CAPRICE BUSINESS DEVELOPMENT CANADA INC.

(A Capital Pool Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Caprice Business Development Canada Inc.

Opinion

We have audited the consolidated financial statements of Caprice Business Development Canada Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the year ended December 31, 2019 and the period from incorporation on November 29, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and the period from incorporation on November 29, 2018 to December 31, 2018 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which indicates events or conditions that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Rakesh Patel.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

March 20, 2020

MOORE

An independent firm
associated with Moore
Global Network Limited

CAPRICE BUSINESS DEVELOPMENT CANADA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

		2019		2018
ASSETS				
Current				
Cash	$	307,173	$	75,000
Subscription receivable		-		25,000
Prepaid expenses		2,000		-
	$	309,173	$	100,000
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 4)	$	100,593	$	22,092
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		320,171		100,000
Reserves (Note 5)		59,770		-
Deficit		(171,361)		(22,092)
		208,580		77,908
	$	309,173	$	100,000

Nature of business (Note 1)
Going concern (Note 2)

Approved by the Board of Directors:

"Derek Lew"	*"Ian Macleod"*
Director	Director

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

CAPRICE BUSINESS DEVELOPMENT CANADA INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

		Year ended December 31, 2019		Period from incorporation, November 29, 2018 to December 31, 2018
EXPENSES				
Bank charges	$	42	$	-
Filing fees		29,926		-
Professional fees		59,584		22,092
Rent (Note 6)		10,500		-
Stock-based compensation (Note 5)		49,217		-
NET LOSS AND COMPREHENSIVE LOSS	$	(149,269)	$	(22,092)
LOSS PER SHARE				
– Basic and diluted	$	(0.16)	$	-
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – Basic and diluted		926,027		-

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

CAPRICE BUSINESS DEVELOPMENT CANADA INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE PERIODS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Share capital				
	Shares	**Amount**	**Reserves**	**Deficit**	**Total shareholders' equity**
BALANCE, NOVEMBER 29, 2018	-	$ -	$ -	$ -	$ -
Common shares issued for cash (Note 5)	2,000,000	100,000	-	-	100,000
Comprehensive loss for the period	-	-	-	(22,092)	(22,092)
BALANCE, DECEMBER 31, 2018	2,000,000	$ 100,000	$ -	$ (22,092)	$ 77,908
Common shares issued for cash (Note 5)	1,500,000	75,000	-	-	75,000
Initial Public Offering ("IPO") (Note 5)	2,000,000	200,000	-	-	200,000
Share issue costs (Note 5)	-	(44,276)	-	-	(44,276)
Fair value of agent's warrants (Note 5)	-	(10,553)	10,553	-	-
Stock-based compensation (Note 5)	-	-	49,217	-	49,217
Comprehensive loss for the year	-	-	-	(149,269)	(149,269)
BALANCE, DECEMBER 31, 2019	5,500,000	$ 320,171	$ 59,770	$ (171,361)	$ 208,580

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

CAPRICE BUSINESS DEVELOPMENT CANADA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year ended December 31, 2019	Period from incorporation, November 29, 2018 to December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (149,269)	$ (22,092)
Stock-based compensation	49,217	-
Change in non-cash working capital items:		
Prepaid expenses	(2,000)	-
Accounts payable and accrued liabilities	78,501	22,092
Net cash provided by operating activities	(23,551)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares, net	230,724	100,000
Subscription receivable	25,000	(25,000)
Net cash provided by financing activities	255,724	75,000
INCREASE IN CASH	232,173	75,000
CASH, BEGINNING OF PERIOD	75,000	-
CASH, END OF PERIOD	$ 307,173	$ 75,000

Supplemental cash flow information:
During the year ended December 31, 2019, the Company recorded a fair value of $10,553 in reserves for 200,000 agent’s warrants issued in connection to the IPO (Note 5).

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

1. NATURE OF BUSINESS

Caprice Business Development Canada Inc. (the "Company") is a company domiciled in Canada. The Company was incorporated on November 29, 2018 under the laws of the Province of British Columbia. The address of the Company's registered and head office is 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3.

The Company is currently a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ("TSX-V") Corporate Finance Manual. The principal business of the Company is to identify and evaluate companies, assets or businesses with a view to completing a Qualifying Transaction in accordance with Policy 2.4. The Company is currently seeking opportunities to undertake a Qualifying Transaction.

As a Capital Pool Company, the proceeds raised by the Company from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the sale of securities issued by the Company and $210,000 may be used to cover prescribed costs of issuing common shares or administrative and general expenditures of the Company. These restrictions apply until the completion of a Qualifying Transaction by the Company as defined under the policies of the TSX-V.

On October 29, 2019, the Company entered into an amalgamation agreement with 1182533 BC Ltd. ("Leaf"), a company incorporated under the laws of British Columbia, in consideration for common shares of the Company whereby an incorporated subsidiary of the Company ("Subco") will be amalgamated with Leaf ("Amalco"), which will comprise the Company's Qualifying Transaction. Leaf is a technology company with interest in mobile game development and publication. To effect the amalgamation, each Leaf shareholder shall receive one share of the Company for every Leaf share held, legally or beneficially, directly or indirectly, by such Leaf shareholder, the Company will receive one Amalco share for every share issued to Leaf shareholders, and each issued and outstanding share of Subco shall be exchanged for one Amalco share. Prior to the completion of the amalgamation, Leaf will acquire all of the issued and outstanding securities of LDRLY (Technologies) Inc. ("LDRLY"), a private B.C. corporation in the business of developing and publishing mobile video games and is a wholly-owned subsidiary of Eastside Games Inc., also a private B.C. corporation. The Company and Leaf will use reasonable efforts to raise capital in a concurrent financing for the Company's shares for gross proceeds of at least $1,000,000. The Company will also issue 1,000,000 common shares, representing a finder's fee payable with respect to the transactions contemplated under the amalgamation agreement.

Completion of the Qualifying Transaction is subject to a number of conditions, including but not limited to, the Company receiving final approval from the TSX-V, and the Company and Leaf each receiving all necessary shareholder approvals.

2. BASIS OF PREPARATION AND GOING CONCERN

Statement of compliance and going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements were authorized for issue by the board of directors on March 20, 2020.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. While the Company has positive working capital of $208,580 at December 31, 2019 (2018 - $77,908), it has a deficit of $171,361 on this date (2018 - $22,092). The Company's continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses within 24 months of listing on the TSX-V.

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The Company may require additional financing to meet its projected minimum financial obligations for the next fiscal year. These conditions indicate the existence of material uncertainties which may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Basis of measurement

These consolidated financial statements have been prepared on an historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 1220311 B.C. Ltd. ("Subco"), which was incorporated on August 21, 2019 and was inactive during the year ended December 31, 2019.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. BASIS OF PREPARATION (continued)

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Certain estimates, such as the measurement of deferred taxes, and assessment of the Company's ability to continue as a going concern, depend on subjective or complex judgments about matters that may be uncertain. Changes in those estimates could materially impact these consolidated financial statements. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

3. SIGNIFICANT ACCOUNTING POLICIES

Share capital

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date and classified as equity. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Stock-based compensation

The Company has a stock option plan that is described in Note 5. All goods and services received in exchange for the grant of any stock-based compensation are measured at their fair values. Where employees are rewarded using stock-based compensation, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at the grant date, using the Black-Scholes Option Pricing Model, and exclude the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All stock-based compensation is recognized as an expense in profit or loss with a corresponding credit to the equity reserve, over the period during which the related stock-based compensation vests. No amount is recognized for instruments which do not ultimately vest.

Consideration received on the exercise of share purchase options is recorded as share capital and the related amount originally recorded in options reserve is transferred to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The dilutive effect of outstanding options and warrants and their equivalents are reflected in diluted earnings per share. The computation of diluted earnings per share assumes conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. Outstanding common shares that are contingently cancelable are excluded from the weighted average number of shares outstanding.

Income taxes

Income taxes are recognized for the estimated taxes payable for the current period, and deferred taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities, and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, it provides a valuation allowance against the excess. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise.

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments *(continued)*

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.
Gains and losses on derecognition are generally recognized in profit or loss.

Leases

The Company adopted IFRS 16 effective January 1, 2019.

IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. The Company has not entered into any leases for the exclusive use of assets and the adoption of IFRS 16 had no material effect on its financial statements.

(Expressed in Canadian Dollars)

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2019		**2018**
Accounts payable	$	75,363	$	16,092
Accrued liabilities		25,230		6,000
	$	100,593	$	22,092

5. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Issued

On July 15, 2019, the Company completed an initial public offering of 2,000,000 common shares at a price of $0.10 per share for gross proceeds of $200,000 through Hayward Securities Inc. (the "Agent"). The Company paid an aggregate of $44,276 in cash commission, administration fee, legal and other expenses and issued to the Agent non-transferable warrants to acquire up to 200,000 common shares for a period of two years from the date the Company's shares are listed on the TSX-V, at an exercise price of $0.10 per share.

On May 24, 2019, the Company issued 1,500,000 common shares at a price of $0.05 per share for gross cash proceeds of $75,000.

During the period from incorporation (November 29, 2018) to December 31, 2018, the Company issued 2,000,000 common shares at a price of $0.05 per share for gross cash proceeds of $100,000.

Escrow shares

As at December 31, 2019, 3,500,000 (2018 – Nil) common shares issued are held in escrow pursuant to an escrow agreement dated May 31, 2019. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the date of the issuance of the final exchange bulletin (the "Initial Release") upon completion of a Qualifying Transaction, and an additional 15% will be released every six months following the Initial Release over a period of thirty-six months.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

Stock options

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the board of directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of the grant. Such options will be exercisable for a period of up to 10 years from the date of grant. Under the Option Plan, options are required to have an exercise price not less than the closing market price of the Company's shares prevailing on the day that the option is granted less applicable discount, if any, permitted by the policies of the Exchange. Pursuant to the Option Plan, the board of directors of the Company may from time to time authorize the issue of options to directors, officers, employees and consultants of the Company and its subsidiaries or employees of companies providing management or consulting services to the Company or its subsidiaries. The number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis or an aggregate maximum of 2% if the optionee is engaged in investor relations activities or if the optionee is a consultant, no more than 2% per consultant. The Option Plan contains no vesting requirements other than those that will apply to options granted to investor relations service providers, but permits the board of directors of the Company to specify a vesting schedule in its discretion.

A summary of the Company's share option transactions is presented below:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2018	–	–
Granted	550,000	$0.10
Outstanding, December 31, 2019	550,000	$0.10

As at December 31, 2019, the following were outstanding:

	Expiry Date	Number of Shares	Weighted Average Exercise Price	Weighted average remaining life
Options	July 15, 2029	550,000	$0.10	9.55 years

All the granted options vested immediately.

During the year ended December 31, 2019, $49,217 in share-based compensation expense was recorded for the 550,000 stock options granted to directors and officers of the Company.

The fair value of the stock options granted was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

Stock options (continued)

	2019
Risk free rate	1.58%
Dividend yield	-
Weighted average volatility	100%
Weighted average expected life	10 years
Weighted average fair value	$ 0.09

Agent's warrants

In connection to the Company's IPO, 200,000 non-transferable agent's warrants were issued to the Agent involved in the offering. The Agent's warrants are exercisable at a price of $0.10 per share for a period of two years. The Company recorded $10,553 in equity reserve for the fair value of the agent's warrants.

The fair value of the agent's warrants issued was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2019
Risk free rate	1.5%
Dividend yield	-
Weighted average volatility	100%
Weighted average expected life	2 years
Weighted average fair value	$ 0.05

6. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Company incurred $10,500 (2018 – $Nil) for rent of shared office space from a company with a director in common. As at December 31, 2019, $3,000 (2018 - $Nil) was due to this company.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2019, the Company's only financial instruments is comprised of cash and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

As at December 31, 2019, the fair value of cash held by the Company was based on level 1 inputs of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial liabilities as they become due. As at December 31, 2019, the Company had a cash balance of $307,173 (2018 - $75,000) to settle future liabilities of $100,593 (2018 - $22,092) and as such, is not exposed to significant liquidity risk.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's cash is held in an account with a major Canadian financial institution. The funds may be withdrawn at any time without penalty.

(b) Foreign currency risk

The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potentially adverse impact on the Company's ability to obtain equity financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

8. CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at December 31, 2019, the Company's shareholders' equity was $208,580 (2018 - $77,908). The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its future liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. The Company currently is not subject to externally imposed capital requirements.

Cash on hand will only be sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction. Additional funds may be required to finance the Company's Qualifying Transaction.

(Expressed in Canadian Dollars)

9. INCOME TAXES

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

		2019		2018
Loss for the period	$	(149,269)	$	(22,092)
Tax rate		27%		27%
Expected income tax recovery		(40,302)		(5,965)
Non-deductible expenses		13,289		-
Share issue costs		(11,955)		-
Change in unrecognized deductible temporary differences		38,968		5,965
Income tax recovery	$	-	$	-

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

		2019		2018
Non-capital losses	$	35,370	$	5,965
Share issuance costs		9,564		-
Less: valuation allowance		(44,933)		(5,965)
Net deferred tax assets	$	-	$	-

The Company has non-capital losses for income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses, in the amount of $130,998, expire as follows:

2038	$ 22,092
2039	108,906
	$ 130,998

A full valuation has been recorded due to the uncertainty of achieving sufficient future income for tax purposes such that the assets will be realized.