Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

(Expressed in US Dollars)

Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1 -3
Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-50

Certified
Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Stockholders of
Ikänik Farms, Inc and Subsidiaries

Opinion

We have audited the consolidated financial statements of Ikänik Farms, Inc and its Subsidiaries (the "Company"), which comprise the statements of financial position as at December 31, 2019 (as restated) and 2020, and the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 2 to the financial statements, the entity has suffered recurring losses from operations and net operating cash outflows that raise significant doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of Matter - Restated Comparative Information

We draw attention to Note 2 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2019 has been restated. 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, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and

related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

MACIAS GINI & O’CONNELL LLP

Irvine, California June 4, 2021

Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019
(Expressed in US dollars)

	December 31, 2020	December 31, 2019 (as restated)
Assets		
Current assets:		
Cash and cash equivalents	3,893,997	1,678,800
Accounts receivable, net (Note 2)	432,992	85,218
Inventories (Note 2)	608,898	437,095
Related party receivable (Note 13)	32,951	145,283
Prepaid expenses and other current assets	249,827	482,047
Total current assets	5,218,665	2,828,443
Property & equipment, net (Note 4)	8,168,581	2,962,831
Right-of-use assets, net (Note 4 and 5)	7,401,271	7,943,174
Deposits on property and equipment	258,926	1,590,514
Intangible assets, net (Note 6)	10,061,667	10,381,667
Goodwill (Note 6)	10,766,667	10,766,667
Other Assets	134,086	150,661
Total assets	42,009,863	36,623,957
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	4,645,804	971,651
Due to shareholder (Note 13)	100	-
Due to sellers (Note 3 and 7)	740,000	840,000
Current portion of lease liabilities (Note 5)	2,895,879	2,081,877
Current portion of note payable (Note 7)	45,410	41,926
Derivative liability (Note 11)	-	1,105,671
Warrant liability (Note 11)	808,338	1,423,766
Total current liabilities	9,135,531	6,464,891
Lease liabilities (Note 5)	2,218,989	4,042,132
Notes payable (Note 7)	145,266	190,676
Convertible debenture, net of debt issuance costs (Note 7)	14,041,033	9,889,809
Total liabilities	25,540,819	20,587,508
Shareholders' equity		
Series A Compressed Shares (unlimited shares authorized, 543,861 and 532,611 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively)	1,282,926	832,926
Common Shares (unlimited shares authorized, 61,143,179 and 12,281,269 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively)	33,133,555	2,840,066
Shares to be issued (Note 3)	-	19,664,020
Contributed surplus	5,651,070	4,787,478
Accumulated other comprehensive income	48,478	48,934
Accumulated deficit	(23,646,985)	(12,136,975)
Total shareholders' equity	16,469,044	16,036,449
Total liabilities and shareholders' equity	42,009,863	36,623,957

Going Concern (Note 2)
Commitments and Contingencies (Note 13)
Subsequent Events (Note 14)

Approved and authorized for issue on behalf of the Shareholders on June 4, 2021:

SIGNATURE
TITLE CEO

SIGNATURE
TITLE CFO

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

Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in US dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019 (as restated)
Revenue	$ 4,099,378	$ 113,343
Cost of Goods Sold	3,563,392	116,329
Gross Profit	535,986	(2,986)
Operating Expenses		
General and Administrative Expenses	7,617,873	6,739,854
Marketing and Advertising Expenses	243,360	457,760
Depreciation and Amortization Expenses	1,433,526	594,519
Total Operating Expenses	9,294,759	7,792,133
Loss from Operations	(8,758,773)	(7,795,119)
Other (Income) Expenses		
Interest Expense, net	3,074,091	2,032,200
Foreign Currency Loss (Gain)	29,116	(8,989)
Loss on impairement of intangible assets	-	508,000
Change in Fair Value of Warrant and Derivative Liabilities (Note 11)	(407,199)	1,348,180
Other (Income) Expenses	54,429	(14,069)
Total Other (Income) Expenses	2,750,437	3,865,322
Net Loss Before Provision For Income Taxes	(11,509,210)	(11,660,441)
Provision for Income Taxes (Note 12)	800	800
Loss for the Period	(11,510,010)	(11,661,241)
Other Comprehensive Income (Loss)	(456)	48,934
Total Comprehensive Loss for the Period	$ (11,510,466)	$ (11,612,307)
Weighted average number of common shares, basic and diluted	101,152,711	63,987,744
Basic and diluted net loss per common share	$ (0.11)	$ (0.18)

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

Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in US dollars)

	Series A Compressed Shares		Common Shares		Shares to be Issued	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit (as restated)	Total
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2019	491,727	$ 339,926	11,447,935	$ 1,840,066	$ -	$ -	$ -	$ (475,734)	$ 1,704,258
Issuance of shares in exchange for acquisition of subsidiaries (Note 3)	40,884	493,000	-		19,664,020	-	-	-	20,157,020
Issuance of common shares (Note 8)	-	-	833,334	1,000,000	-	-	-	-	1,000,000
Conversion feature of and warrants issued with convertible debenture (Note 7 and 11)	-	-	-	-		3,184,731	-	-	3,184,731
Stock based compensation (Note 8)	-	-	-	-	-	1,602,747	-	-	1,602,747
Comprehensive loss	-	-	-	-	-	-	48,934	(11,661,241)	(11,612,307)
Balance as of December 31, 2019	532,611	$ 832,926	12,281,269	$ 2,840,066	$ 19,664,020	$ 4,787,478	$ 48,934	$ (12,136,975)	$ 16,036,449
Issuance of shares in exchange for acquisition of subsidiary (Note 3)	-	-	33,333,333	19,664,020	(19,664,020)	-	-	-	-
Issuance of common shares (Note 8)	-	-	1,064,095	1,276,959	-	-	-	-	1,276,959
Issuance of common shares and Series A Compressed shares with warrants (Note 8)	11,250	450,000	20,949,422	9,352,510		-	-	-	9,802,510
Stock based compensation (Note 8)	-	-	-	-	-	863,592	-	-	863,592
Comprehensive loss	-	-	-	-	-	-	(456)	(11,510,010)	(11,510,466)
Balance as of December 31, 2020	543,861	$ 1,282,926	67,628,119	$ 33,133,555	$ -	$ 5,651,070	$ 48,478	$ (23,646,985)	$ 16,469,044

Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in US dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019 (as restated)
Cash flows from operating activities:		
Net loss	$ (11,510,010)	$ (11,661,241)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & amortization	1,433,526	594,519
Impairment of intangible assets	-	508,000
Interest expense from debt issuance costs allocated to derivative liability	-	68,300
Increase in reserve for inventory obsolescence	83,142	-
Stock compensation expense	863,592	1,602,747
Loss on lease termination	-	36,513
Loss on issuance of debenture penalty	208,229	-
Change in fair value of derivative liability		203,177
Change in fair value of warrant liability	(615,428)	1,145,003
Changes in operating assets and liabilities:		
Accounts receivable	(347,774)	(85,218)
Related party receivbables	112,332	(145,283)
Inventories	(254,945)	(437,095)
Prepaid expenses and other current assets	232,220	(445,797)
Other assets	16,575	(111,430)
Accounts payable and accrued expenses	(292,708)	919,331
Accrued interest	2,737,324	1,764,079
Deferred rent	-	(6,339)
Net cash used in operating activities	(7,333,925)	(6,050,734)
Cash flows from investing activities:		
Purchase of property & equipment	(190,260)	(4,181,612)
Deposits on purchases of property & equipment	-	-
Net cash used in investing activities:	(190,260)	(4,181,612)
Cash flows from financing activities:		
Repayment of lease liabilities	(1,297,805)	(2,264,992)
Repayment on notes payable	(41,926)	-
Repayment on balances due to sellers	(100,000)	(773,823)
Issuance of convertible loans	100,000	12,144,655
Issuance of shareholder loans	109,877	350,000
Repayment of shareholder loans	(109,777)	(396,270)
Issuance of Series A Compressed shares and warrants	450,000	-
Issuance of common shares and warrants	10,629,469	1,000,000
Net cash provided by financing activities:	9,739,838	10,059,570
Effect of currency translation on cash and cash equivalents	(456)	48,934
Change in cash and cash equivalents	2,215,197	(123,842)
Beginning cash and cash equivalents balance	1,678,800	1,802,642
Ending cash and cash equivalents balance	3,893,997	1,678,800

Supplemental Disclosures of Non-Cash Investing and Financing Activities

Purchases of property & equipment in accounts payable at year end	$ 839,788	$ -
Accounts payable accrued for construction in progress	$ 3,127,073	$ -
Warrants and derivative liability issued with debenture issuance	$ -	$ 4,087,225
Acquisition of certain assets of THCA, Inc. in exchange for Series A Compressed shares and balance due to sellers	$ -	$ 893,000
Acquisition of PIDEKA S.A.S. in exchange for shares to be issued	$ -	$ 19,664,020
Elimination of shares to be issued through issuance of shares	$ 19,664,020	$ -
Acquisition of certain assets of High End, LLC in exchange for balance due to sellers	$ -	$ 1,190,000
Acquisition of vehicles through notes payable	$ -	$ 256,425
Right of use assets and lease liabilities from leases	$ -	$ 8,398,335

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

NOTE 1. NATURE OF OPERATIONS

Ikanik Farms, Inc. ("Ikanik" or the "Company") was incorporated under the Business Corporations Act (Canada) on April 25, 2018. The head office and principal address of the Company is 2211 Hunts Lane, Suite L, San Bernardino, CA USA 92408. The Company's registered and records office address is 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, MSH3C2. The Company operates through its wholly-owned subsidiaries Cannus, Inc., a California corporation, Blunt Brothers, Inc., a California Corporation, Ikanik Farms, Inc., a California Corporation, THCA, Inc., a California Corporation, PIDEKA S.A.S., a Colombian Corporation, Ikanik Life, Inc., a California Corporation, Ikanik Designs, LLC, a Neveda Limited Liability Company, Ikanik Farms International, Inc., a Canadian Corporation, and Firehouse Holdings, Inc., a California Corporation. The Company also owns 90% of High End, LLC, a California Limited Liability Company.

These consolidated financial statements were approved by the Board of Directors on June 4, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Reporting Interpretations Committee ("IFRIC"). The accounting policies set out below have been applied consistently to all periods presented, unless otherwise noted.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments that are measured at fair value through profit or loss, as detailed in the Company's accounting policies.

Correction of an Error

While preparing the financial statements as of and for the year ended December 31, 2020, the Company discovered errors related to the accounting for leases in accordance with IFRS 16. The estimated useful life of two facility leases with options to purchase that the Company expects to exercise were not extended to reflect the entire useful life of the underlying properties. An estimated useful life for the right-of-use assets from these leases of 30 years should have been used. As a result, excess depreciation expense of $1,229,106 was recorded for the year ended December 31, 2019 and the corresponding accumulated depreciation for the right-of-use assets was overstated by this amount. Additionally, the Company discovered that a new lease signed in December 2019 that commenced in January 2020 had an improper discount rate applied to the lease payments in determining the inception date lease liability and right-of-use asset. As a result, both the lease liability and right-of-use asset balances as of December 31, 2019 were understated by $126,738. There was no error in depreciation of the right-of-use asset as the lease did not commence until after December 31, 2019.

As a result of these corrections, the balances as of December 31, 2019 and the results of operations and cash flows for the year ended December 31, 2019 in the accompanying financial statements have been retroactively restated.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

Balance Sheet (extract)	December 31, 2019	Increase/ (Decrease)	December 31, 2019 (as restated)
Right-of-use assets, net (Note 4 and 5)	6,587,330	1,355,844	7,943,174
Total assets	35,268,113	1,355,844	36,623,957
Lease liabilities (Note 5)	3,915,394	126,738	4,042,132
Total liabilities	20,460,770	126,738	20,587,508
Accumulated deficit	(13,366,081)	1,229,106	(12,136,975)
Total shareholders' equity	14,807,343	1,229,106	16,036,449
Total liabilities and shareholders' equity	35,268,113	1,355,844	36,623,957

Statement of operations and comprehensive loss (extract)	Year ended December 31, 2019	Increase/ (Decrease)	Year ended December 31, 2019 (as restated)
Depreciation and Amortization Expenses	1,823,625	(1,229,106)	594,519
Total Operating Expenses	9,021,239	(1,229,106)	7,792,133
Net Loss Before Provision for Income Taxes	(12,889,547)	1,229,106	(11,660,441)
Loss for the Period	(12,890,347)	1,229,106	(11,661,241)
Total comprehensive loss for the Period	(12,841,413)	1,229,106	(11,612,307)

Earnings per share for the year ended December 31, 2019 has also been restated. The amount of the correction was a reduced loss of $0.02 per share. The correction further affected certain disclosures related to right-of-use assets and lease liabilities in Notes 4 and 5.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern

As reflected in the consolidated financial statements, the Company had an accumulated deficit of $23,646,985 and a negative net working capital of $3,916,886 (current liabilities greater than current assets) as of December 31, 2020, as well as a net loss of $11,510,010 and negative cash flow from operating activities of $7,335,925 for the year then ended. Prior to year ended December 31, 2020, the Company has not generated significant revenues and has incurred net losses since inception. In 2020 the Company commenced their sales efforts and began recognizing revenues and will continue to scale as their products become established in the market. These factors raised significant doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these consolidated financial statements.

The Company's primary source of operating funds since inception has been cash proceeds from sales of the Company's stock and from the issuance of convertible debentures. The Company intends to raise additional capital through additional sales of stock and through increasing revenues. There can be no assurance that these funds will be available on terms acceptable to the Company or that they will be sufficient to enable the Company to fully complete its development activities or sustain operations.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result, significant volatility has occurred in both the United States and International markets. While the disruption is currently expected to be temporary, there is uncertainty around the duration. To date, the Company has experienced declining revenues, difficulty staffing interpreters, difficulty meeting debt covenants, maintaining consistent service quality with reduced revenue, and a loss of customers. Management expects this matter to continue to impact our business, results of operations, and financial position, but the ultimate financial impact of the pandemic on the Company's business, results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further reduce expenses, scale back its business plan, or curtain operations until sufficient additional capital is raised to support further operations.

Functional and Presentation Currency

These consolidated financial statements are presented in US dollars, which is also the Company's functional currency. The Company maintains certain accounts in Canadian dollars for which the effects of the translation are recorded in foreign currency loss and other comprehensive income in the consolidated statements of operations and comprehensive loss.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

These consolidated financial statements as of and for years ended December 31, 2020 and 2019, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions are eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to sue its power to affect its returns. The following are Ikanik's wholly-owned subsidiaries over which the Company has control as of December 31, 2020 and 2019:

Entity	Location	Purpose	Percentage Held - December 31, 2020	Percentage Held - December 31, 2019
Ikanik Farms, Inc.	Ontario, Canada	Parent Company		
Cannus, Inc.	California	Holding Company	100%	100%
Blunt Brothers, Inc.	California	Manufacturing and Distribution	100%	100%
Ikanik Farms, Inc.	California	Cultivation, Production, and Dispensary Facility	100%	100%
Firehouse Holdings, Inc.	California	Holding Company	100%	100%
THCA, Inc.	California	Cultivation and Production Facility	100%	100%
PIDEKA, S.A.S.	Colombia	Cultivation and Production Facility	100%	100%
High End, Inc.	California	Dispensary	100%	90%
Ikanik Life, Inc	California	Non-Operating Entity	100%	100%
Ikanik Designs, LLC	Nevada	Non-Operating Entity	100%	100%
Ikanik Farmns International, Inc.	Ontario, Canada	Non-Operating Entity	100%	100%

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounts Receivable

Accounts receivable are classified as financial assets initially recognized at fair value and subsequently measured at amortized cost, less any provisions for impairment. When an account receivable is uncollectible, it is written off against the provision.

Inventories

Inventories of purchased finished goods and packaging materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company reviews inventory for obsolete, redundant, and slow-moving goods and any such inventory is written down to net realizable value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. As of December 31, 2020 and 2019, the Company's property and equipment consists of computer software & hardware, furniture & equipment, leasehold improvements, and vehicles, each with the estimated useful lives shown below. The Company's right-of-use assets for property and equipment leases are depreciated over the lease terms. The assets' useful lives are reviewed at each financial year end and adjusted prospectively if appropriate.

	Estimated Useful Life
Computer software & hardware	3-6 years
Furniture & equipment	3-10 years
Leasehold improvements	3-6 years
Vehicles	5-6 years
Right-of-use assets	3-30 years

As of December 31, 2020 and 2019, a total of $4,717,587 and $1,590,514, respectively, in construction in progress amounts have been paid for property and equipment purchases for the Company's leased properties.

Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date or date of consolidation/control. Amortization of definite-lived intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Market related intangible assets	5 years

The estimated useful lives and residual values are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets that have an indefinite useful life are not subject to amortization. The Company's indefinite-lived intangible assets consist of licenses, which, for valuation purposes, represent the future benefits associated with the Company's cultivation, processing, and dispensary licenses. Absent such license intangibles, the Company cannot continue as a going concern and as such, there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company.

Definite-lived intangible assets are tested for impairment when there is an indication of impairment. Indefinite-lived intangible assets are tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment (refer to Note 6 for additional detail on impairment tests). For the years ended December 31, 2020 and 2019, the Company recognized $0 and $508,000, respectively, in impairment losses. See Note 6 for additional information on impairment of intangible assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit ("CGU") or CGUs which are expected to benefit from the synergies of the combination.

Goodwill is tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment. For the purpose of impairment testing, goodwill and indefinite-lived intangible assets have been allocated to CGUs or groups of CGUs representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite-lived intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount (the higher of the asset's fair value less costs of disposal and value-in-use); an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company's most recent goodwill impairment test during the fourth quarter of 2020 did not result in the recognition of any impairment losses. The Company has not recorded any goodwill impairment for the years ended December 31, 2020 and 2019.

Business Combinations and Asset Acquisitions

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method.

The total consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, and the liabilities incurred by the acquirer to former owners of the acquiree, in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. The consideration transferred also includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognized in profit or loss.

Revenue Recognition

The Company's primary source of revenue is from wholesale of cannabis products to dispensary locations. The Company accounts for revenue recognition in accordance with IFRS 15, Revenue from Contracts with Customers, which includes a five-step model for contracts with customers as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total considerations provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over a period of time).

The Company recognizes revenue upon satisfaction of the performance obligation, when control of the promised goods is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods, upon delivery and acceptable by customers.

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income (loss).

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantially enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any 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 earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or equity depending on the item to which the adjustment relates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Warrant Liability (Derivative Liabilities)

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then revalued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations and Comprehensive Loss. In calculating the fair value of derivative liabilities (specifically warrant liability), the Company uses a valuation model. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Statements of Financial Position as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the Consolidated Statements of Financial Position date.

For awards where the holder has the election of settling their award in either cash or equity, the fair value of stock-based compensation is remeasured at the end of each reporting period until the corresponding awards vest. The Company did not have any such awards outstanding at December 31, 2020 or December 31, 2019.

Financial Instruments

The Company accounts for its financial instruments in accordance with IFRS 9, *Financial Instruments*. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVTPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivables and other financial liabilities categories. IFRS 9 also includes an expected credit loss model for the purpose of assessing the impairment of financial assets.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are incremental and are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the Company's consolidated financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments Measured at Fair Value Through Profit or Loss

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of sale in the near term. Derivative financial instruments that are not designated and effective as hedging instruments are also classified as FVTPL. Financial instruments classified as FVTPL are stated at fair value with any changes in fair value recognized in earnings for the period. Financial assets in this category include certain short-term investments, derivatives and contingent consideration.

(ii) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include cash and cash equivalents, short-term investments, trade receivables, other receivables, and loans receivable.

(iii) Impairment of Financial Assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Company recognizes expected credit losses ("ECL") for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime ECLs at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost, the Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e., change in credit assessment).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

(iv) Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired. Financial liabilities in this category include accounts payable and accrued liabilities and deferred consideration and other payables.

Summary of the Company's Classification and Measurements of Financial Assets and Liabilities

	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Deposits on property and equipment	Amortized cost	Amortized cost
Other Assets	Amortized cost	Amortized cost
Accounts payable and accrued expenses	Amortized cost	Amortized cost
Due to shareholder	Amortized cost	Amortized cost
Due to seller	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Derivative liability	FVTPL	Fair value
Warrant liability	FVTPL	Fair value
Convertible debentures	Amortized cost	Amortized cost

Critical Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The 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.

Customer Concentration

Sales to one customer for the year ended December 31, 2020 represented 11% of total sales for the year. The outstanding balance of accounts receivable for this customer as of December 31, 2020 represented 45% of total accounts receivable outstanding.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant judgements, estimates, and assumptions that have the most significant effect on the amounts recognized in the accompanying consolidated financial statements are described below.

(i) ECL on Trade Receivables

The Company calculates ECLs for trade receivables based on the historical default rates over the expected life of the trade receivable and adjusts for forward-looking estimates, which is determined through the exercise of judgment.

(ii) Inventory

In calculating the value of inventory, management compares the inventory cost to estimated net realizable value to determine if the cost of any inventory exceeds its net realizable value, such as in cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(iii) Estimated Useful Lives, Depreciation of Property and Equipment, and Amortization of Intangible Assets

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment.

Amortization of intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment.

(iv) Property and Equipment Impairment

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whenever there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of the asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset.

An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The fair value is determined primarily by using the projected future cash flows discounted at a rate commensurate with the risk involved as well as market valuations. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair values are reduced for an estimate of the cost to dispose or abandon.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Goodwill and Indefinite-Lives Intangible Asset Impairment

Goodwill and indefinite-lived intangible assets are tested for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of these assets has been impaired. In order to determine if the value of these assets has been impaired, the CGU to which the assets have been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts, market data and discount rates. Changes in the conditions for these judgements and estimates can significantly affect the assessed value of goodwill and indefinite-lived intangibles. The Company has determined that the goodwill associated with all acquisitions belongs to each respective state as this is the lowest level at which management monitors goodwill and indefinite-lived intangibles. See Note 6 for additional detail.

(vi) Business Combinations and Asset Acquisitions

Determination of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business. The classification can have a significant impact on the accounting on and subsequent to the acquisition date.

a. Business Combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for by applying the acquisition method. The total consideration transferred in a business combination is the sum of the fair values of assets transferred, liabilities incurred or assumed, and equity interests issued by the acquirer in exchange for control of the acquiree. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS 3 Business Combinations provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when contingent payments are expected to be made and at what amounts, which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration over the fair value of previously held equity interest prior to obtaining control, and the non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill.

b. Asset Acquisitions

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Goodwill is not recorded as a result of an asset acquisition.

(vii) Stock-Based Compensation, Compound Financial Instruments

In calculating the share-based compensation expense and the value of compound financial instruments, key estimates such as the rate of forfeiture of awards granted, the expected life of options, the volatility of the Company's stock price and the risk-free interest rate are used.

(viii) Income Tax

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ix) Implementation of IFRS 16

The adoption of IFRS 16, Leases, required, as of January 1, 2019, the Company to assess its significant judgments and certain key estimates when apply the standard as noted below and in Note 5.

Critical judgements required in the application of IFRS 16 include the following:

- Identifying whether a contract or part of a contract includes a lease at inception of the contract. The Company's assessment includes the exercise of judgement about whether the contract depends on a specific asset, whether the Company obtains substantially all the economic benefits from the use of the asset, and whether the Company has the right to direct the use of the asset and non-lease components;
- Identifying lease components and allocating the consideration to each lease component on the basis of the relative stand-alone price of each lease component. The Company assesses each lease component for a right to use an underlying asset and, if necessary, determines the relative stand-alone price for each lease component based on current market prices;

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Determining whether it is reasonably certain that an extension, purchase or termination option will be exercised, on a lease by lease basis. The Company considers all facts and circumstances and examines whether there is an economic incentive or penalty affecting the decision to exercise an option; and
- Establishing whether there are multiple leases in an arrangement. The Company's assessment includes the exercise of judgement whether it has the right to control multiple assets within a contract.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

- Estimating the lease term. The Company determines the lease term as the non-cancellable period of the lease at the commencement date, adjusted for any purchase, renewal or termination options it deems reasonably certain to exercise;
- Determining the appropriate incremental borrowing rate specific to each leased asset. The Company establishes incremental borrowing rates used as discount factors in discounting payments reflecting the Company's borrowing rate, duration of lease term and credit spread; and
- Assessing whether a ROU asset is impaired if indicators are present.

Unanticipated changes in these judgements or estimates could affect the identification and determination of the fair value of lease liabilities and ROU assets at initial recognition, as well as the subsequent measurement of lease liabilities and ROU assets. Changes in the economic environment or changes in the cannabis and retail industry may impact management's assessment of lease terms, and any changes in Management's estimate of lease terms may have a material impact on the Company's statement of financial position and Statement of Operations and Comprehensive Loss. In addition, the Company's assessed incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment and cannabis industry and the Company's creditworthiness.

These items could potentially result in changes to amounts reported in the Consolidated Statements of Operations and Comprehensive Loss and Financial Position of the Company.

<u>Adoption of New Accounting Pronouncements</u>

IFRIC 23 - Uncertainty over Income Tax Treatments, was issued by IASB on June 7, 2017. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires the entity to contemplate whether uncertain tax treatments should be considered separately or as a group based on the predictability of the resolution. In addition, the entity should assess if the tax authority will accept uncertain tax treatments, and in the case where it is not probable, the interpretation requires the entity to reflect the uncertainty with disclosure of the most likely amount and the expected value of the income tax payable or recoverable. The interpretation is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The adoption of this standard on January 1, 2019 did not have any impact on the Company's financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 – Leases In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases" and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding twelve months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company adopted the standard on January 1, 2019 using the modified retrospective method, which provides lessees a method for recording existing leases at adoption with no restatement of prior comparative periods.

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- Recognition exemption of short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Application of hindsight in determining the applicable lease term at the date of transition; and
- Election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The majority of the Company's property leases, which were previously treated as operating leases, were impacted by IFRS 16. The adoption of IFRS 16 has resulted in:

- Higher non-current assets related to the initial recognition of the present value of the Company's unavoidable future lease payments as right-of-use assets under property and equipment, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the consolidated statement of financial position as of January 1, 2019;
- Higher current and non-current liabilities related to the concurrent recognition of lease liabilities, which are measured at the present value of the remaining fixed lease payments, discounted by our incremental borrowing rate of 25.0% as of January 1, 2019;
- Replacement of rent expense previously recorded in general and administrative expense with depreciation expense of these right-of-use assets and higher finance costs related to the accretion of interest expense of the corresponding lease liabilities; and
- Variable lease payments that do not depend on an index or rate and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee but impacts the presentation of the operating and financing cash flows by decreasing operating cash flows and increasing financing cash flows.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adjustments to opening balances resulting from the initial adoption of IFRS 16, with the effects of transition being recognized directly to retained earnings is as follows:

	As Previously Reported Under IAS 17	IFRS 16 Transition Adjustments	As Reported Under IFRS 16
Property amd Equipment, Net	$ 21,078	$ 380,956	$ 402,034
Lease Liabilities	$ -	$ (380,956)	$ (380,956)
Deferred Rent	$ 6,339	$ (6,339)	$ -

A reconciliation of the operation lease commitments as of June 29, 2019 to the opening balance of the lease liabilities at the date of adoption is as follows:

Operating Lease Commitments as of December 31, 2018	$ 684,278
Lease Liabilities Recognized as of January 1, 2019	-
Short-term Lease Payments Excluded	(42,000)
Effect of Discounting Using the Lessee's Incremental Borrowing Rate	(261,322)
Lease Liabilities Recognized as of January 1, 2019	$ 380,956

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

The Company has real estate leases for retail stores, cultivation facilities, corporate offices, and equipment leases. At inception of a contract, the Company estimates whether the contract includes a lease. A contract contains a lease if it includes enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. The Company recognized a ROU asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee.

The Company assesses at lease commencement whether it is reasonably certain to exercise extension or termination options. The Company reassesses its lease portfolio to determine whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The extension options which are considered reasonably certain to be exercised are mainly those for which operational decisions have been made which make the leased assets vital to the continued relevant business activities.

Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date discounted using the Company's incremental borrowing rate. Lease liabilities include the value of the following payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that
- option; and
- Penalties for early termination of the lease, if the lease term reflects the Company exercising an option to terminate the lease.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is decreased by cash paid less interest expense incurred. The lease liability is remeasured when there is a change in future lease payments, or if the Company changes its assessment of whether it will exercise an extension, purchase, or termination option. ROU assets are measured at cost and are comprised of the following:

- The amount of the initial measurement of lease liability;
- Lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- An estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset, if applicable.

The ROU asset is depreciated on a straight-line basis from the commencement date to the end of the lease term. The depreciation expense on ROU assets replaces rent expense. The value of the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain revaluations of the lease liability.

NOTE 3. ACQUISITIONS AND MERGERS

THCA ACQUISITION

On March 11, 2019, the Company entered into an entered into a Stock Transfer Agreement ("STA"), as amended in April 2019, with the shareholders of THCA, Inc. ("THCA"), a California corporation, to exchange 40,884 Series A Compressed Shares for all 10,000 outstanding shares of THCA. THCA is a US company which plans to develop and license for cannabis cultivation and the wholesale distribution of cannabis. The acquisition would allow the Company to obtain a cannabis cultivation license and to distribute cannabis to licensed retail dispensaries. At the time of the acquisition, THCA had no operational business processes and only had a cannabis license and lease. Therefore, the Company accounted for this transaction as an asset acquisition.

The equity portion of the consideration is at a per share price of $12.00 as valued on March 11, 2019, with total equity consideration of $493,000. No cash consideration was exchanged in connection with the Stock Transfer Agreement aside from the assumption of the promissory note which is discussed below.

The Company also assumed the lease of THCA's facility in Sacramento, California, as well as an option to purchase the property which the Company intends to exercise. Ikanik also executed a promissory note in favor of Mikhail Bodnaruk (Shareholder of THCA) in the amount of $400,000 to assume the debt associated with loans made by Mikhail Bodnaruk in support of the S. Watt Property and the business of THCA. The promissory note shall be repaid to Mikhail Bodnaruk in full within six months of the date of the S. Watt Permit Clearance, which is still pending as of the date of issuance of this report.

After acquiring and receiving the THCA Shares under this Agreement, and thereby becoming the sole shareholder of THCA, Ikanik shall provide to THCA in the form of required capital expenditures the sum of up to $800,000, as part of its normal course of business and as required for purposes of funding the completion of the S. Watt Property build out as a permitted and complete indoor cultivation facility. See Note 14.

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

The Company assumed $400,000 in liabilities in the form of a promissory note that was executed pursuant to the Stock Transfer Agreement as consideration for the transfer of the lease and option to purchase. Although the entire consideration was not yet funded as of the acquisition date or as of December 31, 2019, due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over THCA. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of THCA has economic interest in all returns through the agreements effecting the acquisition before the funding of entire the acquisition.

The acquisition-date fair value of the consideration transferred is as follows:

		March 11, 2019
Equity consideration	$	493,000
Assumption of promissory note		400,000
Total consideration	$	893,000

The following table summarizes the amounts of estimated fair value of the assets acquired at the date of acquisition:

		March 11, 2019
Licenses	$	893,000
Right of use asset		1,195,904
Assets acquired	$	2,088,904
Lease liability assumed		(1,195,904)
Total consideration less liabilities assumed	$	893,000

HIGH END ACQUISITION

On August 6, 2019, the Company, entered into an entered into a Membership Interest Purchase Agreement (“the Agreement”) with High End, LLC (“High End”), a California corporation, to purchase 100% of the membership interests of High End for $1.2 million.

High End is a US company with plans to secure a license for the retail sale of cannabis. The acquisition would allow the Company to obtain a cannabis license for the city of Palm Springs and an appropriate location for the build out of a retail cannabis dispensary. At the time of the acquisition, High End had no operational business processes and only had a cannabis license. Therefore, the Company accounted for this transaction as an asset acquisition.

In accordance with the agreement the purchaser shall deposit $150,000 into escrow within 15 days of the agreement to act as a deposit. Once the sellers transfer 90% of the equity interests and certain releases are made, the escrow will be released to the sellers, less any transaction fees.

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

Additional escrow funds of $300,000 shall be deposited into escrow by the Company within 7 days of the release of escrow, including an additional $100,000 on the first of every subsequent month until the Certificate of Occupancy is issued by the City of Palm Springs to the buyer or until the full purchase price has been deposited. Based on dates specified with the Agreement, the buyer and seller shall meet to set closing on the remainder of the transaction and once the issuance of the Certificate of Occupancy has taken place, the sellers will then transfer the remaining 10% of equity interests. Upon that time any remaining deposits for the full purchase price will need to be transferred within 10 days of receiving the full equity interest. The Company expects this to occur in the second quarter of 2021.

Although the entire consideration was not yet funded as of the acquisition date, due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over High End. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of High End has economic interest in all returns through the agreements effecting the acquisition before the funding of entire the acquisition.

The acquisition-date fair value of the consideration transferred is as follows:

		August 6, 2019
Cash in escrow and cash consideration due	$	1,190,000

The following table summarizes the amounts of estimated fair value of the assets acquired at the date of acquisition:

		August 6, 2019
License	$	1,190,000
Right of use asset		56,295
Assets acquired	$	1,246,295
Lease liability assumed	$	(56,295)
Total consideration less liabilities assumed	$	1,190,000

PIDEKA ACQUISITION

On August 21, 2019 the Company entered into an entered into a Stock Transfer Agreement ("STA") with PIDEKA, S.A.S. ("PIDEKA"), a Colombian corporation, to exchange up to 33,333,333 shares of the Company's Common Shares for all 10,000 outstanding shares of PIDEKA. The estimated issue price at the time of closing was $0.59 per Ikanik share as valued on August 21, 2019. No cash consideration was exchanged in connection with the Stock Transfer Agreement.

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

PIDEKA is a Colombian company dedicated to the acquisition of properties to secure licenses for the international sale of pharmaceutical grade cannabis. The acquisition would allow the Company to obtain cannabis licenses, and manufacturing certificates, to cultivate, manufacture and ship cannabis products to the international legal market. At the time of the acquisition, PIDEKA had already commenced operations and had business processes in place, in addition to the intangible assets that were acquired. Therefore, the Company accounted for this transaction as an business combination.

The issuance of the Company's shares is agreed to occur after a series of conditions which the Company planned to undertake upon acquisition, including the delivery of contracts and licenses, the commencement of construction of a property in Colombia, and the delivery of a GMP certification.

Under the agreement, the Company has committed to providing an initial sum of up to $6.7 million for capital expenditures. In the event that all of the conditions for issuance of the Company's shares are not achieved within 18 months from the effective date, PIDEKA will relinquish their shares of the Company and will reimburse the Company for the capital expenditures funded, upon which the PIDEKA shares will be returned. If such a reimbursement does not occur, the Company retains the PIDEKA shares. The acquisition closed on the same date as the agreement. Since the closing, largely as a result of the COVID-19 pandemic, there have been delays in achieving these conditions such that the original period of 18 months has been mutually extended beyond the date of issuance of this report.

Although the entire consideration was not yet funded as of the acquisition date, due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over PIDEKA. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of PIDEKA and has economic interest in all returns through the agreements effecting the acquisition before the funding of entire the acquisition. As a result, the Company has recorded the consideration as shares to be issued. Effective February 18, 2020, the Company issued the shares to PIDEKA. See Note 8.

The acquisition-date fair value of the consideration transferred is as follows:

	August 21, 2019
Equity consideration	$ 19,664,020

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

The following table summarizes the amounts of estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

		At August 21, 2019
Cash and cash equivalents	$	975
Prepaid expenses and other current assets		6,109
Fixed assets, net		31
Other assets		231
Right of use assets		663,085
Market related intangible assets		1,600,000
Business license, cannabis licenses, and GMP Certificate		7,300,000
Assets acquired	$	9,570,431
Goodwill recognized		10,766,667
Lease liability assumed		(663,085)
Other liabilities assumed		(9,993)
Total consideration less liabilities assumed	$	19,664,020

Goodwill in the amount of $10.8 million relates to potential synergy with the existing business and is equal to the difference between the fair value of net assets acquired in the business combination and the consideration paid. None of the goodwill recognized is expected to be deductible for income tax purposes.

The results of PIDEKA's operations have been included in the Company's consolidated financial statements since that date. The amounts of PIDEKA's losses included in the consolidated statement of operations for the years ended December 31, 2020 and from the acquisition date to the period ended December 31, 2019 were approximately $1,781,000 and $396,000, respectively. If the acquisition had occurred on January 1, 2019, management estimates that consolidated revenue and consolidated profit would have remained unchanged. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2019.

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

For the aforementioned business combinations that took place in the calendar year 2019, the acquired tangible assets were valued at estimates of their current fair values. The valuation of acquired intangible assets consisting of the intangibles noted above were determined based on management's estimates and consultation with an independent appraiser. The multi-period excess earnings method was used in applying the income approach to determine the fair value of acquired intangible assets. Significant assumptions inherent in the valuation method for acquired intangible assets are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates. When performing the multi-period excess earnings method for acquired intangible assets, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant-based assumptions. The cash-flow projections are based on multi-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are regularly reviewed by management. The selected discount rate considers the risk and nature of the comparative companies and the rates of return market participants would require to investing their capital in the Company.

CIVC ACQUISITION

In April 2019, the Company entered into a Business Combination Agreement with Canadian Imperial Venture Corporation ("CIVC"), a Canadian corporation, under which all outstanding Common Shares and Series A Compressed Shares will be exchanged through a three-cornered amalgamation for shares of CIVC. No cash consideration will be exchanged in connection with the Business Combination Agreement. In April 2021, the transaction was finalized and the Company began publicly trading on the Canadian Stock Exchange under the ticker IKNK.

The Company did not incur a significant amount in transaction costs in connection with all of the acquisitions, but any and all costs were expensed as incurred and will be included within the consolidated statement of operations for the years ended December 31, 2020 and 2019.

D9C MEXICO ACQUISITION

On June 23, 2020, the Company entered into a Stock Transfer Agreement with the prior shareholders of D9C Mexico S.A. De C.V. ("D9C") to transfer all of the issued and outstanding shares of D9C to Ikänik Farms in exchange for an aggregate of 10,000,000 Ikänik Farms Common Shares at a price of $0.40 USD. The 10,000,000 Ikänik Farms Common Shares are to be issued upon the completion of the D9C completing certain conditions but will be held in escrow. This acquisition has not yet been finalized and the equity share consideration has not yet been issued as of the issuance of this report and is therefore not reflected in the consolidated financial statements as of December 31, 2020.

NOTE 4. PROPERTY & EQUIPMENT

As of December 31, 2020 and 2019, the Company's property & equipment were as follows:

	Software & Hardware	Furniture & Equipment	Improvements	Vehicles	Construction in Progress	Total
Cost						
Balance at December 31, 2018	21,680	-	-	-	-	21,680
Adoption of IFRS 16	-	-	-	-	-	-
Additions	166,276	218,884	2,340,019	308,466	-	3,033,645
Balance at December 31, 2019	187,956	218,884	2,340,019	308,466	-	3,055,325
Additions	22,992	137,818	869,278	-	4,458,661	5,488,748
Balance at December 31, 2020	210,948	356,702	3,209,297	308,466	4,458,661	8,544,073
Less: Accumulated depreciation & amortization						
Balance at December 31, 2018	602	-	-	-	-	602
Depreciation	19,926	16,070	19,839	36,057	-	91,892
Balance at December 31, 2019	20,528	16,070	19,839	36,057	-	92,494
Depreciation	39,211	79,258	108,604	55,925	-	282,998
Balance at December 31, 2020	59,739	95,328	128,443	91,982	-	375,492
Net book value						
Balance at December 31, 2019	$ 167,428	$ 202,814	$ 2,320,180	$ 272,409	$ -	$ 2,962,831
Balance at December 31, 2020	$ 151,209	$ 261,374	$ 3,080,854	$ 216,484	$ 4,458,661	$ 8,168,581

As of December 31, 2020 and 2019, the Company's right-of-use assets were as follows:

	Right of use assets
Cost	
Balance at December 31, 2018	$ -
Adoption of IFRS 16	380,957
Additions	8,270,854
Dispositions	(380,957)
Balance at December 31, 2019	8,270,854
Additions	-
Modifications	288,664
Balance at December 31, 2020	8,559,518
Less: Accumulated depreciation & amortization	
Balance at December 31, 2018	-
Depreciation	409,314
Dispositions	(81,634)
Balance at December 31, 2019	327,680
Depreciation	830,567
Balance at December 31, 2020	1,158,247
Net book value	
Balance at December 31, 2019	$ 7,943,174
Balance at December 31, 2020	$ 7,401,271

NOTE 5. LEASE LIABILITIES

A reconciliation of the beginning and ending balance of lease liabilities for the years ended December 31, 2020 and 2019 is as follows:

Balance as of December 31, 2018	$ -
IFRS 16 Transition	380,956
Lease Additions	8,270,854
Interest Expense	176,364
Termination of Leases	(262,810)
Payments of Principal and Interest	(2,441,355)
Balance as of December 31, 2019	6,124,009
Interest Expense	329,004
Modification of Leases	288,664
Payments of Principal and Interest	(1,626,809)
Balance as of December 31, 2020	5,114,868
Less: Current Portion of Lease Liabilities	(2,895,879)
Lease Liabilities, Net of Current Portion	$ 2,218,989

The Company has real estate leases for retail stores, cultivation facilities, corporate offices, and equipment leases. The Company's lease terms range from 12 months to 10 years. Certain leases permit renewal options ranging from 12 months to 5 years. Two of the Company's leases include purchase options which the Company intends to exercise. Certain lease agreements include monthly lease payments compounded annually at various rates up to 3.0%, which are included in the determination of the present value of total lease payments. Certain lease agreements are payable in a currency other than the Company's functional currency. The lease liability for these leases at December 31, 2020 and 2019 has been adjusted based on the prevailing currency exchange rate as of that date. None of the Company's leases include an inherent borrowing rate and, as such, the Company's incremental borrowing rate of 25% per year has been applied in discounting future lease payments to their present values.

During the year ended December 31, 2020, the Company entered into a modification of one of their leases to extend the lease for an additional 18 months. As a result of this modification, both the ROU asset and the lease liability for this lease were increased by $288,664.

NOTE 5. LEASE LIABILITIES (CONTINUED)

As of December 31, 2020, maturities of lease liabilities were as follows:

Year Ended December 31,	
2021	$ 4,946,254
2022	2,382,825
2023	1,036,880
2024	794,558
2025	263,333
Thereafter	194,504
Total lease payments	9,618,354
Less: Interest	(4,503,486)
Present value of lease liabilities	5,114,868
Less: short-term lease liabilities	(2,895,879)
Present value of long-term lease liabilities	$ 2,218,989

-

NOTE 6. GOODWILL AND INTANGIBLES

As of December 31, 2020 and 2019, the Company's goodwill and intangible assets were as follows:

	Goodwill	Licenses	Market related	Total
Cost				
Balance as of December 31, 2018	$ -	$ -	$ -	$ -
Additions from business combinations (Note 3)	10,766,667	9,383,000	1,600,000	21,749,667
Balance as of December 31, 2019	10,766,667	9,383,000	1,600,000	21,749,667
Additions	-	-	-	-
Balance as of December 31, 2020	10,766,667	9,383,000	1,600,000	21,749,667
Less: Accumulated Amortization				
Balance as of December 31, 2018	-	-	-	-
Impairment charge	-	508,000	-	508,000
Amortization charge	-	-	93,333	93,333
Balance as of December 31, 2019	-	508,000	93,333	601,333
Amortization charge	-	-	320,000	320,000
Balance as of December 31, 2020	-	508,000	413,333	921,333
Net book value				
As of December 31, 2019	$ 10,766,667	$ 8,875,000	$ 1,506,667	$ 21,148,334
As of December 31, 2020	$ 10,766,667	$ 8,875,000	$ 1,186,667	$ 20,828,334

NOTE 6. GOODWILL AND INTANGIBLES (CONTINUED)

As of December 31, 2020 and 2019, the goodwill and intangible assets with indefinite useful lives are allocated to the specific CGU within Ikanik Farms, Inc. The Company tests its goodwill and the intangible assets with an indefinite useful life annually. An analysis and movement of the net book value of goodwill and indefinite life intangibles acquired through business combinations, was completed as of December 31, 2020 and 2019. The company performs this analysis as of each calendar year end.

Goodwill and intangible assets with indefinite useful life

As of December 31, 2020, the carrying amount of goodwill and intangible assets with an indefinite useful life (licenses) is recognized with a value of $10,766,667 and $8,875,000, respectively. Intangible assets with an indefinite useful life were recorded by the Company at the date of acquisition of THCA, PIDEKA, and High End.

Management performed their impairment analysis on goodwill estimating the recoverable amount as fair value less costs of disposal on the basis of the value of the Company's invested capital. The carrying value of the Company's CGU was less than the FVLTs and therefore, no impairment for goodwill was recognized. For the purpose of the impairment test of the intangible assets with an indefinite useful life, the Company estimated the recoverable amounts of the asset as fair value less costs of disposal on the basis of comparative method and cost approach. Under the valuation using the comparative method the Company considered identical third-party's transactions for acquisition of licenses identical to the Company's. Under the valuation using the cost approach the Company considered outflows required to meet the requirements for a minimum amount of equity to be held by the organization with licenses similar to the Company's. For the year ended December 31, 2020 and 2019 as part of the annual impairment assessment, the Company recognized a total impairment loss of $0 and $508,000, respectively, related to the license intangible assets acquired in the THCA and High End acquisitions as the assessed fair value of these licenses was below their recorded value.

NOTE 7. DEBT

Notes Payable

During the year ended December 31, 2019, the Company entered into seven loans for the purchase of vehicles. The loans have terms of either five or six years, incur annual interest ranging from 5.26% to 9.10%, and have monthly repayments ranging from $326 to $1,426. There were no additional notes payable for the year ended December 31, 2020.

Future annual maturities on the loans as of December 31, 2020 are as follows:

Year Ended December 31,		
2021	$	45,410
2022		49,193
2023		53,303
2024		29,414
2025		13,356
	$	190,676

NOTE 7. DEBT (CONTINUED)

Due to Sellers

In March 2019, the Company issued a $400,000 promissory note with a THCA shareholder that incurs interest at 2% per year. The note includes monthly payments of $10,000 beginning upon the delivery of THCA's conditional use permit to authorize cannabis cultivation, manufacturing, and distribution. Upon the sixth such monthly payment the outstanding balance and all accrued interest become immediately due and payable in full. As of December 31, 2020 and 2019, the outstanding balance remained at $400,000.

In connection with the acquisition of High End, LLC, a portion of the amount due to the sellers of $1,190,000 remains outstanding as of December 31, 2020 and 2019. The Company made repayments totaling $750,000 through December 31, 2019, leaving a remaining balance of $440,000 as of December 31, 2019. The Company made an additional repayment in January 2020, leaving a remaining balance of $340,000 as of December 31, 2020.

Convertible Debentures

In connection with the Subscription Agreement for Debenture Units (the "Debenture Agreement"), the Company closed a $13,139,000 round of convertible debenture funding (in May 2019. The Debenture Agreement states the debentures incur interest at 6% per year and mature two years from the date of issuance. Each $1,000 debenture unit includes a debenture convertible into either Common Shares or Series A Compressed Shares at the applicable conversion price ($0.61 for Common Shares and $61.00 for Series A Compressed Shares) and warrants for the purchase of 820 Common Shares at $0.79 per share or 8.2 Series A Compressed Shares at $79.00 per share. The warrants shall be exercisable for 24 months from the issuance date or, upon the completion of a Liquidation Event, the warrants will remain exercisable for another 24 months.

The debentures automatically convert upon the occurrence of a Liquidation Event and if no such event occurs within one year from the date of issuance, additional debenture units, including both debentures and warrants, representing 10% of the investors' initial investment will be issued for no additional consideration (the "Penalty"). If and when the Liquidation Event occurs, the warrants will immediately be subject to a Warrant Acceleration Right ("Acceleration Rights"). This right is exercisable by the Company at its option if the daily volume weighted average price of the Company's common stock is greater than $1.22 per share for the preceding ten consecutive trading days. If the Acceleration Right becomes available, the new expiration date of the warrants shall be 30 days following the notice of the Company's exercise.

There were four features across which the allocation of the debt proceeds was applied on initial recognition: the host debt, conversion feature, warrants, and the Penalty. The host debt was valued using the effective interest method with the Company's incremental borrowing rate for such debt instruments of 30% as the discount rate. This resulted in the allocation of proceeds of $8,791,025. The Company also incurred $994,345 in debt issuance costs, which have been apportioned based on the respective value of the features of the convertible debenture. Total debt acquisition costs apportioned to the host debt were $665,295, resulting in the initial carrying amount of the host debt of $8,125,730.

NOTE 7. DEBT (CONTINUED)

The conversion feature embedded in the host debt meets the fixed for fixed requirements to be classified as equity. The conversion feature was allocated proceeds at issuance totaling $3,437,116, which was valued using the Black-Scholes option pricing model. This feature was apportioned $260,117 in debt acquisition costs, resulting in an initial allocation for the conversion feature of $3,176,998. The warrants issued in connection with the debentures meet the fixed for fixed requirements and were classified as equity. The warrants were allocated proceeds at issuance totaling $8,365, which was valued using a barrier option pricing model. This feature was apportioned $633 in debt acquisition costs, resulting in an initial allocation for the warrant feature of $7,732. The conversion feature and warrants have been recorded in contributed surplus and debt discount as of the date of issuance.

The Company recorded a derivative liability of $902,494 at the issuance date for the Penalty. The derivative was recorded at fair value which was based on 10% of the value of the other three features. The collective value of these inputs was adjusted based on the expected probability that the Penalty consideration would be issued. This feature was apportioned $68,300 in debt acquisition costs, which were expensed immediately. As of December 31, 2019, the value of the Penalty using the same inputs with updated assumptions as of that date was determined to have increased to $1,105,671, an increase of $203,177 which has been recorded to other expense in the accompanying consolidated statement of operations. In May 2020, the Penalty debentures and warrants were issued as the Company was not yet publicly trading, resulting in a loss of $208,229. See Note 11 for additional information regarding the valuation of the identified features of the convertible debentures.

Interest recorded under the effective interest method through December 31, 2019 totaled $1,832,379, which includes the $68,300 of debt acquisition costs apportioned to the derivative liability that were expensed immediately. Interest expense of $2,737,324 was recorded during the year ended December 31, 2020 as an increase to the convertible debenture liability balance.

On June 23, 2020, the Company completed a private placement of an additional 100 Ikänik Farms 2020 Convertible Debentures at a price of $1,000 USD per unit for aggregate gross proceeds of $100,000. Immediately prior to the completion of the Reverse Take-Over, each Ikänik Farms 2020 Convertible Debenture converts into that number of units (the “Ikänik Farms Units”) as is equal to the principal amount of the Ikänik Farms 2020 Convertible Debenture (plus any interest accrued thereon) divided by the Conversion Price. Each Ikänik Farms Unit will consist of one Ikänik Farms Common Share and one Ikänik Farms Common Share Warrant, with each such Ikänik Farms Common Share Warrant entitling the holder to exercise it for one Ikänik Farms Common Share at a price that is equal to 1.3 times the Conversion Price for a period of two years from the date of issuance. In April 2021, immediately prior to the Reverse Take-Over being finalized, all of the outstanding debentures converted into 132,951 Common Shares and warrants to purchase 132,951 Common Shares at $1.04 per share. All of the warrants remain outstanding as of the filing date of these financials.

As of December 31, 2020 and 2019, the balance of the debenture liability was $14,041,033 and $9,889,809, respectively, which was net of debt discount of $1,784,065 and $3,249,191, respectively.

NOTE 8. SHARE CAPITAL

Authorized

Share capital consists of an unlimited number of Common Shares and an unlimited number of Series A Compressed Shares, both with no par value. Issued shares are fully paid. Each Series A Compressed Share is convertible into 100 common shares. Also, the Series A Compressed Shares have the same liquidation and dividend rights as the Common Shares into which they can convert.

Issued

In March 2019, the Company entered into a Stock Transfer Agreement with the shareholders of THCA to exchange 40,884 Series A Compressed Shares for all outstanding shares of THCA. No cash consideration was exchanged in connection with the Stock Transfer Agreement.

In September 2019 the Company entered into a Stock Exchange Agreement with PIDEKA to exchange up to 33,333,333 shares of the Company's Common Shares for all outstanding shares of PIDEKA. The issuance of the Company's shares is agreed to occur after the completion of a series of conditions which the Company planned to undertake upon acquisition, including the delivery of contracts and licenses, the commencement of construction of a property in Colombia, and the delivery of a GMP certification. As such, these shares were not issued until February 2020 and a balance of $19,664,020 was recorded as shares to be issued as of December 31, 2019.

Between November 2019 and February 24, 2020, the Company completed a non-brokered private placement of 1,897,429 Ikänik Farms Common Shares at a price of $1.20 USD per Ikänik Farms Common Share for aggregate gross proceeds of $2,276,959.

On April 21, 2020, the Company completed a non-brokered private placement of 11,250 Ikänik Farms Series A Share units at a price of $40.00 USD per Ikänik Farms Series A Share unit for a gross proceeds of $450,000. Each Ikänik Farms Series A Share unit was comprised of one Ikänik Farms Series A Share and one Ikänik Farms Series A Share Warrant, with each whole warrant exercisable into one Ikänik Farms Series A Share at $60.00 expiring 24 months from the date of a reverse takeover.

On September 18, 2020 Ikänik Farms completed a non-brokered private placement of 14,464,482 common share units (consisting of one common share and one common share purchase warrant) at a price of $0.40 per common share unit for gross proceeds of $5,785,793.

NOTE 8. SHARE CAPITAL (CONTINUED)

On November 13, 2020, the Company completed a non-brokered private placement of 6,484,940 Ikänik Farms Common Share units at a price of $0.55 USD per Ikänik Farms Common Share unit for gross proceeds of $3,566,717. Each Ikänik Farms Common Share unit was comprised of one Ikänik Farms Common Share and one Ikänik Farms Common Share Warrant, with each whole warrant exercisable into one Ikänik Farms Common Share at $0.75 per share expiring 24 months from the date of a liquidity event.

Warrants

The following is a summary of the Company's warrant activity for the years ended December 31, 2020 and 2019:

	Number of Warrants - Series A Compressed Shares	Number of Warrants - Common Shares	Number of Warrants - Total	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance, December 31, 2018	26,552	-	26,552	$ 21.84	2.7	-
Granted	2,665	12,000,890	12,003,555	0.81	4.3	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2019	29,217	12,000,890	12,030,107	0.86	4.3	1,403,396
Granted	11,517	22,000,170	22,011,687	0.68	1.7	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2020	40,734	34,001,060	34,041,794	$ 0.75	1.2	$ 769,600
Exercisable and vested,						
December 31, 2019	26,552	-	26,552	$ 23.14	1.7	$ 1,403,396
December 31, 2020	40,734	34,001,060	34,041,794	$ 0.75	1.2	$ 769,600

There were no warrant exercises during the years ended December 31, 2020 and 2019. See Note 11 for information about valuation of warrants issued in 2018, resulting in a derivative liability, and warrants issued in 2019, resulting in a warrant liability.

The following assumptions were used in determining the fair value of the warrants issued in 2020:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	0.16% & 0.17%	0.16% & 0.17%
Expected term (in years)	2.5	2.5
Expected volatility	90% & 143%	90% & 143%
Dividend yield	0%	0%
Fair value per share	$0.25 & $0.51	$24.75 & $51.00

NOTE 8. SHARE CAPITAL (CONTINUED)

Stock Options

During 2020 and 2019, the Company issued stock options to purchase a total of 20,650 and 50,250, respectively, of the Company's Series A Compressed Shares and 1,240,000 and 2,850,000, respectively, of the Company's common shares. All of the stock options were classified as incentive stock options and granted to the Company's employees and vested immediately upon issuance. The following table summarizes the Company's stock option activity for the years ended December 31, 2020 and 2019:

	Number of Options - Series A Compressed Shares	Number of Opotions - Common Shares	Number of Options - Total	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance, December 31, 2018	-	-	-	$ -	-	$ -
Granted	50,250	2,850,000	2,900,250	0.42	10.0	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2019	50,250	2,850,000	2,900,250	$ 0.42	9.2	$ 737,255
Granted	20,650	1,240,000	1,260,650	0.41	10.0	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2020	70,900	4,090,000	4,160,900	$ 0.41	8.8	$ -
Exercisable and vested,						
December 31, 2019	50,250	2,850,000	2,900,250	$ 0.42	9.2	$ -
December 31, 2020	70,900	4,090,000	4,160,900	$ 0.41	8.8	$ -

The Company uses the fair value method in recognizing stock-based compensation expense. Under the fair value method, the fair value of each stock option award was estimated on the grant date using the Black-Scholes option pricing model utilizing the assumptions noted below for each issuance.

In April 2019, the Company issued a total of 31,000 options to purchase the Company's Series A Compressed Shares and 2,500,000 common shares. The options are exercisable in Canadian dollars ($30.00 CAD for Series A Compressed Shares and $0.30 CAD for common shares, which converts to $23.14 USD and $0.23 USD, respectively, at December 31, 2019). Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of $580,789, which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	2.50%
Expected term (in years)	5
Expected volatility	120%
Dividend yield	0%
Fair value per share	$0.13

NOTE 8. SHARE CAPITAL (CONTINUED)

In November 2019, the remaining options to purchase 19,250 of the Company's Series A Compressed Shares and 350,000 of the Company's common shares were issued. They are exercisable in US dollars for $70.00 to $80,00 per Series A Compressed Share and $0.70 per common share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of $1,021.958 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	1.60%
Expected term (in years)	5
Expected volatility	84%
Dividend yield	0%
Grant date fair value per share	$0.68

In February 2020, the options to purchase 500 of the Company's Series A Compressed Shares were issued. They are exercisable in US dollars for $80.00 per Series A Compressed Share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of $27,235 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	0.20%
Expected term (in years)	5
Expected volatility	103%
Dividend yield	0%
Grant date fair value per share	$0.74

In March 2020, the remaining options to purchase 3,000 of the Company's Series A Compressed Shares and 50,000 of the Company's common shares were issued. They are exercisable in US dollars for $40.00 per Series A Compressed Share and $0.40 per common share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of $216,720 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	0.20%
Expected term (in years)	5
Expected volatility	110%
Dividend yield	0%
Grant date fair value per share	$0.74

NOTE 8. SHARE CAPITAL (CONTINUED)

In July 2020, the options to purchase 16,750 of the Company's Series A Compressed Shares and 1,190,000 of the Company's common shares were issued. They are exercisable in US dollars for $40.00 per Series A Compressed Share and $0.40 per common share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of approximately $611,105 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	0.16%
Expected term (in years)	5
Expected volatility	143%
Dividend yield	0%
Grant date fair value per share	$0.25

In September 2020, the options to purchase 400 of the Company's Series A Compressed Shares were issued. They are exercisable in US dollars for $40.00 per Series A Compressed Share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of approximately $8,532 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	0.16%
Expected term (in years)	5
Expected volatility	143%
Dividend yield	0%
Grant date fair value per share	$0.25

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that options issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was estimated based on recent equity transactions.

NOTE 9. LOSS PER SHARE

The following table sets out the computation for basic and diluted loss per share:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Net loss attributable to common shareholders basic and diluted	$ (11,510,010)	$ (11,661,241)
Weighted average number of common shares outstanding, basic and diluted	101,152,711	63,987,744
Basic and diluted loss per share	$ (0.11)	$ (0.18)

Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of convertible debentures, warrants and share options is anti-dilutive.

NOTE 10. CAPITAL MANAGEMENT

The Company's capital is composed of share capital, reserves and deficit. The Company manages its capital within the following objectives:

(a) to ensure that there is sufficient financial flexibility to achieve the ongoing business objectives; and
(b) to maximize shareholder return through enhancing shareholder value.

Management periodically reviews its capital management approach and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management for the years ended December 31, 2020 and 2019. The Company is not subject to externally imposed capital requirements.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company’s financial instruments are held at amortized cost (adjustment for impairments or expected credit losses, as applicable) or FVTPL. The carrying values of financial instruments held at amortized cost approximate their fair values as of December 31, 2020 and 2019 due to their nature and relatively short maturity date. Financial assets and liabilities with embedded derivative features are carried as FVTPL.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to the fair value measurements. The thee levels of hierarchy 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 for the asset or liability that are not based on observable market data.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Unless otherwise noted, the Company considers all financial instruments classified as FVTPL to be level 1 investments.

There have been no transfers between fair value levels valuing these assets during the year.

The following table summarized the Company's financial instruments as of December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
Financial Assets:				
Cash and cash equivalents	$	3,893,997	$	1,678,800
Accounts receivable		432,992		85,218
Related party receivable		32,951		145,283
Deposits on property and equipment		258,926		1,590,514
Other Assets		134,086		150,661
Financial Liabilities:				
Accounts payable and accrued expenses	$	4,645,804	$	971,651
Due to shareholder		100		-
Due to seller		740,000		840,000
Notes payable		190,676		232,602
Derivative liability		-		1,105,671
Warrant liability		808,338		1,423,766
Convertible debentures		14,041,033		9,889,809

(a) Convertible Debentures and Derivative Liability

As noted above, in May 2019 the Company issued convertible debenture units for gross proceeds of $13,139,000, and incurred debt issuance costs of $994,345, resulting in net proceeds of $12,144,655. The debentures have a stated interest rate of 6% per year and mature two years from the date of issuance. Each $1,000 debenture unit includes a debenture convertible into either Common Shares or Series A Compressed Shares with a conversion price of $0.61 or $61.00, respectively, and warrants for the purchase of 820 Common Shares at $0.79 per share or 820 Series A Compressed Shares at $79.00 per share. The debentures automatically convert upon the occurrence of a liquidity event, defined as an initial public offering or a merger or reverse take-over resulting in the Company being listed on a recognized Canadian stock exchange. If no such event occurs within one year from the date of issuance, additional debenture units representing 10% of the investors' initial investment will be issued for no additional consideration. The warrants issued in connection with the debentures also include a vesting acceleration trigger in the event that, following a liquidity event, the Company's Common Shares have a 10-day volume-weighted average price on a recognized stock exchange that is greater than $1.22 per Common Share, which entitles the Company to accelerate the exercise period of the warrants to a minimum of 21 days from that date.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

There were four features across which the allocation of the debt proceeds was applied on initial recognition: the host debt, conversion feature, warrants, and the Penalty. The host debt was valued using the effective interest method with the Company's incremental borrowing rate for such debt instruments of 26% as the discount rate. This resulted in the allocation of proceeds of $8,791,025. The conversion feature was allocated proceeds at issuance totaling $3,437,116, which was valued using the Black-Scholes option pricing model utilizing the following assumptions:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	2.31%	2.31%
Expected term (in years)	2	2
Expected volatility	84%	84%
Dividend yield	0%	0%
Fair value per share	$0.58	$0.58

The warrants issued in connection with the debentures were allocated proceeds at issuance totaling $26,174, which was valued using a barrier option pricing model utilizing the same assumptions as were used in valuing the conversion feature, plus the barrier price of $1.22 per Common Share.

In conjunction with the issuance of convertible debentures, the Company recorded a derivative liability of $902,494 at the issuance date for the Penalty. The derivative was valued at 10% of the value of the other three features. The collective value of these inputs was adjusted based on the expected probability that the Penalty consideration would be issued. As of December 31, 2019, the value of the Penalty using the same inputs with updated assumptions as of that date was determined to have increased to $1,105,671, an increase of $203,177 which has been recorded to other expense in the accompanying consolidated statement of operations. The following are the assumptions used at December 31, 2019:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	1.60%	1.60%
Expected term (in years)	1.4	1.4
Expected volatility	82%	82%
Dividend yield	0%	0%
Fair value per share	$0.74	$74.00

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was determined by an actuarial calculation of value performed by a third party.

In May 2020, the Penalty debentures and warrants were issued as the Company was not yet publicly trading, resulting in an addition to the debenture liability of $1,313,900 (10% of the gross proceeds) and resulting in a loss on issuance of $208,229.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

On June 23, 2020, the Company completed a private placement of an additional 100 units of Ikänik Farms 2020 Convertible Debentures at a price of $1,000 USD per unit for aggregate gross proceeds of $100,000. Immediately prior to the completion of the Reverse Take-Over, each Ikänik Farms 2020 Convertible Debenture converts into that number of units (the "Ikänik Farms Units") as is equal to the principal amount of the Ikänik Farms 2020 Convertible Debenture (plus any interest accrued thereon) divided by the Conversion Price. Each Ikänik Farms Unit consisted of one Ikänik Farms Common Share and one Ikänik Farms Common Share Warrant, with each such Ikänik Farms Common Share Warrant entitling the holder to exercise it for one Ikänik Farms Common Share at a price that is equal to 1.3 times the Conversion Price for a period of two years from the date of issuance. As exercise of the warrants are contingent on the completion of a Reverse Take-Over, the timing of which remains uncertain, and due to the relatively small size of the funding, all of the proceeds have been allocated to the debenture liability.

(b) Warrant Liability

In connection with the private placement noted above, the Company issued warrants to purchase 26,551.59 Series A Compressed Shares, with a fair value of $11.97 per warrant upon issuance at August 31, 2018 and September 28, 2018. The warrants are exercisable for a period of 36 months from the date of issuance at an exercise price of $30.00 Canadian dollars per share ($22.52 and $23.14 USD per share at December 31, 2020 and 2019, respectively). As the warrants are exercisable in Canadian dollars and the Company's functional currency is US dollars, the fair value as stated in US dollars is subject to exchange rate fluctuations and has been classified as a liability. Upon issuance, the warrants were determined to have a fair value of $317,786. The warrants were determined to have a fair value of $808,338 ($30.44 per warrant) and $1,423,766 ($69.51 per warrant) at December 31, 2020 and 2019, respectively. The changes in fair value from issuance through December 31, 2020 and 2019 was a decrease of $861,575 and an increase of $1,145,003, respectively, have been recorded in other expense and other income, respectively, in the accompanying consolidated statement of operations and comprehensive loss. The fair value of the warrants exercisable for the Company's Series A Compressed Shares was determined using the Black-Scholes option pricing model with the following assumptions:

Fair Value Assumptions	December 31, 2020	December 31, 2019
Risk-free interest rate	0.00%	1.60%
Expected term (in years)	0.7	1.7
Expected volatility	90%	82%
Dividend yield	0%	0%
Fair value per share	$51.00	$73.50

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was determined by an actuarial calculation of value performed by a third party. As of December 31, 2020 and 2019, warrants outstanding have a weighted-average remaining contractual life of 0.7 and 1.7 years, respectively.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial Risk Management

The Company's financial risk exposures and the impact on the Company's financial instruments are as follows:

(a) Credit risk: Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meets its contractual obligations. The maximum credit exposure at December 31, 2020 and 2019 is the carrying amount of cash and accounts receivable. The Company does not have significant credit risk with respect to its customer, based on the continued economic strength of the U.S., strength of the U.S. capital markets, and the low interest rate environment. Although all deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, changes in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry have passed the House of Representatives, but has not yet been voted on within the Senate. Given that the U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

As of December 31, 2020 and 2019, the Company’s aging of accounts receivable was as follows:

	December 31, 2020	December 31, 2019
0 to 60 days	413,240	85,213
61 to 120 days	94,193	5
120 days +	-	-
Less: Allowance for doubtful accounts	(74,441)	-
Total accounts receivable	432,992	85,218

The Company has not recorded any bad debt expense during the years ended December 31, 2020 and 2019.

(b) Asset forfeiture risk: Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

(c) Liquidity risk: Liquidity risk is the risk that the Company will not be able to meets its financial obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of December 31, 2020 and 2019, the Company had working capital deficit of $3,916,886 and $3,636,448, respectively. At December 31, 2020 and 2019, the Company had a cash balance of $3,893,997 and $1,678,800, respectively, to settle current financial liabilities of $9,135,531 and $6,464,891, respectively. The Company will continue to raise capital as needed to fund operations and expansion. The maturity analysis for lease obligations is located in Note 5. The maturity analysis for notes payable and convertible debentures are located in Note 7. All other financial liabilities have contractual maturities of less than one year.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

(i) Currency risk: The operating results and financial position of the Company are reported in U.S. dollars. As of December 31, 2020 and 2019, the Company's financial assets and liabilities are denominated primarily in U.S. dollars. However, from time to time, some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The Company also acquired PIDEKA during the year ended December 31, 2019, which transacts in the Colombia peso. Accordingly, the results of the Company's operations are subject to currency transaction and translation risks. As of December 31, 2020 and 2019, the Company had no hedging agreements in place with respect to foreign currency exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest rate risk: Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company calculates an incremental borrowing rate to use in the valuation of its financial instruments.

(e) International risk: The Company's operations in Columbia, as well as any additional countries in which the Company may begin operations in the future, exposes the Company to foreign laws, varying methods of legal enforcement, and potential political instability. The Company manages this risk by attempting to understand the operating environment in foreign countries.

NOTE 12. INCOME TAXES

The Company's provision for income taxes for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Current:		
Federal	$ -	$ -
State	800	800
Total current	800	800
Deferred:		
Federal	-	-
State	-	-
Total deferred	-	-
Total provision for income taxes	$ 800	$ 800

NOTE 12. INCOME TAXES (CONTINUED)

The reconciliation of the federal statutory rate to the effective tax rate is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Expected provision at statutory federal rate	21.0 %	21.0 %
State tax - net of federal benefit	4.8	7.8
Non-deductible interest expense	(5.0)	-
Stock-based compensation	(1.6)	-
Permanent non-deductible items	(3.5)	(20.9)
Book/tax basis difference - intangible assets	(24.4)	-
Change in valuation allowance	8.7	(7.9)
Effective tax rate	(0.0) %	(0.0) %

The principal components of deferred tax assets and liabilities are as follows as of December 31, 2020 and 2019:

	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 2,560,443	$ 1,050,645
Total deferred tax asset	2,560,443	1,050,645
Deferred tax liabilities:		
Intangible assets	(2,510,595)	-
Total deferred tax asset	(2,510,595)	-
Total deferred taxes	49,848	1,050,645
Valuation allowance	(49,848)	(1,050,645)
Net deferred taxes	$ -	$ -

Deferred income taxes reflect the net effects of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The realization of deferred tax assets may be dependent on the Company's ability to generate sufficient income in future years in the associated jurisdiction to which the deferred tax asset relates. As of December 31, 2020 and 2019, the Company recorded a valuation allowance of $49,848 and $1,050,645, respectively, against the deferred tax asset balance as realization is uncertain.

The Company recognizes interest and penalties related to unrecognized tax benefits in operating expenses. No such interest and penalties were recognized during the years ended December 31, 2020 and 2019.

NOTE 12. INCOME TAXES (CONTINUED)

As of December 31, 2020 and 2019, the Company had a federal net operating loss carryforward of $5,772,188 and $88,287, respectively. As of December 31, 2020 and 2019, the Company had California state net operating loss carryforwards of $19,306,427 and $11,675,396, respectively, which begin to expire in 2040 and are subject to certain limitations. Under IRC 382, if a corporation undergoes an ownership change, the corporation's ability to use its pre-change net operating loss carryforwards to offset its post-change income may be limited. The Company has not completed a study to assess whether an ownership change has occurred and future changes in the Company's stock ownership or future equity offerings or acquisitions that have equity as a component of the purchase price could result in an ownership change. If an ownership change has occurred or does occur in the future, utilization of the net operating loss carryforwards may be limited.

As the Company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for U.S. Federal income tax purposes under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent difference between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. However, the State of California does not conform to IRC Section 280E and, accordingly, the Company deducts all operating expenses on its California Franchise Tax Returns.

NOTE 13. RELATED PARTIES

The Company's key management personnel have the authority and responsibility for planning, directing, and controlling the activities of the Company and consists of the Company's executive management team and management directors. Other than the transactions described below for the years ended December 31, 2020 and 2019, there were no material transactions with or changes to other related party balances as of December 31, 2020 and 2019. Key management personnel compensation and other related party expenses for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Management compensation	$ 285,708	$ 240,953
Stock compensation expense	$ 412,830	$ 596,048

The Company also acquired $0 and $23,292, respectively, in property and equipment during the years ended December 31, 2020 and 2019 and also incurred $53,528 and $536,839, respectively, in consulting fees from a related party owned by a shareholder during the same periods. As of December 31, 2020 and 2019 the Company had an outstanding balance due from this related party of $32,951 and $145,283, respectively, from advances from the Company. The advances are non-interest bearing and due on demand.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Commitments

In connection with the Company's THCA and PIDEKA acquisitions, the Company agreed to certain capital expenditure commitments. For THCA, the Company agreed to a capital expenditure commitment of $800,000, of which none had been spent as of December 31, 2020 and 2019, respectively. For PIDEKA, the Company agreed to a capital expenditure commitment of $6,700,000, of which $4,458,430 and $1,560,443 has been spent as of December 31, 2020 and 2019, respectively, leaving a remaining commitment balance of $2,241,570 and $5,139,557, respectively.

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulations as of December 31, 2020 and 2019, medical and recreational marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Litigation

The Company is subject to certain claims and legal matters that arise in the normal course of business, though no such claims or legal matters are outstanding. Management does not expect any such claims and legal actions to have a material adverse effect on the Company's financial position, results of operations or liquidity.

NOTE 15. SEGMENT INFORMNATION

The Company operates in one segment, the cultivation, production, and sale of cannabis. While the majority of the Company's property and equipment and operations are located in the United States, the Company's operations from the PIDEKA acquisition are located in Columbia. As of December 31, 2020 and 2019, property and equipment of approximately $26,000 and $22,000, respectively, were located in Colombia. The Company's operations in Columbia generated approximately $1,734,000 and $396,000, respectively, of the Company's net loss for the years ended December 31, 2020 and 2019.

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events that have occurred through the date that the financial statements were available to be issued and determined that there were no subsequent events that required recognition or disclosure in the financial statements as of and for the year ended December 31, 2020, except as disclosed below.

On January 8, 2021, Ikänik Farms issued a total of 125,000 Ikänik Farms Common Shares and 5,908 Ikänik Farms Series A Shares at a price of $0.40 and $40.00, per Ikänik Farms Common Share and Ikänik Farms Series A Share, respectively, representing a dollar amount of $286,320 in the aggregate, to employees and one supplier of Ikänik Farms in satisfaction of services previously rendered.

NOTE 16. SUBSEQUENT EVENTS (CONTINUED)

On March 5, 2021, the Company completed a non-brokered private placement of 29,394,474 shares of the Company's common stock in exchange for $30,000,000. However, the funds remain outstanding as of the filing date of these financial statements.

On March 26, 2021, the Company completed a non-brokered private placement of 3,408,992 Ikänik Farms Common Share units at a price of $0.55 USD per Ikänik Farms Common Share unit and 15,568 Ikänik Farms Series A Compressed units at a price of $55 per unit for gross proceeds of $2,699,176. Each unit was comprised of one Ikänik Farms Common Share or Series A Compressed Share and a half Ikänik Farms Common Share Warrant or Series A Compressed Share Warrant, with each whole warrant exercisable into one Ikänik Farms Common Share at $0.75 per share or one Series A Compressed Share at $75 per share, expiring 24 months from the date of a liquidity event.

On May 6, 2021, the Company completed a non-brokered private placement of 3,192,848 shares of the Company's common stock in exchange for $2,500,000. However, the funds remain outstanding as of the filing date of these financial statements.