Consolidated Financial Statements

Habitat Life Sciences Inc.

For the years ended December 31, 2019 and 2018

Habitat Life Sciences Inc.
Statements of Consolidated Financial Position
In Canadian Dollars
As at December 31, 2019 and 2018

	Notes		**December 31, 2019**		December 31, 2018
ASSETS					
Current assets					
Cash		**$**	**701,886**	$	735,954
Goods and services tax receivable (“GST”) receivable			**20,014**		150,237
Deposits			**-**		54,768
Scientific Research and Experimental Development tax (“SR&ED”) receivable	10		**397,060**		-
Inventory			**12,000**		-
Prepaid expenses			**32,212**		19,085
Total current assets		**$**	**1,163,172**	$	960,044
Non-current assets					
Property, plant and equipment	4		**1,448,222**		2,661,921
Total assets		**$**	**2,611,394**	$	3,621,965
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payables and accrued liabilities		**$**	**276,721**	$	327,432
Total liabilities		**$**	**276,721**	$	327,432
Shareholders’ equity					
Share capital	5	**$**	**11,487,820**	$	9,512,537
Warrants	5		**130,707**		-
Contributed Surplus			**2,172,889**		1,326,264
Deficit			**(11,456,743)**		(7,544,268)
Total shareholders’ equity		**$**	**2,334,673**	$	3,294,533
Total liabilities and shareholders’ equity		**$**	**2,611,394**	$	3,621,965

Going concern (Note 2)
Contingencies (Note 9)
Subsequent event (Note 11)

Approved by the Board of Directors:

(signed)

Habitat Life Sciences Inc.

Consolidated Statements of Loss and Comprehensive Loss

In Canadian Dollars

	Notes		Year ended December 31, 2019		Year ended December 31, 2018
Operating expenses					
Share-based compensation	5	**$**	**1,232,400**	$	1,326,265
Salaries, wages & benefits			**687,294**		258,904
General & administration			**593,073**		663,502
Other operating and research costs			**189,773**		65,885
Rent & utilities			**75,668**		26,289
Depreciation	4		**71,676**		-
SR&ED recovery	10		**(397,060)**		-
Total Operating expenses			**2,452,824**		2,340,845
Other expenses					
Impairment of capitalized design and engineering costs	4		**1,459,651**		-
Loss on debt settlement	5		**-**		4,986,007
			1,459,651		4,986,007
Net loss and comprehensive loss		**$**	**3,912,475**	$	7,326,852

Habitat Life Sciences Inc.

Consolidated Statements of Changes in Equity

In Canadian Dollars

	Share capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2017	**$ 15**	**$ -**	**$ -**	**$ (217,416)**	**$ (217,401)**
Share issuance on debt and services settlement	5,558,281	-	-	-	5,558,281
Share issued for founders	31	-	-	-	31
Share issuances	3,960,210	-	-	-	3,960,210
Share-based compensation (Note 5)	-	-	1,326,264	-	1,326,264
Share issuances cost	(6,000)	-	-	-	(6,000)
Net loss and comprehensive loss	-	-	-	(7,326,852)	(7,326,852)
Balance at December 31, 2018	**$ 9,512,537**	**$ -**	**$ 1,326,264**	**$ (7,544,268)**	**$ 3,294,533**
Units issued with shares and warrants (Note 5)	1,590,957	130,707	-	-	1,721,664
Share-based compensation (Note 5)	-	-	1,232,400	-	1,232,400
Share issuances for services	30,932	-	-	-	30,932
Stock options exercised	385,775	-	(385,775)	-	-
Share issuances cost	(32,381)	-	-	-	(32,381)
Net loss and comprehensive loss	-	-	-	(3,912,475)	(3,912,475)
Balance at December 31, 2019	**$ 11,487,820**	**$ 130,707**	**$ 2,172,889**	**$ (11,456,743)**	**$ 2,334,673**

Habitat Life Sciences Inc.
Consolidated Statements of Cash Flows
In Canadian Dollars

	Notes		Year ended December 31, 2019		Year ended December 31, 2018
Cash flows related to the following activities:					
Operating activities					
Net loss and comprehensive loss		**$**	**(3,912,475)**	$	(7,326,852)
Adjustments for:					
Impairment of capitalized design and engineering costs	4		**1,459,651**		-
Share-based compensation	5		**1,232,400**		1,326,264
Loss on debt settlement			**-**		4,986,007
Depreciation expense			**71,676**		-
Net change in non-cash working capital items:					
GST receivable			**130,223**		(135,013)
Deposits			**54,768**		(54,768)
Inventory			**(12,000)**		-
Accounts payable			**(50,711)**		226,728
Prepaid expenses			**(13,128)**		(19,084)
SR&ED receivable			**(397,060)**		-
Cash used in from operating activities			**(1,436,656)**		(996,718)
Investing activities					
Purchase of Property, Plant & Equipment	4		**(317,627)**		(2,535,724)
Cash flows provided by investing activities			**(317,627)**		(2,535,724)
Financing activities					
Issuance of share capital, net share of issuance cost	5		**1,720,215**		4,526,515
Decrease in amount due to shareholders			**-**		(266,574)
Cash flows used in financing activities			**1,720,215**		4,259,941
Increase (Decrease) in cash			**(34,068)**		727,499
Cash at beginning of the year			**735,954**		8,455
Cash at end of the year		**$**	**701,886**	$	735,954

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

1. Reporting entity

Habitat Life Sciences Inc., ("Habitat" or the "Company") formerly Deepwater Agriculture Corporation, is a privately-owned company, incorporated in British Columba on March 1, 2018 with the head office located in Chase, British Columbia. The founding company, Deepwater Growth Enterprises Ltd., was incorporated on May 17, 2017 and, by way of a Section 85 rollover transaction, became a subsidiary of Deepwater Agriculture in 2018.

The consolidated financial statements of Habitat are comprised of Habitat Life Sciences Inc. as well as its wholly owned subsidiaries, Habitat Farms Ltd. (formerly Deepwater Growth Enterprises Ltd.) and Habitat Craft Cannabis Ltd.

In November 2019, Habitat Craft Cannabis Ltd. acquired its micro cultivation license to produce cannabis under the Cannabis Act regulations. The Company currently operates out of its licensed cannabis production facility in Chase, British Columbia.

2. Basis of presentation

a) Basis of compliance

These consolidated financial statements of the Company 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 have been approved and authorized for issuance by the Board of Directors on X, 2021.

b) Going concern

Habitat is in the early stages of development and has been actively seeking additional capital to fund an expansion as well as strategic partnerships to become established in the cannabis industry.

These consolidated financial statements have been prepared on a going concern basis, which assumes that Habitat will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Habitat has incurred losses from inception and as at December 31, 2019 has not generated revenue. Habitat has an accumulated deficit of $11,456,743 as at December 31, 2019 (2018 - $7,544,268) and incurred a net loss of $3,912,475 for the year ended December 31, 2019 (2018 - $7,326,852).

Habitat's ability to continue as a going concern is dependent upon its ability in the future to obtain its cannabis processing and sales licenses from the Government of Canada and to raise capital. Management plans to continue its efforts to secure external financing through issuance of equity to finance the operations and capital expenditures of Habitat. There is no certainty that Habitat will be able to raise capital on a timely basis and on conditions of Habitat. These conditions indicate the existence of material uncertainties that may cast significant doubt about Habitat's ability to continue as a going concern.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for share-based payments of which are measured at fair value.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is Habitat's functional currency and presentation currency.

Foreign currency transactions are translated into Canadian dollars at the exchange rates in effect on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian Dollars at the end of each reporting period utilizing the respective spot rate at that time. Realized and unrealized exchange gains and losses are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Non-monetary assets and liabilities of which are measured at their historical cost and denominated in foreign currencies are translated using the exchange rate at the date of transaction. Foreign currency gains and losses are reported on a net basis.

e) Use of judgments, estimates and assumptions

The preparation of Habitat's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and form assumptions that affect the application of accounting policies as well as the amounts reported in assets, liabilities, income and expenses during the reporting period. Management uses various factors as the basis in their evaluations.

Managements estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

In the event that a significant, forward-looking assumption made by management differs from actual amount this would result in a material adjustment to the carrying amounts of assets and liabilities. These assumptions relate to, but are not limited to, the following:

i. **Deferred tax asset**

Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to effectively utilize the assets. Assumptions regarding the generation of future taxable profits are based on management's estimates of future cash flows. In addition, future changes in tax laws could limit the Company's ability to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the realization of the Company's net deferred tax assets as recorded at the reporting date could be impacted.

ii. **Useful lives of property, plant and equipment**

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, these estimates are based on internal evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by the factors mentioned above. Should these factors or circumstances present themselves, the amounts and timing of recorded expenses for any period would be affected. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the noncurrent assets.

iii. **Share-based compensation**

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options, the expected volatility of the Company's shares, the expected life of the options, the expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical data of its publicly traded, industry peers. The expected life of the options is based on historical experience and estimates of the holder's behavior. As at December 31, 2019, dividends are not a contributing input as the Company does not expect to pay dividends within in the near-term future. Management estimates also include the number of options that will be forfeited, and the rate is adjusted to reflect the actual number of options that vested.

iv. **Impairment indicators**

Management continually monitors and frequently reassesses internal and external indicators of impairment relating to its assets. The indicators of impairment considered during assessment include the following:

- Demand for cannabis for recreational purposes;
- Price of cannabis; and
- Changes in market discount rates.

v. **Valuation of equity consideration granted**

The value of share consideration granted involve management judgment in determining valuation of the share consideration granted. Judgment is required in the identifying of the fair value of consideration received.

3. Summary of significant accounting policies

The Company’s subsidiaries have applied the accounting policies in congruence with Habitat.

a) Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of Habitat and its subsidiaries, after the elimination of intercompany transactions and balances. A subsidiary is defined as an entity that is controlled by Habitat. Habitat controls an entity if, and only if, the Company has:

- Power over investee (i.e. existing rights to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

If the Company becomes aware of facts or circumstances that indicate any changes to one or more of the three elements of control, the Company re-assesses its position of control of the investee. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interest party.

Circumstances in which Habitat does not own 100% of equity in a subsidiary, the non-controlling interest is disclosed in both the consolidated Statements of Financial Position as ‘non-controlling interest and income (loss) attributable to non-controlling interest holders’ and the consolidated Statement of Equity. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Subsidiaries	Jurisdiction of Incorporation	Percentage ownership
Habitat Craft Cannabis Ltd	Canada	100%
Habitat Farms Ltd	British Columba	100%

b) Cash

Cash in the statement of financial position is comprised of cash on hand and cash at banks.

c) Biological assets and inventory

The Company's biological assets consist of live cannabis plants, preceding the harvest stage, and are valued at fair value less cost to sell using the income approach. Production costs are capitalized to biological assets and include costs relating to biological transformation. These consist of growing materials, direct labour costs as well as indirect costs such as depreciation of relevant assets, utilities, general supplies used in the growing process and indirect labour for individuals involved in the growing and quality process respectively.

Capitalized costs are subsequently recorded within the line item 'Cost of sales and inventory production costs expensed' on the Consolidated Statements of Loss and Comprehensive Loss in the period that the related product was sold. The Company measures and adjusts biological assets to their fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the Consolidated Statements of Loss and Comprehensive Loss for the related period.

Inventory for finished goods are initially measured at fair value less costs to sell of the biological asset at the time of harvest, and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Inventory also includes subsequent costs such as materials and labour on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and are subsequently recorded within 'Cost of sales and inventory production costs expensed' on the Consolidated Statements of Loss and Comprehensive Loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded separately in the Consolidated Statements of Loss and Comprehensive Loss. The Company also reviews inventory for obsolete, redundant, damaged and slow-moving goods and any such inventories identified are written down to net realizable value.

d) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit and loss as incurred. To date, no development costs have been capitalized.

e) Investment tax credits

The Company is entitled to certain Canadian investment refundable tax credits for qualifying research and development activities performed in Canada. Investment tax credits are recorded as a reduction of the related expense or as a reduction of the cost of the related asset. The benefits are recognized when the Company has complied with the terms and conditions of the approved grant program or applicable tax legislation provided there is reasonable assurance of realization.

f) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. The initial cost of an asset comprises of its purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. Repairs and maintenance costs are charged directly to the statement of operations as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

Asset	Amortization method	Amortization term
Construction in progress	According to Asset class upon completion	-
Office equipment	Straight-line	5 years
Facility equipment	Straight-line	7 years
Micro facility building	Straight-line	5 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit of loss.

Construction in Progress is transferred to the appropriate asset class when available for use, at which point depreciation of the assets commences.

g) Impairment of long-lived assets

The carrying amounts of Habitat's long-lived assets are reviewed at each reporting date to determine any indications of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, management estimates expected future cash flows from each CGU which are then discounted to their present value using a suitable, pre-tax discount rate. Discounts are determined individually for each CGU using asset-specific risk factors and reflect current market assessments of the time value of money. For impairment testing, assets that cannot be individually tested are grouped together into the smallest group of assets that generates cash inflows or CGUs. Habitat's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in the statement of loss and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

h) Leases

The Company assesses at inception of a contract, whether the 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. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Where the Company is the lessee in a contract, the Company allocates the consideration of each lease component on the basis of its relative standalone price and the aggregate standalone price of the non lease components.

At the lease commencement date, the Company recognizes a right of use asset and a lease liability. The right of use asset is initially measured at cost. The cost of the right of use asset is comprised of the lease liability, any prepaid or accrued lease payments made prior to the date of transition, the initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling, removing and restoring the underlying asset and its respective site to the condition stated in the terms and conditions of the lease.

After the commencement date, the Company measures right of use assets related to property, plant and equipment by applying the cost model, whereby the right of use asset is measured at cost less accumulated depreciation and impairment losses. Adjustments related to remeasurement of the lease liability are also reflected in the value of the asset. The right of use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right of use asset. The estimated useful life of the right of use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right of use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Company under a residual value guarantee, the exercise price of a purchase option that the Company is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Company exercising an option to terminate the lease. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's assessment of an option to purchase the underlying asset, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to not recognize right-of-use assets and lease liabilities for short-term leases. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 or less. The Company recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee’s benefit.

The Company has assessed the impact of this standard on all of its current leases and concluded there are no adjustments to be made to its lease commitments or right-of-use asset accounts as there are no leases with terms greater than twelve months.

i) Income tax

Income tax expense comprises of current and deferred tax. Current and deferred taxes are recognized in profit or loss except to the extent that it relates to the initial recognition of deferred tax assets or liabilities in a business combination, items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax payable arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Foreign exchange

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates on the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on the translation are recognized in profit or loss.

k) Share capital

Common shares are classified as equity. Costs directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of any tax effects. The proceeds from the exercise of stock options together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

l) Share-based compensation

Equity-settled share-based compensation to key management are measured at the fair value of the stock options at the grant date. The fair value of the share-based compensation is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity. Share-based compensation 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, they are recorded at the date the goods or services are received. The corresponding amount is recorded to contributed surplus. The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The fair value of the share-based compensation is only re-measured if there is a modification to the terms of the instrument, such as a change in exercise price or legal life. The number of options expected to vest are 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. Upon the exercise of stock options, the respective consideration received is recorded as share capital and the related share-based compensation is included in contributed surplus.

m) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The provision amount reflects the best estimate of the consideration at the end of the reporting period. Provisions measured using estimated cash flows required to settle the obligation 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.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

n) Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and GST receivable.

Reclassifications

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables and/or contract assets that do not contain a significant financing component. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the financial assets. Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability or a component classified as a financial liability are recognized in profit or loss. Distributions to holders of instruments classified as equity are recognized directly in equity. Financial liabilities measured at amortized cost in accounts payable and accrued liabilities.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

In Canadian Dollars

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

o) Adoption of New Accounting Standards

Leases

Effective January 1, 2019, (hereafter referred to as the “date of initial application”), the Company adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Transition

The Company has assessed the impact of this standard on all of our current leases and concluded there are no adjustments to be made to lease commitments or right-of-use asset accounts as there are no leases with terms greater than twelve months.

4. Property, plant and equipment

	2019 **$**	2018 $
Cost		
As at January 1	**2,661,921**	126,197
Additions	317,628	2,535,724
Impairment	(1,459,651)	-
As at December 31	**1,519,898**	2,661,921
Accumulated depreciation		
As at January 1	**-**	-
Additions	71,676	-
As at December 31	**71,676**	-
Net book value	**1,448,222**	2,661,921

In Canadian Dollars

Habitat has incurred costs to design, engineer, construct, equip and complete aquaponics and hydroponics facilities for both a micro and standard license application under the Health Canada Cannabis Act. The micro facility became licensed under the Health Canada Cannabis Act during the 2019 calendar year.

In 2019 the Company recognized an impairment of $1,459,651 related to capitalized design and engineering costs for an expansion facility that the management decided not to pursue. The decision was made by the Boar of Directors subsequent December 31, 2018.

5. Share capital

	Number of shares	Price per share		$
December 31, 2017	19,500,000	0.00001	$	15
Additional shares issued to founders	3,068,750	0.00001		31
Issued on debt and services settlement	11,116,621	0.50000		5,558,281
Issued for cash	7,920,420	0.50000		3,960,210
Share issuances cost	-			(6,000)
December 31, 2018	**41,605,791**		**$**	**9,512,537**
Options exercised	791,000	0.00195		385,775
Issued on settlement for services provided	46,009	0.67229		30,932
Issued for cash	2,611,709	0.60916		1,590,957
Share issuances cost	-	-		(32,381)
December 31, 2019	**45,054,509**		**$**	**11,487,820**

Share capital issued in 2017 relates to shares issued in Habitat Farms Ltd which became a wholly owned subsidiary of Habitat Life Science Inc. as a result of a Section 85 rollover transaction.

During 2018, the Company settled various shareholder and interest-bearing loans through the issuance of 10,941,621 common shares for total fair value of $5,470,811,valued in accordance with IFRIC 19, where equity instruments granted in a shares-for-debt transaction are considered to be the value of the consideration, rather than the consideration received. A loss on debt settlement of $4,986,007 was incurred during the year ended December 31, 2018**.**

In 2019, 2,611,709 units were issued for $0.675 per unit and $0.61 per unit comprised of 1 common share and 1/2 of one common share purchase warrant exercisable for a period of 24 months from unit issuance date at an exercise price of $1.10 per share. The fair value of the warrants was $130,707.

Habitat used the following assumptions to determine the fair value of the warrants:

Volatility (%)	100%
Expected annual Life (Years)	2
Annual risk-free rate (%)	1.43%
Fair value per stock option	0.091 to 0.105/share

	Number of warrants		Price range	Weighted Average life
Warrants, December 31, 2018	**-**	**$**	**-**	**-**
Issued during the year	1,313,262	$	1.10	24 months
Warrants, December 31, 2019	**1,313,262**	**$**	**1.10**	**20 months**

In Canadian Dollars

Share based compensation

Habitat adopted a stock option plan under which it is authorized to grant options to the directors, officers, employees and consultants enabling them to acquire common shares of Habitat. The maximum number of stock options that can be granted is 20% of the issued and outstanding common shares. The options granted can be exercised for up to a maximum of 10 years and the vesting period is determined for each option grant. Habitat recognized a share-based compensation expense of $1,232,400 for the year ended December 31, 2019 (2018 – $1,326,265).

Habitat used the Black Scholes option pricing model to determine the fair value of options granted using the following assumptions:

	2019	2018
Volatility (%)	100%	100%
Expected annual life (Years)	5	5
Annual risk-free rate (%)	1.43%	1.43%
Fair value per stock option	0.49 – 0.54	0.37 – 0.49

On December 31, 2019, the Board of Directors approved the change in exercise price for the 1,900,000 options issued in 2018 at exercise price of $0.50 at the grant date to $0.04. Reflected in the share-based payment expense for the year ended December 31, 2019 is an adjustment in the amount of $257,463 to reflect the fair value adjustment to these options as result of the change in exercise price.

Habitat used the Black Scholes option pricing model to determine the fair value adjustment as result of the change in exercise price of options:

	After repricing	Before repricing
Volatility (%)	100%	100%
Expected annual life (Years)	3.5	3.5
Annual risk-free rate (%)	1.43%	1.43%
Fair value per stock option	0.54	0.38 – 0.39

Following is a summary of the changes in options for the year-ended December 31, 2019 and 2018:

	Number of options	Option Price	Weighted average exercise Price
Outstanding, December 31, 2017	**-**	**$ -**	
Issued during the year	4,191,000	0.001 to $0.50	0.24
Outstanding, December 31, 2018	**4,191,000**	**$ 0.001 – 0.5**	**0.24**
Issued during the year	1,800,000	0.04	0.04
Expired	(1,500,000)	0.04	0.04
Exercised	(791,000)	0.001 – 0.04	0.02
Outstanding, December 31, 2019	**3,700,000**	**$ 0.04**	**0.04**
Options exercisable	**2,233,334**	**0.04**	**0.04**

Weighted average remaining contractual life for outstanding options is 4.5 years.

Number of options outstanding	Options exercisable at December 31, 2019	Weighted average exercise price	Expiry date
1,100,000	366,667	$ 0.04	May 1, 2023
800,000	266,667	0.04	September 1, 2023
800,000	600,000	0.04	March 1, 2024
1,000,000	1,000,000	0.04	October 29, 2024
3,700,000	**2,233,334**		

In Canadian Dollars

6. Income tax

The applicable statutory tax rate is 27% (2018 - 27%). Habitat's applicable tax rate is the Canadian combined rates relative to the jurisdictions in which Habitat operates.

		2019		**2018**
Loss before income tax	$	(3,912,475)	$	(7,326,852)
Statutory income tax rates		27%		27%
Estimated income tax expense (recovery) based on statutory rates	$	(1,056,368)	$	(1,970,955)
Effects of:				
Share based compensation		332,748		358,091
Fair value on conversion of loans		-		1,346,222
SR&ED ITC Recovery		(107,206)		-
Other		830,826		266,642
	$	**-**	**$**	**-**

Deferred Income Tax

The components of the deferred tax assets balances are as follows:

	2019	**2018**
Non-capital loss carryforwards	899,577	199,470
Property, plant and equipment	19,353	-
Share issuance costs	(15,854)	-
Deferred income tax asset	934,784	199,470
Valuation allowance	(934,784)	(199,470)
Unrecognized deferred income tax asset	-	-

The company has non-capital loss carry-forwards totaling $3,331,768 (2018 - $738,778) with $217,416 expiring in 2037, $521,362 in 2038, and $2,592,990 in 2039.

7. Financial instruments and risk management

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is assessed to be significant to that fair value measurement. This assessment requires the use of judgment in considering factors specific to an asset or a liability and may affect the placement of the fair value measurement within the hierarchy.

The Company considers a fair value measurement to have transferred between the levels in the fair value hierarchy on, the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period. The Company considers cash and cash equivalents as a Level 1.

In Canadian Dollars

Financial instruments not measured at fair value

The carrying amount of cash, GST receivables and amounts payable and accrued liabilities is a reasonable approximation of fair value due to their short-term nature.

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

a) **Credit risk**

Credit risk is the risk of a potential loss to the Habitat if a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2019 is the carrying amount of cash and GST receivable. Cash is placed with a major Canadian financial institution.

b) **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters transactions to purchase goods and services on credit. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of negative net cash flow.

As at December 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

The Company has the following contractual obligations:

As at December 31, 2019	Total	< 1 year	1-3 years	3-5 years
Accounts payable and accrued liabilities	306,721	306,721	-	-
	306,721	**306,721**	**-**	**-**

As at December 31, 2018	Total	< 1 year	1-3 years	3-5 years
Accounts payable and accrued liabilities	327,432	327,432	-	-
	327,432	**327,432**	**-**	**-**

c) **Capital risk management**

Habitat's objectives when managing capital is to safeguard its ability to continue as a going concern to provide returns and benefits to shareholders and to maintain an optimal capital structure to reduce the cost of capital and to meet minimum liquidity requirements. To maintain or adjust the capital structure, Habitat may adjust the amount of capital returned to shareholders, issue new shares or debt, repurchase shares or sell assets.

The capital of Habitat consists of shareholders' equity.

Habitat manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. To manage Habitat's capital requirements, Habitat has in place a planning and forecasting process which helps determine the funds required to ensure Habitat has the appropriate liquidity to meet its operating and growth objectives. Habitat's officers are responsible for managing Habitat's capital and do so through meetings and review of financial information. The Board of Directors of Habitat is responsible for overseeing this process. As at December 31, 2019 and 2018, Habitat is not subject to externally imposed capital requirements. There were no changes to the management of capital from the prior year.

d) **Regulatory risk**

Habitat operates in an unstable industry that is in its beginning stages when it comes to government regulations. Any evolution, adoption, or change of rules and regulations could have significant impact on the Habitat's operations.

In Canadian Dollars

8. Related party transactions

Key management compensation for the years ended December 31, 2019 and 2018:

		2019		2018
Salaries and short-term benefits	$	133,372	$	122,501
Share based compensation		379,388		758,189
	$	**512,760**	**$**	**880,690**

During the year the Company paid $18,000 to a related party on a month to month basis for the lease of land of approximately 2 acres of land where its self-constructed Micro facility building is located. The Company and the related party are in discussions to secure a long-term lease agreement.

During the year the Company paid $61,796 (2018 - $20,789) in legal fees to a law firm of a director of the company.

9. Contingencies

The company may become defendants in legal actions taken against the Company. Habitat has not accrued a provision for any claims made against or by the Company.

10. Investment tax credit

During the year, the Company recorded investment tax credits of $397,060 ($Nil in 2018) as a reduction of research and development expenses. The Company claims research and development deductions and related investment tax credits for income tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to audit by the Canada Revenue Agency.

11. Subsequent events

a) COVID-19

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the company and its operating subsidiaries in future periods.

b) Convertible debenture

Subsequent to year end, the Company raised a total of $935,000 by way of Convertible Unsecured Debenture. $630,000 was raised by existing shareholders and $355,000 from third parties. The debentures pay interest at 10% annually and are for a 36-month term. All or any of the outstanding principal shall be convertible into the Company's common shares at the option of the debenture holder at any time after the issue date and prior to the maturity date at a conversion price of $0.25/share.

c) Government financing

Subsequent to year end, the Company received $355,756 under a federal government loan program. The loan is unsecured, non-interest bearing and is repayable over 36 months commencing January 2023.