decrease) in cash during the year	**231**	(260)
Cash - beginning of year	**373**	633
Cash - end of year	**$ 604**	$ 373
Non-Cash Investing Activities		
Investment in affiliate issued in settlement of accounts receivable	**$** -	$ 86,814

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

1. Nature and Continuance of Operations, and Going Concern

Baymount Incorporated ("Baymount" or the "Company") was incorporated on April 5, 2004 under the Ontario Corporations Act in Ontario, Canada. The head office, principal address, registered address and records office of the Company are located at 130 Adelaide Street West, Suite 1901, Toronto, Ontario, Canada, M5H 3P5. The Company is publicly traded on the NEX, a separate board of the TSX Venture Exchange, under the symbol "BYM.H".

The Company seeks out and develops investment opportunities in various industries including the gaming, technology, consumer products and other regulated industries. The objective of the Board of Directors has been to leverage the expertise of the Company's Board of Directors, management and shareholder base in the gaming, technology, consumer products and other regulated industries to identify new investment opportunities.

The Company seeks to generate revenue primarily from providing consulting and advisory services and seeks to generate gains realized on dispositions of its investments.

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company incurred a net loss of $349,998 during the year ended December 31, 2018 (December 31, 2017 – $196,421) and, as of that date, the Company had a working capital deficiency of $2,171,500 (December 31, 2017 – $1,919,281) and shareholders' deficiency of $2,145,400 (December 31, 2017 – $1,795,402). There is uncertainty of the Company's ability to find business opportunities, raise capital or restructure the Company's finances which casts significant doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments to the carrying value of the assets and liabilities which may be required should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries were prepared using accounting policies in accordance with IFRS.

These consolidated financial statements were authorized for issue by the Board of Directors on April 18, 2019.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for cash, which is measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. Basis of Preparation (continued)

c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian Dollars, which is the functional currency of the Company and its subsidiaries.

d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The fair value of securities traded in active markets are based on quoted market prices at the close of trading on the reporting date.

For public company warrants (ie. the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Its subsidiaries are Baymount Corporation, Odds On Media Inc., Baymount Financial Corp., Baymount Development Corp. and 1794254 Ontario Inc. All inter-company transactions and balances have been eliminated. The financial statements of the subsidiaries are consolidated from the period that control commences until the time that it ceases. Control is defined as having both the power to direct and the prospect of variable returns. All entities, in which the Company has a controlling interest, specifically when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, are fully consolidated.

3. Significant Accounting Policies (continued)

Investments

Investment in associates

The Company's investment in AltPresence Inc. and CordovaCann Corp., have been accounted for using the equity method. An associate is an entity in which the Company has significant influence. Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Company's shares of profit or loss of the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes. If an entity's share of losses of an associate equals or exceeds its interest in the associate, the entity discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate. After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of the impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of operations and comprehensive loss. Upon loss of significant influence over the associate, the Company measures and recognizes the remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognized in the statement of operations and comprehensive loss.

Investments in publicly traded companies

Investments in publicly traded companies have been classified as FVTPL and are recorded in the statement of financial position at fair value. Fair value is determined directly by reference to quoted market closing prices in active markets.

Included in investments is the fair value of the Company's investments in share purchase warrants of other corporations which are classified at FVTPL. The Company employs the Black-Scholes pricing model to determine fair value.

Foreign currency translation

Revenues and expenses denominated in foreign currencies are translated into Canadian Dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are retranslated at the reporting date using the rate in effect at the statement of financial position date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the statement of operations and comprehensive loss for the period.

Expressed in Canadian Dollars

3. Significant Accounting Policies (continued)

Revenue

The Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), effective January 1, 2018. IFRS 15 supersedes previous accounting standards for revenue, including IAS 18, *Revenue* ("IAS 18") and *Customer Loyalty Programmes* ("IFRIC 13"). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. The Company currently does not have any contracts within the scope of IFRS 15 and therefore, the adoption of this new standard does not have any impact on the Company's consolidated financial statements.

Financial instruments

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The retrospective adoption of IFRS 9 had no material impact to the Company's consolidated audited financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income ("FVTOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	Measurement Category	
Financial Instrument	**IAS 39**	**IFRS 9**
Cash	Loans and receivables at amortized cost	Amortized cost
Accounts receivables	Loans and receivables at amortized cost	Amortized cost
Equity Investments	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities at amortized cost	Amortized cost
Deferred payables	Other financial liabilities at amortized cost	Amortized cost

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. Significant Accounting Policies (continued)

Impairment of financial assets

All financial assets except those at fair value through profit and loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of assets is impaired. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. 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 related objectively to an event occurring after the impairment was recognized.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event; and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations and comprehensive loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3. Significant Accounting Policies (continued)

Income taxes

Income taxes comprise of current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is realized or settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Share-based compensation

The Company has a stock option plan that is described in note 9. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is applied to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the weighted average number of common and potential common shares outstanding during the period. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Equity

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

4. Capital Disclosures

The Company includes equity comprised of issued share capital, contributed surplus and deficit in the definition of capital. As at December 31, 2018, the Company's shareholder's deficiency was $2,145,400 (December 31, 2017 – $1,795,402). The Company's objectives when managing capital are as follows:

(i) to safeguard the Company's ability to continue as a going concern; and

(ii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's long-term and short-term capital requirements. The Company does not have any externally imposed capital requirements. Please refer to note 1.

5. Financial Instruments

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 - 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. from derived prices); and

Level 3 - inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's cash and investments in shares are classified as Level 1. Common share purchase warrants are classified as Level 2.

Fair value

The fair values of the Company's financial instruments "excluding cash and investments" approximate their carrying values due to their short-term maturities. The Company's risk exposures and the impact on its financial instruments are summarized below:

Liquidity risk

The Company had a working capital deficiency of $2,171,500 as at December 31, 2018 (December 31, 2017 – $1,919,281). The Company manages this risk by attempting to obtain favourable terms whenever possible and deferring payments of many of its payables. As of December 31, 2018, $1,321,512 (December 31, 2017 – $1,086,634) of its accounts payable are overdue.

Interest rate risk

The Company's debt is non-interest bearing and its notes receivable bear interest at fixed rates. Accordingly, the Company is not exposed to a significant level of interest rate risk.

5. Financial Instruments (continued)

Market risk

(i) Foreign currency risk

The functional currency of the Company and its subsidiaries is the Canadian Dollar ("CDN"). All of the Company's cash is in Canadian Dollars. The majority of the Company's purchases are transacted in Canadian Dollars.

(ii) Price risk

The Company's operations do not involve the direct input or output of any commodities and therefore it is not subject to any significant commodity price risk. The Company's equity investment in affiliate is subject to stock market price risk as its investment in Gilla Inc. is a publicly listed company.

6. Investment

On January 20, 2017, the Company received 65 unsecured subordinated convertible debenture units (the "Convertible Debenture Units") of Gilla Inc. ("Gilla") as a settlement of US$65,000 (CDN$86,814) of accounts receivable from Gilla and its related entities, a company listed for trading on the OTCQB under the symbol GLLA. The Company recorded a gain on settlement of accounts receivable from Gilla of $31,849. Each Convertible Debenture Unit had a principal amount of US$1,000 and warrants for the purchase of 10,000 common shares of Gilla exercisable until January 19, 2019 at a price of US$0.20 per share. The Company allocated $31,849 of the purchase price of the Convertible Debenture Units to the warrants. The Convertible Debenture Units were to mature on January 31, 2018 and bear interest at a rate of 8% per annum, accrued quarterly in arrears. The face value of the Convertible Debenture Units, together with all accrued and unpaid interest thereon, were convertible into common shares of Gilla at a fixed conversion price of US$0.10 per share any time prior to maturity. Furthermore, Gilla is considered to be a related party by virtue of common directors and officers. On December 29, 2017 and pursuant to the terms of the Convertible Debenture Units, the Company elected to convert the principal amount and accrued interest of US$4,887 (CDN$6,386) into 698,866 common shares of Gilla. At December 31, 2018, the fair value of these common shares was $26,100 (December 31, 2017 – $122,742) and a loss on change in fair value of the investment, including the warrants of $97,779 (December 31, 2017 – $1,170) was recognized.

Expressed in Canadian Dollars

7. Equity Investments

	AltPresence Inc.[(a)]	CordovaCann Corp.[(b)]	Total
Investments			
Balance at December 31, 2016	$ 20,000	$ 1	$ 20,001
Dispositions	-	(1)	(1)
Balance at December 31, 2017 and 2018	$ 20,000	$ -	$ 20,000
Advances			
Balance at December 31, 2016	$ 93,286	$ 19,520	$ 112,806
Dispositions	-	(19,520)	(19,520)
Balance at December 31, 2017 and 2018	$ 93,286	$ -	$ 93,286
Loss from Equity Investments			
Balance at December 31, 2016	$ (113,286)	$ (19,521)	$ (132,807)
Dispositions	-	19,521	19,521
Balance at December 31, 2017 and 2018	$ (113,286)	$ -	$ (113,286)
Carrying Value			
December 31, 2017 and 2018	$ -	$ -	$ -

a) On February 13, 2015, the Company entered into a secured revolving credit facility agreement with AltPresence Inc. (“AltPresence”), whereby the Company agreed to lend up to $150,000 in principal to AltPresence (the “AltPresence Facility”). The Company also received a $20,000 establishment fee that was settled for a 45% equity interest in the common shares of AltPresence, subject to an anti-dilution provision whereby the Company had a 2 year, first right of refusal to maintain the equity interest, assessed on a quarterly basis at the average price of all equity raises during each respective period. At December 31, 2018, the Company had total accumulated accounting losses of approximately $20,530 relating to AltPresence.

b) On March 10, 2015, the Company acquired 4,108,982 common shares of CordovaCann Corp. (formerly, LiveReel Media Corporation) (“CordovaCann”), representing approximately 17% of the issued and outstanding common shares of CordovaCann at that time, and $74,555 of indebtedness through a purchase agreement for a total of $11,940. The fair value of CordovaCann’s common shares were estimated to be nominal. During the year ended December 31, 2017, the Company disposed of its investments in and amounts owing from CordovaCann for gross proceeds of $56,966 (US$47,690).

8. Deferred Payables

During the year ended December 31, 2014, the Company settled various liabilities with its directors, employees and consultants. As part of these settlements, the parties agreed to allow payment on a portion of the amounts owing to them to be deferred until on or before January 1, 2017, without interest. Subsequently the due date of these payables was extended to April 19, 2019. These amounts are comprised of deferred salaries of $382,000, deferred directors' fees of $292,000, deferred consulting fees of $93,681 and a deferred note for $6,500. As of date of the approval of these financial statements these amounts have not been repaid and there have been no amendments to the agreements.

9. Share Capital

a) Authorized:

Unlimited common shares without par value.

b) Issued and outstanding:

No common shares were issued during the years ended December 31, 2018 and 2017. There were no warrants outstanding as at December 31, 2018 and 2017.

c) Stock options:

The Board of Directors has adopted a stock option plan for the Company (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase common shares to directors, officers and technical consultants of the Company.

Under the Plan, the aggregate number of common shares to be issued upon the exercise of options granted thereunder may not exceed 10% of the number of issued and outstanding common shares at the time of granting the options. Furthermore, the aggregate number of common shares to be issued upon exercise of the options granted thereunder to any one director or officer shall not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options shall expire no later than five (5) years after the date of grant. Options may be exercised no later than ninety (90) days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one (1) year after such death, subject to the expiry date of such option. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of options that shall not be less than the applicable discount permitted by the TSX-V or such other stock market on which the common shares are then traded.

No stock options were issued and outstanding as at December 31, 2018 and 2017.

Expressed in Canadian Dollars

10. Related Party Transactions

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company's key management personnel include its Chief Executive Officer and President and Directors. Salaries, benefits and directors' fees for key management of the Company were $193,000 for the year ended December 31, 2018 (December 31, 2017 – $193,000). The total of salaries, benefits and directors' fees of $868,732 (December 31, 2017 – $674,200) was included in accounts payable and accrued liabilities and $674,000 was included in deferred payables as at December 31, 2018 (December 31, 2017 – $674,000).

11. Income Taxes

a) Income tax expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the consolidated financial statements:

	2018	2017
Loss before income taxes	$ (349,998)	$ (196,421)
Statutory rate	26.5%	26.5%
Expected income tax (recovery) based on statutory rate	(92,749)	(52,052)
Effect on income taxes on unrecognized deferred income tax assets relating to deductible temporary differences on:		
- Change in unrecognized deferred tax assets	238,985	28,827
- Non-deductible expenses	76,137	23,225
- Differences in tax rates and other	(222,373)	-
	$ -	$ -

b) Deferred income taxes

The tax effects of temporary differences that give rise to the deferred income tax assets and liabilities are as follows:

	2018	2017
Non-capital loss carry-forwards from continuing operations	$ 2,493,138	$ 2,175,120
Capital loss carry-forwards	719,528	792,797
Share issuance costs	-	5,764
Less: unrecognized deferred tax assets	(3,212,666)	(2,973,681)
	$ -	$ -

Expressed in Canadian Dollars

11. Income Taxes (continued)

c) Non-capital losses

The Company has non-capital losses carried forward of approximately $9,408,000 available to reduce future years' taxable income. These losses will expire as follows:

2026	$ 1,333,000
2027	1,686,000
2028	1,825,000
2029	1,093,000
2030	788,000
2031	787,000
2032	549,000
2033	541,000
2034	-
2035	392,000
2036	216,000
2037	89,000
2038	109,000
	$ 9,408,000

d) Capital losses

The Company has capital losses carried forward of approximately $5,428,000 available to reduce future years' capital gains.

12. Commitments

Pursuant to an employment agreement with the Company's Chief Executive Officer and President, the Company has agreed to pay termination amounts of up to two times the annual entitlements under this agreement.

13. Contingencies

In the normal course of business, the Company is involved in various legal proceedings, the outcomes of which cannot be determined at this time, and, accordingly, no provision has been recorded in the consolidated financial statements. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its financial position or results of operations except for those who are already accounted for.

14. Subsequent Events

Subsequent to December 31, 2018, the Company's Board of Directors authorized a potential non-brokered private placement offering of units priced at $0.05 per unit for gross proceeds of up to $500,000, subject to requisite regulatory approvals. Each unit consists of one common share and one half warrant, with each whole warrant being exercisable at a price of $0.075 per share for a period of 12 months from closing. As of April 21, 2019, the Company has collected $230,000 in subscriptions related to this financing.