EARTHRENEW INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

McGovern Hurley

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of EarthRenew Inc.

Opinion

We have audited the consolidated financial statements of EarthRenew Inc. and its subsidiary (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, consolidated statements of changes in shareholders' equity and consolidated statements of 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 ("IFRS").

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. 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 had a working capital deficiency and a cumulative deficit as at December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that 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 Management's Discussion and Analysis.

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

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inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 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 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 judgement 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 risks 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 of the audit resulting in this independent auditor's report is Glen McFarland.

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 15, 2020

EARTHRENEW INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Current			
Cash		$ 434,208	$ 885,873
Receivables		163,888	89,608
Digital assets		2,700	4,117
Prepaid expenses		77,623	33,210
Net investment in lease	4(b)	297,670	-
Total current assets		976,089	1,012,808
Non-current			
Plant and equipment	3	4,177,402	4,212,037
Intangible assets		23,550	23,550
TOTAL ASSETS		**$ 5,177,041**	**$ 5,248,395**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	5	$ 925,137	$ 711,597
Current portion of lease liabilities	4(a)	356,051	-
Loan from related parties	5	-	54,479
Total current liabilites		1,281,188	766,076
Non-current liabilities			
Long-term portion of lease liabilities	4(a)	63,227	-
TOTAL LIABILITIES		**1,344,415**	**766,076**
EQUITY			
Share capital	6	11,241,434	9,511,745
Shares to be issued	6	-	1,120,000
Warrants	6	35,511	-
Share-based payments reserve	6	947,163	829,500
Deficit		(8,391,482)	(6,978,926)
TOTAL EQUITY		**3,832,626**	**4,482,319**
TOTAL LIABILITIES AND EQUITY		**$ 5,177,041**	**$ 5,248,395**

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Approved on behalf of the Directors:

"Keith Driver" — Director

"Catherine Stretch" — Director

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

EARTHRENEW INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

For the years ended December 31,	Note	2019	2018
Electricity sales		$ 182,700	$ -
Cost of goods sold		(96,562)	
		86,138	-
EXPENSES			
Professional, consulting and management fees	5	726,407	869,247
Share-based payments	6	126,313	-
General and administrative		162,724	139,473
Shareholder communication and filling fees		176,066	5,989
Utilities and maintenance		170,128	67,700
Travel and accommodation		6,304	13,279
Depreciation	3	108,233	10,246
Foreign exchange (gain) loss		(3,052)	3,436
Total expenses before other items		1,473,123	1,109,370
OTHER ITEMS			
Other income/(expenses)		12,696	34,967
Gain on debt settlement	5	-	2,100,752
Transaction costs	10	-	(5,542,945)
Net (loss) and comprehensive (loss) for the year		**$ (1,374,289)**	**$ (4,516,596)**
Net (loss) per share - basic and diluted		(0.02)	(0.08)
Weighted average number of shares outstanding - basic and diluted		88,008,626	55,734,750

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Number of shares #	Share capital $	Warrants $	Share-based payment reserve $	Deficit $	Total $
Balance, December 31, 2017	**$ 55,000,000**	**$ 3,611,701**	$ -	**$ 692,000**	**$ (2,462,330)**	**$ 1,841,371**
Shares to be issued	5,090,910	1,120,000	-	-	-	1,120,000
Share issued for debt settlement	6,998,735	1,539,722	-	-	-	1,539,722
Acquisition of Valenica Ventures Inc.	19,819,647	4,360,322	-	137,500	-	4,497,822
Loss for the year	-	-	-	-	(4,516,596)	(4,516,596)
Balance, December 31, 2018	**$ 86,909,292**	**$ 10,631,745**	**$ -**	**$ 829,500**	**$ (6,978,926)**	**$ 4,482,319**
IFRS 16 adjustment - modified approach	-	-	-	-	(46,917)	(46,917)
Private placement, net of issue costs	13,702,000	609,689	35,511	-	-	645,200
Options issued	-	-	-	126,313	-	126,313
Options cancelled	-	-	-	(8,650)	8,650	-
Loss for the year	-	-	-	-	(1,374,289)	(1,374,289)
Balance, December 31, 2019	**$ 100,611,292**	**$ 11,241,434**	**$ 35,511**	**$ 947,163**	**$ (8,391,482)**	**$ 3,832,626**

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

EARTHRENEW INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Note	Year ended December 31, 2019	2018
CASH (USED IN) PROVIDED BY:			
OPERATING ACTIVITIES			
Net (loss)		$ (1,374,289)	$ (4,516,596)
Items not affecting cash:			
Share-based payments	6	126,313	-
Gain on settlement of debt	5	-	(2,100,752)
Transaction costs	10	-	5,542,945
Depreciation	3	108,233	10,246
Interest payable		12,093	11,770
Change in non-cash working capital items			
Accounts receivable		(74,280)	(80,876)
Digital assets		1,417	(4,117)
Prepaid expenses		(44,413)	(32,170)
Accounts payable and accrued liabilities		213,540	674,016
Net cash (used in) operating activities		$ (1,031,386)	$ (495,534)
FINANCING ACTIVITIES			
Private placement	6	645,200	1,000,000
Lease payments		(66,000)	-
Loan received	5	-	53,000
Loan repaid	5	(54,479)	(350,000)
Net cash provided by financing activities		$ 524,721	$ 703,000
INVESTING ACTIVITIES			
Disposition of plant and equipment	3	55,000	15,000
Acquisition of plant and equipment	3	-	(61,479)
Net cash provided by (used in) investing activities		$ 55,000	$ (46,479)
(DECREASE) INCREASE IN CASH DURING THE YEAR		(451,665)	160,987
CASH - BEGINNING OF YEAR		885,873	724,886
CASH - END OF YEAR		$ 434,208	$ 885,873
SUPPLEMENTAL CASH FLOW INFORMATION			
Broker warrrants issued	6	35,511	-
Shares issued for debt settlement	6	-	(1,539,722)
Shares issued in reverse takeover transaction	6	-	(4,497,822)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

EarthRenew Inc. (the "Company" or "EarthRenew") was incorporated in the province of Ontario and is a low-cost sustainable power generation company with a patented production process that converts livestock waste to nutrient-rich, slow-release pelleted organic fertilizer. EarthRenew converts natural gas to electricity from an industrial-sized gas turbine, which it intends to capitalize on through various revenue drivers, including selling surplus electricity to the electrical grid or to cryptocurrency miners, which can co-locate on site, and dry manure feedstock to produce high-value organic fertilizer. The Company has a full-scale commercial facility located on a 25,000-head cattle feedlot in Strathmore, Alberta. The Company's head office is located at 65 Queen Street West, 8th Floor, Toronto, Ontario, Canada, M5H 2M5.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2019, the Company has a working capital deficiency of $305,099 (December 31, 2018 – working capital surplus of $246,732), and an accumulated deficit of $8,391,482 (December 31, 2018 - $6,978,926). These matters represent material uncertainties that cast significant doubt as to the Company`s ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon its ability to obtain the necessary equity financing to continue operations, and its ability to attain profitable operations. EarthRenew may periodically have to raise additional capital to fund projects and continue operations and while it has been successful in doing so in the past, there can be no assurance the Company will be able to do so in the future.

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

2. BASIS OF PRESENTATION

a) Statement of compliance

These annual consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations, effective for the Company's reporting for the year ended December 31, 2019. The policies set out below were consistently applied to all the periods presented unless otherwise noted. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 15, 2020.

2. BASIS OF PRESENTATION (continued)

b) Basis of preparation

These annual consolidated financial statements have been prepared on a going concern basis, under the historical convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

c) New and future accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2019 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

New standards and amendments adopted:

IFRS 16 – Leases ('IFRS 16") replaces IAS 17, Leases ("IAS 17"). The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a 'right-of-use asset' with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. The Company has applied IFRS 16 with an initial application date of January 1, 2019 in accordance with the transitional provisions specified in IFRS 16.

The Company has applied the following practical expedients:

(i) The Company applied the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to deficit and no restatement of comparative information.
(ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRS 4, determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.
(iii) Upon adoption, the Company has elected to apply the available exemptions for short-term leases and leases of low-value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of the initial application would be accounted for in the same way as short-term leases.

In accordance with the practical expedients applied, the Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The Company has included the estimated extension of their leases in the lease term in assessing the present value of future lease payments where the exercise of the extension options is reasonably certain. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

2. BASIS OF PRESENTATION (continued)

c) New and future accounting policies (continued)

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of use assets are depreciated in accordance with the Company's accounting policy for plant and equipment. The Company has recorded depreciation on its right-of-use assets prior to the date of initial application, which is included in the cumulative difference recognized in deficit at January 1, 2019.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Because of this change, the Company has reclassified its sublease agreements as finance leases.

On January 1, 2019, the Company recognized net investment in lease of $656,412, right-of-use assets of $128,598, net of accumulated depreciation, total lease liabilities of $831,927 and an adjustment to retained earnings of $46,917.

Standards and amendments to be adopted:

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

d) Principles of consolidation

(i) Subsidiaries

All entities in which the Company has a controlling interest are fully consolidated from the date that control commences until the date that control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has one subsidiary, EarthRenew Strathmore Inc.

(ii) Transactions eliminated on consolidation

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

2. BASIS OF PRESENTATION (continued)

e) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, 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 estimates are revised and in any future periods affected.

The significant judgments, estimates and assumptions considered by management in preparing the consolidated financial statements include:

- Assets' carrying values and impairment charges

  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Contingencies

  Contingencies can be either possible assets or possible liabilities arising from past events, which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

- Depreciation rates

  All plant and equipment are depreciated over a term, which the Company believes is the best approximation of the asset utility to the Company. If the estimated life had been longer than management's estimate, the carrying amount of the asset would have been higher. The Company applies significant estimates to determine the useful lives, considering technological advancements, past experience, expected use and review of useful lives.

- Share-based payments

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

2. BASIS OF PRESENTATION (continued)

e) Significant accounting judgments, estimates and assumptions (continued)

- Income taxes, value added, withholding and other taxes

  The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

- Discount rate used in adoption of IFRS 16

  The determination of the Company's lease liabilities, right-of-use assets, and net investment in lease depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Significant assumptions are required to be made when determining which borrowing rates to apply in this determination. Changes in the assumptions used may have a significant effect on the Company's consolidated financial statements.

- Expected credit losses

  Determining an allowance for expected credit losses ("ECLs") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

f) Significant accounting policies

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently throughout the years presented in these consolidated financial statements, unless otherwise stated.

Functional and presentation currency

The functional currency of the Company and its subsidiary is the currency of the primary economic environment in which it operates. The Company's consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiary.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("Foreign Currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in Foreign Currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

2. BASIS OF PRESENTATION (continued)

Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated statements of financial position at amortized cost. Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

Financial instruments

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value either through profit or loss (“FVPL”) or through fair value of other comprehensive income (“FVOCI”), and “financial assets at amortized cost”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement – Financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of loss. Cash, net investment in lease, and receivables held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss and comprehensive loss. The Company measures its digital assets at FVPL.

Subsequent measurement – Financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of loss and comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of loss and comprehensive loss when the right to receive payments is established.

2. BASIS OF PRESENTATION (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on cash and cash equivalents, net investment in lease, and receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company recognizes lifetime ECLs for receivables and net investments in leases. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, lease liabilities and loans from related parties which are each measured at amortized cost. All financial liabilities are recognized initially at fair value.

Subsequent measurement – Financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – Financial liabilities at FVPL

Financial liabilities measured at FVPL include any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial liabilities measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss.

2. BASIS OF PRESENTATION (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

Taxation

Current income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss as reported in the consolidated statement of loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. BASIS OF PRESENTATION (continued)

Provisions

General

Provisions are recognised 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. If the effect of the time value of money is material, provisions are discounted using a current risk free 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 recognised as a finance cost.

Loss per share

Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. No exercise or conversion is assumed during periods in which a net loss is incurred as the effect is anti-dilutive. As at December 31, 2019 and 2018, all of the Company's stock options and warrants were anti-dilutive.

Plant and Equipment

Items of plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is recorded on a straight-line basis using the following rates:

Electricity equipment – five years
Equipment – four years.

Depreciation is recorded only when the assets are available for use.

Impairment of non-financial assets

At each statement of financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2. BASIS OF PRESENTATION (continued)

Restoration, rehabilitation and environmental obligations

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The increase in provisions for restoration, rehabilitation and environmental obligations due to the passage of time is charged to profit or loss as a finance cost. The Company did not have any material restoration, rehabilitation and environmental obligations as of December 31, 2019 and 2018.

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the executive leadership team, which comprises the executive directors and certain senior executives. The executive leadership team is responsible for assessing the performance of the operating segments for the purpose of making decisions about resources to be allocated. Operating segments are combined for external reporting purposes where they have similar economic characteristics, and the nature of products and production processes, the type and class of customers and the methods to distribute products are all similar. As at December 31, 2019 and 2018, the Company only has one segment.

Share-based payments

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 goods or services received or the fair value of the equity instruments issued, if it is determined 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 Company operates an employee stock option plan. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On exercise of a stock option, any amount related to the initial value of the stock option, along with the proceeds from exercise are recorded to share capital. On expiry of a stock option, any amount related to the initial value of the stock option is recorded to deficit.

2. BASIS OF PRESENTATION (continued)

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for the provision of services in the ordinary course of business. The Company derives revenue from electricity sales. Electricity sales are generated from its turbine and the Company sells that electricity to the Alberta energy grid. Revenue is recognized according to the five-step model in IFRS 15, Revenue from contracts with customers. Revenue from electricity sales is recognized at the time the electricity is transferred to the Alberta energy grid, and payment is due within thirty days of transfer. All of the Company's revenue is attributed to two customers, domiciled in Canada.

Leases

Lessee

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property, plant and equipment. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Finance lease – lessor

At commencement date, the Company recognizes assets held under finance leases in its consolidated statements of financial position as a receivable at the amount equal to the net investment in the lease. The net investment in the lease is calculated as the present value of lease payments, using the interest rate implicit in the lease. For subleases, if the interest rate implicit in the sublease cannot be readily determined, the Company uses the discount rate under the primary lease. The Company recognizes finance income over the lease term using the effective interest rate method.

(Expressed in Canadian dollars)

3. PLANT AND EQUIPMENT

A reconciliation of the carrying amount for the years ended December 31, 2019 and 2018 is as follows**:**

	Equipment	Electricity Equipment	Buildings	Plant	Right-of-use assets (land)	Total
Cost as at December 31, 2017	**$ -**	**$ 500,000**	**$ 642,184**	**$ 3,033,620**	**$ -**	**$ 4,175,804**
Acquisition	61,479	-	-	-	-	61,479
Disposals	-	-	-	(15,000)	-	(15,000)
Cost as at December 31 2018	**$ 61,479**	**$ 500,000**	**$ 642,184**	**$ 3,018,620**	**$ -**	**$ 4,222,283**
Adoption of IFRS 16, modified approach	-	-	-	-	428,659	428,659
Disposals	-	-	-	(55,000)	-	(55,000)
Cost as at December 31, 2019	**$ 61,479**	**$ 500,000**	**$ 642,184**	**$ 2,963,620**	**$ 428,659**	**$ 4,595,942**
Accumulated Depreciation						
Balance at December 31, 2017	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Charge for period	10,246	-	-	-	-	10,246
Balance at December 31, 2018	**$ 10,246**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10,246**
Adoption of IFRS 16, modified approach	**-**	**-**	**-**	**-**	300,061	300,061
Charge for period	15,370	50,000	-	-	42,863	108,233
Balance at December 31, 2019	**$ 25,616**	**$ 50,000**	**$ -**	**$ -**	**$ 342,924**	**$ 418,540**
Net book value as at December 31, 2018	**$ 51,233**	**$ 500,000**	**$ 642,184**	**$ 3,018,620**	**$ -**	**$ 4,212,037**
Net book value as at December 31, 2019	**$ 35,863**	**$ 450,000**	**$ 642,184**	**$ 2,963,620**	**$ 85,735**	**$ 4,177,402**

The buildings and plant are not available for use as at December 31, 2019 and 2018, and therefore, no depreciation has been recognized.

All of the Company’s plant and equipment is domiciled in Canada.

(Expressed in Canadian dollars)

4. NET INVESTMENT IN LEASE AND LEASE LIABILITIES

(a) Lease liabilities

Upon the adoption of IFRS 16, operating leases were reassessed as lease liabilities for right-of-use assets using an estimated discount rate of 8%. The Company has lease agreements in place for land as well as office premises (also described in (b) below). The Company is party to an agreement to lease office space. On September 30, 2014, the Company entered into an indemnity agreement with 2227929 Ontario Inc., who agreed to incur all obligations related to this lease agreement and to release the Company from any and all claims, liability for personal injury, and loss of income or damages. As the obligation remains with the Company, it is presented as a lease liability and net investment in lease.

The following table reflects the lease activity for the year ended December 31, 2019:

Balance, December 31, 2018	**$**	**-**
Adoption of IFRS 16		831,927
Interest expense		49,120
Lease payments for the period		(461,769)
Balance, December 31, 2019	**$**	**419,278**

The following is a reconciliation from the undiscounted lease payments to the lease liabilities:

2020	$	371,643
2021		66,000
Total contractual cash flows	**$**	**437,643**
Less: interest		(18,365)
Lease liabilities	**$**	**419,278**

(b) Net investment in lease

The Company entered into finance leasing arrangements as a lessor for office premises. These premises were originally leased by the Company, and subsequently sub-leased.

The following is a reconciliation from the undiscounted lease payments to the net investment in lease:

Balance, December 31, 2018	**$**	**-**
Net investment in lease		656,412
Interest income		37,027
Lease payments for the period		(395,769)
Balance, December 31, 2019	**$**	**297,670**
2020	$	305,643
Less: interest		(7,973)
Net Investment in lease	**$**	**297,670**

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

Loans Payable

The Company entered into a loan agreement with 0890241 B.C. Ltd. This loan was unsecured, due on demand, and bore interest at 3%. On December 19, 2018, directors of both companies signed a loan forgiveness agreement for the entire amount of principal and accumulated interest, totaling $2,100,752. Directors of the Company are also directors of 0890241 B.C. Ltd.

On November 14, 2017, the Company borrowed $100,000 from Aberdeen International Inc. The interest rate on the loan was 12%. The loan was repayable including the principal and accrued interest on or before November 14, 2018. The balance of the loan including accrued interest was $111,868 as of December 21, 2018, and on the same day the Company issued 508,491 common shares to settle the entire amount of $111,868. An officer of the Company is also an officer of Aberdeen International Inc.

During fiscal 2018, a director of the Company made an advance of $53,000 to the Company. The advance was unsecured, due on demand and bore interest at 5%. Interest expense of $1,479 was incurred and payment in full of $54,593 (December 31, 2018 - $54,479) was made on January 17, 2019.

	Loan from Aberdeen	Loan from 0890241 BC Ltd	Loan from Directors	Total
Balance, December 31, 2017	**$ 101,578**	**$ 2,450,752**	**$ -**	**$ 2,552,330**
Loan repaid	-	(350,000)	-	(350,000)
Loan received	-	-	53,000	53,000
Interest expense	10,290	-	1,479	11,769
Debt for shares	(111,868)	-	-	(111,868)
Debt settlement	-	(2,100,752)	-	(2,100,752)
Balance, December 31, 2018	**$ -**	**$ -**	**$ 54,479**	**$ 54,479**
Interest expense	-	-	114	114
Loan repaid	-	-	(54,593)	(54,593)
Balance, December 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**

Compensation of key management personnel of the Company

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee having regard to the performance of individuals and market trends. During the years ended December 31, 2019 and 2018, the remuneration of directors and other key management personnel are as follows:

	Year ended December 31, 2019	**2018**
Management fees	$ 253,000	$ 240,000
Share-based payments	111,370	-

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS (continued)

At December 31, 2019, the Company had $314,750 (December 31, 2018 - $183,902) owing to its key management. Such amounts are unsecured, non-interest bearing, with no fixed terms of payment or "due on demand", included in accounts payable and accrued liabilities.

During 2019, the Company granted 1,000,000 options with an exercise price of $0.10 expiring July 8, 2024, and granted 1,400,000 options with an exercise price of $0.06 expiring October 25, 2024 to directors and officers of the Company (Note 6).

6. SHARE CAPITAL

Authorized

Unlimited number of voting common shares, without par value

Issued and outstanding common shares

	Number of Shares \#	Amount $
Balance, December 31, 2017	**55,000,000**	**3,611,701**
Private placement	5,090,910	1,120,000
Shares issued for debt settlement	6,998,735	1,539,722
Acquisition of Valencia Ventures	19,819,647	4,360,322
Balance, December 31, 2018, including shares to be issued	**86,909,292**	**10,631,745**
Private placement	13,702,000	609,689
Balance, December 31, 2019	**100,611,292**	**11,241,434**

On January 9, 2019, the Company closed a private placement for $1,120,000 by issuing 5,090,910 common shares at $0.22. As at December 31, 2018, these common shares were determined to be shares to be issued and recorded in equity. Routemaster Capital Inc. subscribed for 500,000 common shares and Aberdeen International Inc. subscribed for 1,000,000 common shares of this private placement. An officer of the Company is also an officer of Routemaster Capital Inc. and Aberdeen International Inc. These shares were issued during the year ended December 31, 2019 and were presented as shares to be issued at December 31, 2018.

On November 28, 2019, the Company closed a private placement financing by issuing 13,702,000 common shares at a price of $0.05 per share for gross proceeds of $685,100. The Company paid finders fees of $39,900 in cash and issued 798,000 finders warrants. Each warrant is exercisable into one common share of the Company at a price of $0.10 per warrant until November 28, 2021. The fair value of the warrants issued was estimated at $35,511 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118%; risk-free interest rate of 1.59% and an expected life of 2 years. Aberdeen International Inc. subscribed for 3,000,000 common shares of this private placement for $150,000. An officer of the Company is also an officer of Aberdeen International Inc.

On December 21, 2018, the Company issued 6,998,735 common shares to settle $1,539,722 of debt. A company owned by an officer of the Company was issued 1,636,363 common shares to settle $360,000 of debt. Aberdeen International Inc. was issued 508,491 common shares to settle $111,868 of debt. An officer of the Company is also an officer of Aberdeen International Inc. On December 21, 2018, the Company issued 19,819,647 common shares related to the reverse takeover acquisition of Valencia Ventures Inc. (Note 10).

As at December 31, 2019, there were 23,432,590 common shares (2018 – nil) held in escrow to be released with the passage of time.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

Warrants

The following summarizes the warrants outstanding as of December 31, 2019:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
798,000	798,000	28-Nov-19	28-Nov-21	$ 0.10	$ 35,511	118%	2.00	0%	1.59%
798,000	**798,000**				**$ 35,511**				

The weighted-average remaining contractual life of the warrants as of December 31, 2019 is 1.91 years (December 31, 2018: $nil).

The warrants were issued as finder fee compensation, and valued at the fair value of the instruments issued, as the fair value of the services received could not be reliably measured. The fair value of the warrants issued during the year was determined using the Black-Scholes option pricing model, using the above inputs.

Share-based payments reserve

Stock options

The Company has an amended stock option compensation plan for executives and employees. In accordance with the terms of the plan, officers, non-independent directors, employees and consultants of the Company may be granted options to purchase common shares at exercise prices determined at the time of grant. The Company has adopted a Floating Stock Option Plan (the "Plan"), whereby the number of common shares reserved for issuance under the Plan is equivalent to up to 10% of the issued and outstanding shares of the Company. Options under the Plan which have been exercised or which have expired shall be available for subsequent grants. The option vesting terms are determined at the discretion of the Board of Directors.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following is a summary of changes in options from January 1, 2018 to December 31, 2019:

	Number of options	Weighted average exercise price
Options outstanding and exercisable at January 1, 2018 and December 31, 2018	**5,250,000**	**$ 0.22**
Issuance and vesting of options	3,375,000	$ 0.08
Cancellation of options	(50,000)	$ 0.25
Options outstanding and exercisable at December 31, 2019	**8,575,000**	**$ 0.17**

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

Share-based payments reserve (continued)

The consolidated number of stock options outstanding as at December 31, 2019 is as follows:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
3,950,000	3,950,000	18-Jul-17	18-Jul-21	$ 0.25	$ 683,350	100%	4.00	0%	1.48%
1,250,000	1,250,000	22-Aug-17	22-Aug-22	$ 0.14	$ 137,500	202%	5.00	0%	1.53%
1,550,000	1,550,000	8-Jul-19	8-Jul-24	$ 0.10	$ 39,990	105%	5.00	0%	1.57%
1,825,000	1,825,000	25-Oct-19	25-Oct-24	$ 0.06	$ 86,323	110%	5.00	0%	1.57%
8,575,000	**8,575,000**				**$ 947,163**				

During the year ended December 31, 2019, 3,375,000 stock options were granted, and the Company recorded share-based payment expense of $126,313 (December 31, 2018: no stock options granted and share-based payment expense of $nil). The weighted-average grant date fair value of the options granted during the year ended December 31, 2019 was $0.04 (December 31, 2018: $nil).

The weighted average remaining life of the outstanding options at December 31, 2019 is 2.94 years (December 31, 2018: 2.57 years). During the year ended December 31, 2019, 50,000 options were cancelled in accordance with the Plan and $8,650 was recorded against deficit (year ended December 31, 2018: no options cancelled with $nil recorded against deficit).

On July 8, 2019, the Company granted 1,550,000 stock options to certain directors, officers and consultants of the Company pursuant to the Company’s stock option plan. The stock options vest immediately and may be exercised at a price of $0.10 per common share for a period of 5 years from the date of issue.

On October 25, 2019, the Company granted 1,825,000 stock options to certain directors, officers and consultants of the Company pursuant to the Company’s stock option plan. The stock options vest immediately and may be exercised at a price of $0.06 per common share for a period of 5 years from the date of issue.

The fair value of the options issued during the year was determined using the Black-Scholes option pricing model, using the above inputs. Volatility was estimated by using the historical volatility of the Company, adjusted for the Company's expectation of volatility going forward. The expected life in years represents the period of time that the options granted are expected to be outstanding. The risk-free interest rate was based on Bank of Canada government bonds with a remaining term equal to the expected life of the options.

7. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders’ equity and current liabilities. The Company manages its capital structure and makes adjustments based on the funds available to support the development of its operations. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management and the board of directors to sustain future development of the business.

The Company is dependent upon external financing to fund its activities. To continue to carry out the Company’s planned development and funding of ongoing administrative expenses the Company will utilize its existing working capital and will raise additional capital as appropriate.

7. CAPITAL MANAGEMENT (continued)

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets. There were no changes to the approach of management and the board of directors to capital management for the years ended December 31, 2019 and 2018.

The Company and its subsidiary are not subject to any capital requirements imposed by a lending institution or regulatory body.

8. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including market risk (including currency, commodity and cash flow interest rate risk), credit risk, and liquidity risk.

Fair value hierarchy
The three levels of the fair value hierarchy with respect to required disclosures about the inputs to fair value measurements are:

- 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.

The carrying value of cash, receivables, accounts payable and accrued liabilities and loans from related parties reflected in the consolidated statement of financial position approximate fair value because of the relatively short-term maturities.

Foreign currency risk
The Company funds the operations and maintains a head office in Canada. A portion of the Company's expenses are denominated in United States dollars. Consequently, the Company is exposed to fluctuations in foreign exchange rates. The Company has not used derivative instruments to reduce its exposure to foreign exchange fluctuations.

Credit risk
Credit risk is the risk of financial loss to the Company is a customer or counterparty fails to meet its contractual obligations, and arises principally from cash, net investment in lease and receivables.

Cash
Cash consists of cash held in financial institutions from which management believes the risk of loss to be remote.

Receivables
Management does not believe the Company has significant concentration of credit risk. All of the receivables from contracts with customers, $111,525 (2018 - $nil) are due from two customers (2018 – n/a). There is no history of losses from receivables and there are no overdue receivables as at December 31, 2019 and 2018.

Net investment in lease
Based on historical information, and adjusted for forward-looking expectations, the Company has assessed an insignificant loss allowance on the net investment in leases for the year ended December 31, 2019.

8. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk primarily through its accounts payable and accrued liabilities. All of the Company's accounts payable and accrued liabilities have a contractual maturity of less than one year. As at December 31, 2019, 67% of the accounts payable and accrued liabilities was owing to three vendors (2018 – 68% to four vendors). As at December 31, 2019, the Company had negative net working capital and at December 31, 2018, the Company had limited net working capital. The Company expects to complete future equity or other debt financings, as required and available. However, there is no assurance that funds will be available on terms acceptable to the Company at all.

9. COMMITMENTS AND CONTINGENCIES

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

A former consultant of the Company has initiated a legal action seeking approximately $51,400 for fees owed and damages, plus interest. The Company is currently defending the matter, and accordingly no provision for loss has been recognized.

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately $660,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments upon termination under these contracts are approximately $275,000.

10. REVERSE TAKEOVER TRANSACTION

On December 21, 2018, 2292055 Ontario Inc. completed its reverse take-over ("RTO") transaction, pursuant to an amalgamation agreement dated December 1, 2017 with Valencia Ventures Inc. On closing of the transaction, 2292055 Ontario Inc. became a listed company trading on the CSE under the name EarthRenew Inc. (CSE:"ERTH"). Trading of the shares commenced on January 10, 2019. This transaction was accounted for as an asset acquisition.

The transaction is a reverse acquisition of a non-operating company. As a result, it has been accounted for as a capital transaction with 2292055 Ontario Inc. being identified as the acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The RTO has been accounted for in the consolidated financial statements as a continuation of the financial statements of 2292055 Ontario Inc. (now EarthRenew Inc.) together with a deemed issuance of shares equivalent to the shares held by the former shareholders of Valencia Ventures Inc.

The transaction costs relating to the RTO, plus the aggregate of the fair value of the consideration paid in excess of the net assets acquired, has been recognized as transaction costs in the consolidated statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

10. REVERSE TAKEOVER TRANSACTION (continued)

Purchase price consideration paid:		
Estimated fair value of shares issued	$	4,360,322
Estimated fair value of options issued		137,500
Total consideration	$	4,497,822

Fair Value of assets acquired and liabilities assumed:		
Cash	$	2,696
Receivables		57,104
Accounts payable and accrued liabilities		(1,104,922)
Excess purchase price over fair value of assets assumed (expensed)		5,542,945
Total allocation of purchase price	$	4,497,822

11. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018- 26.5%) were as follows:

	2019 $	2018 $
(Loss) before income taxes	(1,374,289)	(4,516,596)
Expected income tax (recovery) based on statutory rate	(364,000)	(1,197,000)
Adjustment to expected income tax benefit:		
Share-based payment	33,000	-
Transaction costs	-	1,469,000
Change in benefit of tax assets not recognized	331,000	(272,000)
Deferred income tax recovery	-	-

b) Deferred Income Tax

Deferred tax assets have not been recognized in respect of the following temporary differences:

	2019 $	2018 $
Non-capital loss carry-forwards	13,739,000	10,277,000
Share issue costs	32,000	2,000
Mineral property costs	1,635,000	3,122,000
Other temporary differences	259,000	183,000
Total	15,665,000	13,584,000

(Expressed in Canadian dollars)

11. INCOME TAXES (continued)

The potential future benefit of these losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

c) Tax loss carry-forwards

As at December 31, 2019, the Company has non-capital tax losses for Canadian income tax purposes of approximately $13,739,000 available to use against future taxable income. The non-capital losses expire as follows:

Year	$
2025	582,000
2026	1,115,000
2027	1,440,000
2028	877,000
2029	831,000
2030	1,173,000
2031	1,235,000
2032	728,000
2033	540,000
2034	241,000
2035	168,000
2036	618,000
2037	1,608,000
2038	1,436,000
2039	1,147,000
	13,739,000

12. SUBSEQUENT EVENTS

On February 20, 2020, the Company closed the second tranche of a private placement financing by issuing 32,860,000 common shares valued at $1,643,000, $500,000 of which relates to prepayment of consulting services. The costs of issuance include 1,530,200 finder warrants, exercisable into common shares at a price of $0.10 for a period of 24 months, and $77,000 cash.

On April 2, 2020, the Company granted 1,000,000 options to a consultant of the Company, of which 250,000 vest on the date of the grant and the remaining 750,000 vest in equal increments of 250,000 every three months thereafter. Each option may be exercised to acquire one common share of the Company at an exercise price of $0.10 for a period of five years from the date of grant.