Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Expressed in United States Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.)

Opinion

We have audited the consolidated financial statements of Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, the consolidated statements of loss and comprehensive 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(collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our 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.

Other Information

Management is responsible for the other information which comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

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

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

(Continues)

Independent Auditor's Report to the Shareholders of Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.) *(continued)*

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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.

(Continues)

Independent Auditor's Report to the Shareholders of Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.) *(continued)*

- 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.

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

SRCO Professional Corporation

CHARTERED PROFESSIONAL ACCOUNTANTS
Authorized to practice public accounting by the
Chartered Professional Accountants of Ontario

Richmond Hill, Canada
April 29, 2022

GREEN SCIENTIFIC LABS HOLDINGS INC. (FORMERLY PROMINEX RESOURCE CORP.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 AND 2020
(Expressed in United States dollars, except indicated otherwise)

	Note	December 31, 2021 $	December 31, 2020 $
Assets			
Current assets			
Cash		5,184,166	154,076
Trade receivables	4	720,569	484,586
Prepayments and deposits		105,753	20,516
Other receivables	6	264,725	-
Inventories		1,003,902	252,494
Total current assets		7,279,115	911,672
Non-current assets			
Prepayments and deposits	6	74,151	-
Property and equipment	5	3,957,758	1,265,014
Intangible assets	7	5,245	36,718
Right-of-use assets	6	6,106,934	2,189,032
Total assets		17,423,203	4,402,436
Liabilities			
Accounts payable and other payables	8	1,973,231	606,697
Customer deposits		102,859	181,407
Current portion of convertible debentures	13	-	466,777
Current portion of derivative liabilities	14	-	114,862
Current portion of lease liabilities	6	949,721	381,214
Total current liabilities		3,025,811	1,750,957
Non-current liabilities			
Other payables	8	66,514	-
Loans and borrowings	11	-	186,300
Convertible debentures	13	-	48,556
Derivative liabilities	14	-	197,267
Lease liabilities	6	5,032,738	1,730,932
Total Liabilities		8,125,063	3,914,012
Shareholders' Equity			
Share capital	9	16,522,789	1,264,298
Contributed surplus		465,532	262,493
Warrant reserve	9	1,872,467	-
Accumulated deficit		(9,562,409)	(1,038,367)
Accumulated other comprehensive loss		(239)	-
Total Shareholders' Equity		9,298,140	488,424
Total Liabilities and Shareholders' Equity		17,423,203	4,402,436

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

Contingencies (Note 10)

GREEN SCIENTIFIC LABS HOLDINGS INC. (FORMERLY PROMINEX RESOURCE CORP.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars, except indicated otherwise)

		Year ended	
		December 31, 2021	December 31, 2020
	Note	$	$
Revenue		7,591,326	6,096,339
Operating expenses:			
Materials and consumables used		(2,089,362)	(1,799,710)
Employee w ages and benefits		(5,558,050)	(2,508,736)
Consulting and professional fees		(459,381)	(226,461)
Depreciation and amortization	5, 6, 7	(1,245,980)	(759,953)
Supplies and small equipment		(385,510)	(137,258)
Rent and occupancy cost		(296,278)	(88,656)
Travel and entertainment		(292,381)	(50,024)
Advertising and promotion		(62,880)	(28,654)
General and administration		(423,418)	(272,046)
Share-based compensation	9(h)	(613,600)	(480,000)
Loss from operations		(3,835,514)	(255,159)
Other expenses:			
Finance cost		(555,221)	(841,221)
RTO transaction	15	(4,144,838)	-
Transaction cost		(27,425)	-
Gain on change in fair value of derivative liabilities	14	33,312	253,324
Loss on conversion of convertible debentures	13	(197,440)	-
Provision for expected credit losses	4	(14,107)	(77,626)
Gain on loan forgiveness	11	189,639	-
Other income		27,552	10,000
		(4,688,528)	(655,523)
Loss before income taxes		(8,524,042)	(910,682)
Income tax expense - current	17	-	-
Income tax expense - deferred	17	-	-
Net loss		(8,524,042)	(910,682)
Other comprehensive loss			
Foreign exchange translation adjustment		(239)	-
Comprehensive loss		(8,524,281)	(910,682)
Net Loss per share:			
Basic	16	(0.75)	(0.09)
Diluted	16	(0.75)	(0.09)

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

GREEN SCIENTIFIC LABS HOLDINGS INC. (FORMERLY PROMINEX RESOURCE CORP.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States dollars, except indicated otherwise)

		Share Capital								
	Note	Units \#	Subordinate Voting Shares \#	Multiple Voting Shares \#	Share Capital $	Contributed Surplus $	Warrant Reserve $	Accumulated Deficit $	Accumulated Other Comprehensive Loss $	Total $
Balance, January 1, 2020		9,000,000	-	-	**743,000**	2,253	-	(127,685)	-	**617,568**
Net loss for the year		-	-	-	**-**	-	-	(910,682)	-	**(910,682)**
Issuance of units for services	**9**	1,000,000	-	-	**480,000**	-	-	-	-	**480,000**
Partial repayment of convertible debentures	**14**	-	-	-	**-**	260,240	-	-	-	**260,240**
Conversion of convertible debentures	**9**	-	-	-	**219,911**	-	-	-	-	**219,911**
Distributions	**9**	-	-	-	**(178,613)**	-	-	-	-	**(178,613)**
Balance, December 31, 2020		10,000,000	-	-	**1,264,298**	262,493	-	(1,038,367)	-	**488,424**
Balance, January 1, 2021		10,000,000	-	-	**1,264,298**	262,493	-	(1,038,367)	-	**488,424**
Net loss for the year		-	-	-	**-**	-	-	(8,524,042)	-	**(8,524,042)**
Other comprehensive loss for the year		-	-	-	**-**	-	-	-	(239)	**(239)**
Partial repayment of convertible debentures	**14**	-	-	-	**-**	101,720	-	-	-	**101,720**
Conversion of convertible debentures	**9**	500,000	-	-	**714,712**	-	-	-	-	**714,712**
Issuance of units, net	**9**	8,956,699	-	-	**10,455,409**	-	1,872,467	-	-	**12,327,876**
Issuance of units for services	**9**	1,233,072	-	-	**2,910,050**	-	-	-	-	**2,910,050**
Issuance of units for RTO	**9,15**	512,000	-	-	**1,208,320**	101,319	-	-	-	**1,309,639**
Shares exchange under dual share class structure	**9**	(21,201,771)	14,701,745	64,972	**-**	-	-	-	-	**-**
Distributions	**9**	-	-	-	**(30,000)**	-	-	-	-	**(30,000)**
Balance, December 31, 2021		-	14,701,745	64,972	**16,522,789**	465,532	1,872,467	(9,562,409)	(239)	**9,298,140**

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

GREEN SCIENTIFIC LABS HOLDINGS INC. (FORMERLY PROMINEX RESOURCE CORP.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars, except indicated otherwise)

	Note	Year ended December 31, 2021 $	December 31, 2020 $
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss for the year		(8,524,042)	(910,682)
Items not affecting cash:			
Depreciation and amortization	**5, 6, 7**	1,245,980	759,953
Accretion on lease liabilities	**6**	426,519	193,310
Accretion on convertible debentures	**13**	93,713	512,767
Change in fair value of derivative liabilities	**14**	(33,312)	(253,324)
Loss on conversion of convertible debentures	**13**	197,440	-
Provision for expected credit losses	**4**	14,107	77,626
Share-based compensation	**9**	613,600	480,000
RTO transaction	**15**	3,587,322	-
Gain on loan forgiveness	**11**	(189,639)	-
Changes in non-cash working capital items:			
Increase in trade and other receivables		(250,090)	(147,795)
Increase in prepayments and deposits		(159,388)	(6,110)
Increase in other receivables		(252,895)	-
Increase in inventories		(751,408)	(82,236)
Increase (decrease) in accounts payable and other payables		1,228,563	(311,479)
Decrease (increase) in customer deposits		(78,548)	181,407
Cash flow (used in) from operating activities		**(2,832,078)**	**493,437**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	**5**	(3,085,142)	(390,086)
Purchase of intangible assets	**7**	-	(62,945)
Acquisition of Prominex, net of cash acquired	**15**	214,761	-
Cash flow used in investing activities		**(2,870,381)**	**(453,031)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of units, net	**9**	12,327,876	-
Proceeds from loans and borrowings, net	**11**	-	186,300
Issuance of convertible debentures, net	**13**	100,556	958,380
Repayment of convertible debentures	**13**	(369,427)	(470,978)
Distributions paid to members	**9**	(30,000)	(178,613)
Payment of lease liabilities	**6**	(1,296,217)	(718,310)
Cash flow from (used in) financing activities		**10,732,788**	**(223,221)**
Effect of exchange rate changes on cash		**(239)**	**-**
Increase (decrease) in cash		**5,030,329**	**(182,815)**
Cash, beginning of year		**154,076**	**336,891**
Cash, end of year		**5,184,166**	**154,076**

Supplementary information

Interest paid, net	17,127	93,794
Taxes paid	-	-
Conversion of convertible debt and derivative liabilities	714,712	219,911

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

1. NATURE OF OPERATIONS

Green Scientific Labs Holdings Inc. (formerly Prominex Resource Corp.) ("GSL" or the "Company") was incorporated under the *Companies Act* (British Columbia) on April 29, 1980. The common shares of the Company, which have been redesignated as Class A subordinate voting shares ("Subordinate Voting Shares") are traded on the Canadian Securities Exchange ("CSE") under the stock symbol "GSL". The head office of the Company is located at 4001 SW 47th Avenue, Suite 208 Davie, Florida 33314 and provides hemp and marijuana testing services in Florida, the United States.

Closing of the RTO
On November 15, 2021, the Company completed a reverse takeover transaction (the "RTO") (Note 15) pursuant to which the Company acquired Green Scientific Labs, LLC ("GSL LLC"), a limited liability company formed on April 19, 2018 under the Delaware *Limited Liability Company Act*. GSL LLC is a leading cannabis and hemp testing laboratory that operates a Certified Marijuana Testing Laboratory licensed testing lab facility in Davie, Florida which provides analytical testing services for state licensed cannabis and hemp growers, product formulators, processors, distributors and retailers. The RTO constituted a reverse takeover of the Company by GSL LLC for accounting purposes and the business of the amalgamated entities became the business of the Company. In connection with the closing of the RTO, the Company's name changed to Green Scientific Labs Holdings Inc. and also implemented a dual share class structure consisting of Subordinate Voting Shares and Class B multiple voting shares ("Multiple Voting Shares"). Following the closing of the RTO, there were 14,701,745 Subordinate Voting Shares and 64,972 Multiple Voting Shares issued and outstanding. Each Subordinate Voting Share carries one vote per share and each Multiple Voting Share carries one hundred votes per share. The Multiple Voting Shares is not listed for trading on the CSE but may be converted into Subordinate Voting Shares in certain circumstances. As GSL LLC was deemed to be the acquirer for accounting purposes, the consolidated financial statements are presented as a continuation of GSL LLC and the comparative figures presented are those of GSL LLC.

Concurrent Financing
In connection with the RTO, on November 12, 2021, GSL LLC completed a non-brokered private placement of 1,176,416 subscription receipts (the "Subscription Receipts") at a price of USD$3.85 per Subscription Receipt for aggregate gross proceeds of USD$4,529,200 (the "Concurrent Financing") Immediately prior to the completion of the RTO, each Subscription Receipt automatically converted into one unit of GSL LLC (a "Unit"), each Unit consisting of one GSL LLC membership interest ("GSL Unit") and one GSL Unit purchase warrant (each a "Unit Warrant") and, immediately thereafter, pursuant to the RTO (a) each such GSL Unit was exchanged for either one Subordinate Voting Share or 1/100 of a Multiple Voting Share and (b) each Unit Warrant was exchanged for one share purchase warrant of the Company (each a "Warrant"). Each Warrant entitles the holder thereof to purchase either one Subordinate Voting Share or 1/100 of a Multiple Voting Share at a price of USD$4.50 for a period of 36 months following the Closing Date, provided that if the trading price of the Subordinate Voting Shares on the CSE is greater than CAD$8.50 (equivalent to USD$6.70) for ten consecutive trading days, the Company may accelerate notice of such acceleration is given to holders of Warrants.

2. BASIS OF PRESENTATION AND MEASUREMENT

The consolidated financial statements of the Company for the years ended December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements for the years ended December 31, 2021 and 2020 were approved and authorized for issue by the Board of Directors of the Company on April 28, 2022.

2. BASIS OF PRESENTATION AND MEASUREMENT (continued)

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial instruments that are measured at fair value as described herein.

Basis of consolidation

These statements consolidate the accounts of the Company and its wholly owned subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, are exposed to, or have rights to, variable returns from the Company's involvement with the entity and have the ability to affect those returns through the power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. Profit and loss or other comprehensive income (loss) of subsidiaries acquired during the period are recognized from the date of acquisition or effective date of disposal as applicable. Significant intercompany accounts and transactions have been eliminated on consolidation.

The Company has the following subsidiaries:

Name of Entity	% Ownership*	Country of incorporation
Green Scientific Labs Management (Michigan) LLC	100	United States
Green Scientific Labs AZ LLC	100	United States
Green Scientific Labs NJ, LLC	100	United States
Green Scientific Labs IL, LLC	100	United States
Green Scientific Labs CT, LLC	100	United States

**There were no changes in the percentage of ownership during the year ended December 31, 2021 and 2020, except for Green Scientific Labs NJ, LLC, Green Scientific Labs IL, LLC and Green Scientific Labs CT, LLC, which were all incorporated during the current year.*

When the proportion of the equity (deficiency) held by non-controlling interest changes, the Company adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interest in the subsidiary. The Company recognizes directly in equity (deficiency) any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attribute it to the shareholders of the Company.

Functional and Presentation Currency

GSL's functional currency is the Canadian dollar and those of its wholly owned subsidiaries, as determined by management, is the United States ("U.S.") dollar. For financial reporting purposes, the consolidated financial statements of the Company have been presented in the U.S. dollars, the presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash deposits with original maturities of 90 days or less in financial institutions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost less any accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the depreciable asset using the following terms and methods:

Leasehold improvements	lesser of lease term or 5 years
Furniture and equipment	5 Years
Computer software	5 Years
Vehicles	5 Years

Depreciation begins from the date when the asset is put to use. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in operations in the year the asset is derecognized.

Inventories

Inventories, which consist principally of finished goods testing supplies and reagents, are valued at lower of cost and net realizable value. The cost includes material costs and other costs incurred in bringing the inventories to their present location and condition, and is accounted for on a first-in/first-out basis. Net realizable value is the estimated selling price less the estimated costs of completion and the costs necessary to make the sale.

Revenue Recognition

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers.* Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenues from the provision of hemp and marijuana testing services are generally recognized at a point in time when control over the goods have been transferred to the customer. Payments are due upon transferring the services to the customer. Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures

The component of convertible debentures that exhibits characteristics of a liability is recognized as a liability in the consolidated statements of financial position, net of transaction costs. On issuance of convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debenture and carried at amortized cost until extinguished. The remainder of the proceeds are allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. On initial recognition, transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components.

If the conversion option of convertible debentures exhibits characteristics of an embedded derivative, on initial recognition, the derivative component of the convertible debentures is measured at fair value and presented as part of derivative liabilities which are carried at fair value with fair value changes being recognized in the consolidated statement of loss and comprehensive loss. Any excess of proceeds over the amount initially recognized as the derivative component is recognized as the liability component. On initial recognition, transaction costs are apportioned between the liability and derivative components of the convertible debentures based on the allocation of proceeds to the liability and derivative. The portion of the transaction costs relating to the liability component is recognized initially as part of the liability. The portion of the transaction costs relating to the derivative component is recognized immediately in the consolidated statements of loss and comprehensive loss. An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Financial Assets

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

• Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost would comprise of cash, trade receivables and other receivables.

• FVTOCI - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at FVTOCI. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. The Company does not hold any financial assets measured at FVTOCI.

• FVTPL - Assets that do not meet the criteria to be measured at amortized cost, or FVTOCI, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets measured at FVTPL.

Impairment

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables. In determining the ECLs management makes estimates related to the probability-weighted amount of ECLs based on a ranger of outcomes, the discount rate that reflects the effective interest rate of the asset and other information available as of the reporting date relating to past events, current conditions and forecasts regarding future economic conditions.

The Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Company does not track credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial Assets (continued)

Derecognition of Financial Assets

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

Financial Liabilities

Recognition and Initial Measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at FVTPL for which transaction costs are immediately recorded in the consolidated statement of loss and comprehensive loss. Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in the consolidated statement of loss and comprehensive loss.

Derecognition of financial liabilities

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

The Company has classified its financial instruments as follows:

Cash	Amortized costs
Trade receivables	Amortized costs
Accounts payable and other payables	Amortized costs
Loans and borrowings	Amortized costs
Convertible debentures	Amortized costs
Derivative liabilities	FVTPL
Lease liabilities	Amortized costs

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the dates of the consolidated statements of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using an estimate of the cash flows required to settle the present obligation and the effect is material, its carrying amount is calculated from the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency

Monetary assets and liabilities denominated in currencies other than functional currencies are translated into functional currencies at the rate of exchange in effect at the consolidated statements of financial position date. Non- monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction date exchange rate. Foreign currency gains and losses resulting from translation are reflected in net loss and comprehensive loss for the period. On consolidation, the assets and liabilities of foreign operations are translated into U.S. dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates during the period. The exchange differences arising on translation for consolidation are recognized in accumulated other comprehensive loss.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Licenses	2 years

The Company evaluates the reasonableness of the estimated useful lives of these intangible assets on an annual basis. Intangible assets with definite lives are assessed for impairment when some or all of the internal or external indicators of impairment are met.

Impairment of Non-Financial Assets

Non-financial assets including intangible assets with a finite useful life are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or “CGU”). An impairment loss is recognized for the amount, if any, by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

For year ended December 31, 2020
GSL LLC is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by GSL LLC. Members are taxed individually on their pro-rata ownership of GSL LLC's earnings. GSL LLC's net income or loss is allocated among the members in accordance with the Company's operating agreement.

For year ended December 31, 2021
Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements unless such differences arise from goodwill or the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the taxable profit nor the accounting profit or loss.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment occurs.

Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Segmented Reporting

Management monitors the results of the Company operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of profit or loss before tax. In determining the Company's geographical information, revenue information is based on the locations of the customers, and asset information is based on the locations of the assets.

For management purposes, the Company only has one business segment being the operation of licensed testing lab facilities which provides analytical cannabis and hemp testing services. All of the Company's operations and assets are in the United States.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

The Company has established a stock option plan to grant non-transferable equity settled options to purchase Subordinate Voting Shares and/or Multiple Voting Shares (collectively, “Shares”) to directors, officers, employees of and consultants to the Company. The number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding Shares of the Company. The Company has the ability to grant for a maximum period of ten years from the date of grant.

Stock options vest over periods ranging from immediate to two years. The fair value of each option is measured at the date of grant using the Black-Scholes option pricing model and recorded as a compensation expense in the period the options are vested, or the performance is complete. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Any consideration paid on exercise of stock options is credited to share capital. On expiry, any amount related to the initial value of the stock option remains in contributed surplus.

For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted.

Loss per Share

Basic loss per share is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of Subordinate Voting Shares outstanding during the period.

Diluted loss per share is calculated by dividing the net income attributable to common shareholders (after adjusting for interest on the convertible debentures) by the weighted-average number of Subordinate Voting Shares outstanding during the year plus the weighted-average number of Subordinate Voting Shares that would be issued on conversion of all the dilutive potential shares into Subordinate Voting Shares. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method, except where the effect of including such securities would be antidilutive. When there is a loss, inclusion of the Company’s stock options and warrants in the computation of diluted loss per share would be antidilutive. Because the Company has reported net loss since inception, these potential securities have been antidilutive and basic and diluted loss per share were the same for the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains a lease, by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- the Company has the right to direct the use of the identified asset.

A right-of-use asset and corresponding lease liability are recognized on the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is reduced by impairment losses and adjusted for certain remeasurements of the lease liabilities, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company’s incremental borrowing rate is used. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in management’s estimate of the amount expected to be payable under a residual value guarantee, if management changes the assessment of whether the Company will exercise a purchase, extension, or termination option, or if the underlying lease contract is amended.

The Company elected not to separate fixed non-lease components from lease components and instead account for each lease component and associated fixed non-lease components as a single lease component.

The Company elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. 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. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

(i) *Estimated useful lives of property and equipment and intangible assets*

Depreciation of property and equipment and amortization of intangible asset are dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(ii) *Fair value of derivative liabilities*

Management uses the multinomial lattice model to calculate the fair value of derivative liabilities. Use of this method requires management to make assumptions and estimates about the Company's unit price, the risk-free rate, the probability of an event of default for the instruments, alternative financing, and capital raising events to take place, and the expected volatility of the Company's unit or share price. In making these assumptions and estimates, management relies on historical market data.

(iii) *Fair value of share-based payments and warrants*

Management uses the Black-Scholes option-pricing model to calculate the fair value of share-based payments and warrants. Management considers factors that knowledgeable, willing market participants would consider when selecting the appropriate valuation model to apply. Use of this method requires management to make assumptions and estimates about the share price on the measurement date, expected useful life of the instruments, expected dividends, the risk-free rate (based on government bonds), the expected volatility of the Company's share price (based on weighted average historical volatility of comparable companies adjusted for changes expected due to publicly available information) and the probabilities of certain events occurring. In making these assumptions and estimates, management relies on historical market data. The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of these instruments. The fair value reported may not represent the transaction value if these options or warrants were exercised/exchanged at any point in time.

(iv) *Lease liabilities*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. The Company has several lease contracts that include extension options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The Company included the renewal period as part of the lease term for leases of office and laboratory because there will be a significant negative effect on operations if a replacement asset is not readily available.

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statements of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Judgments, Estimates and Assumptions (continued)

(v) *Expected credit losses*

In calculating the expected credit loss on financial assets carried at amortized cost, management is required to make a number of judgments including the probability of possible outcomes with regards to credit losses, the discount rate to use for time value of money and whether the financial instrument's credit risk has increased significantly since initial recognition.

(vi) *Going concern risk assessment*

The assessment of the Company's ability to continue as a going concern, meet its liabilities for the ensuing year, involves significant judgment based on expectation of future events that are believed to be reasonable under the circumstances.

(vii) *Deferred tax assets*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. Changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the provision for income taxes.

(viii) *Reverse takeover transaction*

The determination of the accounting acquirer and control, determination of whether the acquired entity is a business, fair value of the consideration transferred and fair value of the identifiable assets and liabilities assumed requires making certain estimates and assumptions.

Standards, Amendments, and Interpretations Issued but Not Yet Adopted

The IASB has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The impact on the Company is currently being assessed.

Amendment to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current: In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The implementation of this amendment is not expected to have a significant impact on the Company.

IFRS 3 – Business Combinations ("IFRS 3") was amended. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events.

(Expressed in United States dollars, except indicated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, Amendments, and Interpretations Issued but Not Yet Adopted (continued)

For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022 and the implementation of this amendment is not expected to have a significant impact on the Company.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors was amended. The amendment introduces the definition of an accounting estimate and sets criteria to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The implementation of this amendment is not expected to have a significant impact on the Company.

4. TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on a 30 days term.

Below is the movement in the allowance for expected credit losses of trade receivables:

	December 31, 2021 $	December 31, 2020 $
Opening balance, January 1	31,366	67,723
Provision for expected credit losses	14,107	77,626
Write-off	-	(113,983)
Ending balance	**45,473**	**31,366**

5. PROPERTY AND EQUIPMENT

As at December 31, 2021 and December 31, 2020, property and equipment consists of:

	Leasehold improvements $	Furniture and equipment $	Computer software $	Vehicles $	Total $
Cost					
Balance, January 1, 2020	**6,048**	**1,284,815**	**-**	**-**	**1,290,863**
Additions	197,410	192,676	-	-	390,086
Balance, December 31, 2020	**203,458**	**1,477,491**	**-**	**-**	**1,680,949**
Additions	987,159	1,849,203	224,725	24,055	3,085,142
Transfer from ROU assets (Note 6)	-	-	-	55,270	55,270
Balance, December 31, 2021	**1,190,617**	**3,326,694**	**224,725**	**79,325**	**4,821,361**
Accumulated depreciation					
Balance, January 1, 2020	**556**	**111,158**	**-**	**-**	**111,714**
Depreciation	21,654	282,567	-	-	304,221
Balance, December 31, 2020	**22,210**	**393,725**	**-**	**-**	**415,935**
Depreciation	122,367	309,858	9,667	5,776	447,668
Balance, December 31, 2021	**144,577**	**703,583**	**9,667**	**5,776**	**863,603**
Net book value					
At December 31, 2020	181,248	1,083,766	-	-	1,265,014
At December 31, 2021	**1,046,040**	**2,623,111**	**215,058**	**73,549**	**3,957,758**

(Expressed in United States dollars, except indicated otherwise)

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

The Company's leases assets include office space, equipment and vehicle leases. Leases of office space and equipment generally have lease term between 3 to 15 years, while motor vehicles generally have lease terms of 6 years. There are several lease contracts that include extension options and management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (Note 3). The right-of-use assets consist of the following:

	Right of use Buildings $	Right of use Equipment $	Right of use Vehicles $	Right of use Total $
Cost				
Balance, January 1, 2020	**772,538**	**815,214**	**-**	**1,587,752**
Lease additions	-	1,381,325	75,082	1,456,407
Balance, December 31, 2020	**772,538**	**2,196,539**	**75,082**	**3,044,159**
Lease additions	1,913,191	2,797,545	-	4,710,736
Lease modification	(65,598)	-	-	(65,598)
Transfer to property and equipment	-	-	(75,082)	(75,082)
Balance, December 31, 2021	**2,620,131**	**4,994,084**	**-**	**7,614,215**
Accumulated depreciation				
Balance, January 1, 2020	**40,660**	**384,962**	**-**	**425,622**
Amortization	54,213	365,907	9,385	429,505
Balance, December 31, 2020	**94,873**	**750,869**	**9,385**	**855,127**
Amortization	226,869	529,543	10,427	766,839
Lease modification	(94,873)	-	-	(94,873)
Transfer to property and equipment	-	-	(19,812)	(19,812)
Balance, December 31, 2021	**226,869**	**1,280,412**	**-**	**1,507,281**
Net book value				
At December 31, 2020	677,665	1,445,670	65,697	2,189,032
At December 31, 2021	**2,393,262**	**3,713,672**	**-**	**6,106,934**

During the year ended December 31, 2021, there was a modification to one of the existing office leases to extend the lease term for an additional thirty months upon the original expiration date, resulting in the remeasurement of the carrying amounts of the related right-of-use assets and lease liabilities as at the effective date of the lease amendment. During the year ended December 31, 2021, the Company paid-off the outstanding balances on the vehicle leases with a net book value of $55,270 (Note 5). The amount was transferred from right-of-use assets to property and equipment upon repayment.

Prepayment and deposits represent security deposits made by the Company in relation to the office space leases.

Included in other receivables was approximately $250,000 of leasehold improvement made by the Company to be reimbursed by the landlord upon completion of construction of the new laboratory facility located in Illinois.

(Expressed in United States dollars, except indicated otherwise)

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Lease liabilities

The Company's corresponding lease liabilities are composed of the following:

Balance, January 1, 2020	**1,180,739**
Additions	1,456,407
Payments and interest	(525,000)
Balance, December 31, 2020	2,112,146
Additions	4,710,736
Payments and interest	(869,698)
Lease modification	29,275
Balance, December 31, 2021	5,982,459

Interest expense on lease liabilities for the year ended December 31, 2021 was $426,519 (2020 - $193,310). During the year ended December 31, 2021, the incremental borrowing rate applied ranges from 9.57% to 13.19% (2020 – 5.7% to 18.3%). The Company's minimum contractual undiscounted cash flows for lease obligations as at December 31, 2021 and 2020 are presented below:

	December 31, 2021 $	December 31, 2020 $
Undiscounted lease liabilities		
Within 1 year	1,655,244	609,112
2 to 3 years	3,349,898	891,429
Thereafter	4,552,451	1,821,151
Total undiscounted lease liabilities	9,557,593	3,321,692
Impact of discounting	(3,575,134)	(1,209,546)
Present value of lease liabilities	5,982,459	2,112,146
Less: current portion of lease liabilities	**(949,721)**	**(381,214)**
Non-current portion of lease liabilities	**5,032,738**	**1,730,932**

7. INTANGIBLE ASSETS

During the year ended December 31, 2020, the Company obtained a license to operate as a testing laboratory from the State of Florida Department of Health Office of Medical Marijuana Use ("OMMU"). Intangible assets consist of application fees incurred to obtain the license. The Company amortizes the license on a straight-line basis, over a 2-year useful life.

	License $
Cost	
Balance, January 1, 2020	**-**
Additions	62,945
Balance, December 31, 2020	**62,945**
Additions	-
Balance, December 31, 2021	**62,945**
Accumulated depreciation	
Balance, January 1, 2020	**-**
Depreciation	26,227
Balance, December 31, 2020	**26,227**
Depreciation	31,473
Balance, December 31, 2021	**57,700**
Net book value	
At December 31, 2020	36,718
At December 31, 2021	**5,245**

(Expressed in United States dollars, except indicated otherwise)

8. ACCOUNTS PAYABLE AND OTHER PAYABLES

	December 31, 2021 $	December 31, 2020 $
Accounts payable	1,582,337	367,504
Other payables	197,791	187,975
Accrued liabilities	259,617	51,218
	2,039,745	606,697
Less: Non-current other payables	(66,514)	-
Current portion	1,973,231	606,697

Accounts payable is non-interest bearing and are normally settled on 30 to 60-day terms. Accrued liabilities and current portion of other payables are non-interest bearing and have an average term of three months to twelve months. Non-current portion of other payables is non-interesting bearing, repayable in monthly installment of $1,494 and will be fully repaid by September 2026.

9. SHAREHOLDERS' EQUITY

Authorized share capital
The Company is authorized to issue an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares; both without par value.

Subordinate Voting Shares
Holders of Subordinate Voting Shares will be entitled to notice of and to attend and vote at any meeting of the shareholders of the Company, except a meeting of which only holders of another class or series of shares of the Company will have the right to vote. At each such meeting, holders of Subordinate Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share held.

Multiple Voting Shares
Holders of Multiple Voting Shares will be entitled to notice of and to attend and vote at any meeting of the shareholders of the Company, except a meeting of which only holders of another class or series of shares of the Company will have the right to vote. At each such meeting, holders of Multiple Voting Shares will be entitled to 100 votes in respect of each Multiple Voting Share held.

Each Multiple Voting Share shall be convertible, at the option of the holder thereof, into such number of Subordinate Voting Shares as is determined by multiplying the number of Multiple Voting Shares in respect of which the share conversion right is exercised by 100. The ability of a holder to convert the Multiple Voting Shares during the period (the "Restricted Conversion Period") prior to September 1, 2022 is subject to a restriction that, unless the Company's Board determines otherwise, the aggregate number of Subordinate Voting Shares and Multiple Voting Shares held of record, directly or indirectly, by residents of the United States (as determined by the applicable laws and regulations), may not exceed 40% of the aggregate number of Subordinate Voting Shares and Multiple Voting Shares and outstanding after giving effect to such conversions, determined in accordance with the articles of the Company.

(Expressed in United States dollars, except indicated otherwise)

9. SHAREHOLDERS' EQUITY (continued)

Outstanding share capital as at December 31, 2021 and 2020

		Number of units	Number of Subordinate Voting Shares	Number of Multiple Voting Shares	Share capital $
Balance, January 1, 2020		9,000,000	-	-	743,000
Issuance of units for services	(a)	1,000,000	-	-	480,000
Conversion of convertible debentures	(b)	-	-	-	219,911
Distributions	(c)	-	-	-	(178,613)
Balance, December 31, 2020		10,000,000	-	-	1,264,298
Conversion of convertible debentures	(d)	500,000	-	-	714,712
Issuance of units, net	(e),(f),(g)	8,956,699			10,455,409
Issuance of units for services	(h),(i)	1,233,072			2,910,050
Issuance of units for RTO (Note 15)		512,000			1,208,320
Distributions	(j)	-			(30,000)
Shares exchange under dual share class structure	(k)	(21,201,771)	14,701,745	64,972	-
Balance, December 31, 2021		-	14,701,745	64,972	16,522,789

Year ended December 31, 2020

a) During the year ended December 31, 2020, the Company issued 1,000,000 units at a price of $0.48 per unit pursuant to employment arrangements, and recorded the amount as unit-based compensation expense.
b) During the year ended December 31, 2020, the Company converted $200,746 of the 2018 Debentures via the issuance of 267,000 units at $0.75 per unit. Derivative liability of $19,165 related the 2018 Debentures were reclassified to shareholders' capital upon conversion.
c) During the year ended December 31, 2020, distributions of $178,613 were made.

Year ended December 31, 2021

d) During the year ended December 31, 2021, the Company converted $481,555 of the 2019 Debentures and $18,445 of the 2020 Debentures via the issuance of 500,000 units. Derivative liabilities of $212,260 related the 2019 Debentures and $2,452 related to the 2020 Debentures were reclassified to shareholders' capital upon conversion.
e) On April 6, 2021, the Company completed a non-brokered private placement, raising gross proceeds of $6,440,000 through the issuance of 6,440,000 units at $1.00 per unit and incurred issuance costs of $35,297.
f) On May 3, 2021, the Company received gross proceeds of $1,800,000 from a non-brokered private placement through the issuance of 1,340,283 units at $1.343 per unit.
g) On November 12, 2021, the Company completed the Concurrent Financing, raising gross proceeds of $4,529,200 through the issuance of 1,176,416 Subscription Receipts at a price of $3.85 per Subscription Receipt. The Subscription Receipts were automatically converted into Units, each Unit consisting of one GSL Unit and one Unit Warrant and immediately prior to the completion of the RTO and immediately thereafter, pursuant to the RTO, the GSL Units were exchange for 3,779,854 Subordinate Voting Shares and 7,796 Multiple Voting Shares. Each Unit Warrant was exchange for one Warrant. The Company recorded a warrant reserve of $1,751,085 attributable to the value of these warrants. In consideration of the services rendered by the Advisors, the Company paid a cash commission equal to CAD155,000 (equivalent to $122,869) and issued 40,000 advisor warrants (the "Advisory Warrants") with a fair value of $121,381 (see Note 9 *Warrants*). In addition, the Company incurred issuance costs of $283,158.
h) On November 15, 2021, the Company awarded two directors performance bonuses consisting of $400,000 and 260,000 units. The units are fair valued at $2.36 per unit (Note 15) for an aggregate amount of $613,600 and recorded as unit-based compensation expense.

(Expressed in United States dollars, except indicated otherwise)

9. SHAREHOLDERS' EQUITY (continued)

Outstanding share capital as at December 31, 2021 and 2020 (continued)

i) On November 15, 2021, the Company issued an aggregate of 973,072 units at a fair value of $2.36 per unit (Note 15) to certain consultants as payment for finder's fees and certain advisory services provided in connection with the RTO and certain making and strategic advisory services to be provided to the Company following the completion of the RTO.
j) During the year ended December 31, 2021, distributions of $30,000 were made.
k) In connection with closing of the RTO and as a result of the implementation of a dual share class structure by the Company, all outstanding units as at the time of closing were exchanged into an aggregate of 14,701,745 Subordinate Voting Shares and 64,972 Multiple Voting Shares.

As at December 31, 2021, there were 14,701,745 Subordinate Voting Shares and 64,972 Multiple Voting Shares outstanding (2020 – 10,000,000 units outstanding).

Stock options

The Company's Board of Directors is authorized to grant stock options to directors, officers, employees, consultants, consultant company or management company employees of the Company and its subsidiaries, not exceeding 10% of the issued and outstanding Subordinate Voting Shares and the Multiple Voting Shares calculated on an as-converted to Subordinate Voting Share basis of the Company. Stock options granted are exercisable over a period not exceeding 10 years from the date granted. Options shall vest in the manner imposed by the Board of Directors as a condition at the grant date.

The following table summarizes the Company's stock option activity for the periods indicated:

	Number of options	Weighted average exercise price
		$
Balance, December 31, 2020 and January 1, 2021	-	-
Replacement options*	76,500	3.75
Balance, December 31, 2021	76,500	3.75

*On November 15, 2021, the Company issued replacement options pursuant to the RTO. The stock options are fully vested and are exercisable for Subordinate Voting Shares at an exercise price of $3.75 per share with an expiry date of October 31, 2023. The replacement options which were issued are not considered to be a modification to the original options upon completion of the RTO. The fair value of the replacement options was estimated to be $101,319 (Note 15).

During the year ended December 31, 2021, no issuance (2020 – no) was made besides the replacement options and the Company recognized stock-based compensation expense of Nil (2020 – Nil).

The following table presents information related to the stock options outstanding as at December 31, 2021:

Grant date	Exercise price ($)	Weighted average remaining life (yrs)	Number of options outstanding	Number of options exercisable
October 15, 2021	3.750	1.81	76,500	76,500

(Expressed in United States dollars, except indicated otherwise)

9. SHAREHOLDERS' EQUITY (continued)

Stock options (continued)

The fair value of the Company's stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

	Year ended December 31, 2021	Year ended December 31, 2020
Volatility	131.46%	Nil
Risk-free interest rate	0.99%	Nil
Expected life (years)	1.97	Nil
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted average fair value per common share	$2.36	Nil

Warrants

The following table summarizes the Company's warrants activity for the periods indicated:

	Number of Warrants	Weighted average exercise price $
Balance, December 31, 2020 and January 1, 2021	-	-
Issued	1,216,416	4.48
Balance, December 31, 2021	1,216,416	4.48

The following table presents information related to warrants outstanding as at December 31, 2021:

Issue Date		Weighted Average Exercise Price ($)	Weighted Average Remaining Life (yrs)	Number of Warrants Outstanding
November 12, 2021	(1), (2)	4.50	2.87	1,216,416
		4.50	2.87	1,216,416

(1) As part of the Concurrent Financing completed on November 12, 2021, the Company issued 1,176,416 Warrants with an exercise price of $4.50 per either one Subordinate Voting Share or 1/100 of a Multiple Voting Shares, exercisable until November 12, 2024. The fair value of $1,751,085 of the Warrants was estimated using the Black-Scholes pricing model using the following assumptions: expected life – 3 years; annualized volatility – 125.12%; risk-free interest rate – 1.22%; dividend rate – 0%; stock price - $2.36 (Note 15).

(2) As part of the Concurrent Financing completed on November 12, 2021, the Company issued 40,000 Advisor Warrants to the financial advisors. Each Advisor Warrant entitles the holder to acquire one unit comprised of one Subordinate Voting Share and one Subordinate Voting Share purchase warrant, at an exercise price equal to $4.50, exercisable until November 12, 2024, provided that if the trading price of the Subordinate Voting Shares on the CSE is greater than CAD$8.50 for ten consecutive trading days, the Company may accelerate the time of expiry to the day that is 30 days from the date that notice of such acceleration is given to the holders. The fair value of $121,381 of the Warrants was estimated using the Black-Scholes pricing model using the following assumptions: expected life – 3 years; annualized volatility – 125.12%; risk-free interest rate – 1.22%; dividend rate – 0%; stock price - $2.36 (Note 15).

(Expressed in United States dollars, except indicated otherwise)

10. CONTINGENCIES

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2021 and 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

11. LOANS AND BORROWINGS

PPP loan

On May 10, 2020, the Company received a $188,300 loan under the Paycheck Protection Program ("PPP") offered by the U.S. Small Business Administration in the context of the COVID-19 pandemic outbreak. The loan is interest-bearing at 1.00% per annum and with a maturity date in 2 years. On January 22, 2021, the full amount of $188,300 in principal and $1,339 in accrued interest was forgiven and the total amount of $189,639 is presented as gain on loan forgiveness in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2021.

As at December 31, 2021 and December 31, 2020, loan balance outstanding were Nil and $186,300, respectively. Interest expense incurred for the year ended December 31, 2021 was $nil (2020 – $1,218).

12. RELATED PARTY TRANSACTIONS

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a board member or senior officer is a principal owner or senior executive. Other than disclosed elsewhere in the consolidated financial statements, related party transactions and balances are as follows:

	December 31, 2021	**December 31, 2020**
	$	**$**
Short-term compensations	965,538	247,520
Share-based compensations	613,600	-
	1,579,138	**247,520**

13. CONVERTIBLE DEBENTURES

2018 Debenture

On December 31, 2018, the Company entered into an agreement to issue convertible debentures of $250,000 (the "2018 Debenture"). The proceed was received on January 2, 2019. The 2018 Debenture bore interest at 15% per annum. The Company was required to make interest-only payments beginning on January 1, 2020 and final payment of principal and accrued interest was due and payable on June 30, 2020. The 2018 Debenture was secured by a security interest in the Company's property and assets pursuant to the security agreement entered into with the holder. The outstanding principal and unpaid accrued interest was at the option of the holder to be converted into the Company's membership unit at a conversion price of at the lesser of: (i) $7.5 million pre-money valuation per membership unit or; or (ii) the per membership unit purchase price of the next equity financing by the Company for cash. On June 30, 2020, $200,746 of the 2020 Debenture was converted into 2.67% membership interest of the Company at $7.5 million pre-money valuation, which is the value of the Company before it received other external funding or financing.

13. CONVERTIBLE DEBENTURES (continued)

2019 Debentures

On November 7, 2019, the Company entered into an agreement to issue a series of convertible debentures with an aggregate amount of $987,765 (the “2019 Debentures”). The 2019 Debentures bore interest at 13% per annum. The Company was required to make principal and interest payments until the 2019 Debentures was fully repaid. The 2019 Debentures was secured by a security interest in the Company’s property and assets pursuant to the security agreement entered into with the holder. The outstanding principal and unpaid accrued interest was at the option of the holder to be converted into the Company’s membership unit at a conversion price of at the lesser of: (i) $20 million pre-money valuation per membership unit or; or (ii) the per membership unit purchase price of the next equity financing by the Company for cash. In 2019 the Company closed two tranches and raised gross proceeds of $224,009. In 2020, the Company closed the remaining amount in four tranches and raised gross proceeds of $763,757. The monthly principal and interest payments for the different tranches range from $3,735 to $19,828. During the year ended December 31, 2021, $481,555 of the 2019 Debentures was converted into 481,555 membership units of the Company at $1 per unit. Upon conversion, the Company recorded a loss on conversion of $168,271.

2020 Debenture

On August 11, 2020, the Company entered into a secured credit line with a principal amount of $200,000. The note bore interest of 13% per annum with a maturity date of November 11, 2020. The Company was to make interest only monthly payment of $2,250. The promissory note is secured by a security interest in equipment owned by the Company up to a value of $200,000. The outstanding principal and unpaid accrued interest was at the option of the holder to be converted into the Company’s membership unit at a conversion price of at the lesser of: (i) $20 million pre-money valuation per membership unit or; or (ii) the per membership unit purchase price of the next equity financing by the Company for cash. On November 4, 2020, the Company entered into an amendment to the promissory note to extend the maturity date to February 11, 2021 and the monthly interest payment was be in the amount of $2,500. During the year ended December 31, 2021, $18,445 of the 2018 Debenture was converted into 18,445 membership units of the Company at $1 per unit and the remaining portion was repaid in full.

2021 Debenture

On February 2, 2021, the Company entered into a promissory note with a principal amount of $101,500. The note bore interest of 13% per annum with a maturity date of August 2, 2021. The principal amount and accrued interest were due on maturity. The outstanding principal and unpaid accrued interest was at the option of the holder to be converted into the Company’s membership unit at a conversion price of at the lesser of: (i) $20 million pre-money valuation per membership unit or; or (ii) the per membership unit purchase price of the next equity financing by the Company for cash. During the year ended December 31, 2021, the outstanding principal and accrued interest were repaid in full. Upon early repayment, the Company recorded a loss of $29,169 on settlement.

(Expressed in United States dollars, except indicated otherwise)

13. CONVERTIBLE DEBENTURES (continued)

	2018 Debenture $	2019 Debentures $	2020 Debenture $	2021 Debenture $	Total $
Balance, January 1, 2020	179,932	89,425	-	-	269,357
Amounts issued	-	763,757	200,000	-	963,757
Less: allocated to derivative liabilities (Note 14)	-	(460,508)	(92,939)	-	(553,447)
Less: issuance costs	-	(4,306)	(1,071)	-	(5,377)
Accretion	70,068	348,689	94,010	-	512,767
Repayment	(49,254)	(421,724)	-	-	(470,978)
Conversion	(200,746)	-	-	-	(200,746)
Balance, December 31, 2020	-	315,333	200,000	-	515,333
Amounts issued	-	-	-	101,500	101,500
Less: allocated to derivative liabilities (Note 14)	-	-	-	(37,615)	(37,615)
Less: issuance costs	-	-	-	(944)	(944)
Accretion	-	84,323	-	9,390	93,713
Repayment	-	(86,372)	(181,555)	(101,500)	(369,427)
Conversion	-	(481,555)	(18,445)	-	(500,000)
Loss on conversion	-	168,271	-	29,169	197,440
Balance, December 31, 2021	**-**	**-**	**-**	**-**	**-**

14. DERIVATIVE LIABILITIES

2018 Debenture

The 2018 Debenture (see Note 13) issued by the Company contained down round protection on the conversion feature. If the down round protection is enacted, there will be variability in the number of membership units issued. In accordance with IFRS, a contract to issue variable number of membership units shall be classified as a derivative liability and measured at fair value with change in fair value recognized in the consolidated statements of loss and comprehensive loss at each period-end. The derivative liability is ultimately converted into the Company's equity when the convertible debenture is converted, or will be extinguished on the repayment of the debentures and reclassified to contributed surplus.

The Company used the multinomial lattice model to estimate the fair value of the derivative liability with respect to the 2018 Debenture at each reporting date. This is a Level 3 recurring fair value measurement (Note 18). The following assumptions were used:

2018 Debenture	June 30, 2020*	December 31, 2019	At inception
Volatility	124.90%	102.89%	86.00%
Risk-free interest rate	0.11%	1.55%	2.57%
Term remaining (years)	0.00	0.50	1.50
Stock price	$ 0.83	$ 0.72	$ 0.49

**Date of conversion*

Upon initial recognition, the Company recorded derivative liability of $148,391 in 2019. During the year ended December 31, 2020, the Company recorded a gain of $124,946 on the revaluation of the derivative liability. In 2020, $200,746 of the 2018 Debenture were converted and the Company recorded $19,165, representing the fair value of the derivative liability at the conversion date for the portion converted, as members' capital.

2019 Debentures

Similar to the 2018 Debenture, the 2019 Debentures contained down round protection on the conversion feature and was classified as derivatives liabilities and measured at fair value with change in fair value recognized in the consolidated statements of loss and comprehensive loss at each period end.

(Expressed in United States dollars, except indicated otherwise)

14. DERIVATIVE LIABILITIES (continued)

2019 Debenture (continued)

The Company used the multinomial lattice model to estimate the fair value of the derivative liabilities with respect to the 2019 Debentures at each reporting date. This is a Level 3 recurring fair value measurement (Note 18). The following assumptions were used:

2019 Debentures	March 15, 2021*	December 31, 2020	December 31, 2019	At inception
Volatility	101.00% to 119.90%	114.20% to 123.70%	97.30% to 98.20%	95.00% to 108.00%
Risk-free interest rate	0.06%	0.09% to 0.10%	1.59%	0.17% to 1.68%
Term remaining (years)	0.65 to 0.97	0.85 to 1.17	1.85 to 1.96	1.95 to 2.00
Stock price	$ 1.00	$ 0.94	$ 0.72	$0.68 to $0.75

**Date of conversion*

Upon initial recognition, the Company recorded derivative liabilities of $142,598 in 2019 and $460,508 in 2020. During the year ended December 31, 2020, a balance of $ $255,538 was transferred to contributed surplus upon partial payment made by the Company throughout the year. During the year ended December 31, 2021, the Company recorded a gain of $52,612 on the revaluation of the derivative liabilities (2020 – a gain of $35,439). During the year ended December 31, 2021, $481,555 of the 2019 Debentures were converted and the Company recorded $212,260, representing the fair value of the derivative liability at the conversion date, as members' capital.

2020 Debenture

Similar to the 2018 and 2019 Debentures, the 2020 Debenture contained down round protection on the conversion feature and shall be classified as derivatives liabilities and measure at fair value with change in fair value recognized in the consolidated statements of loss and comprehensive loss at each period end.

The Company used the multinomial lattice model to estimate the fair value of the derivative liabilities with respect to the 2020 Debenture at each reporting date. This is a Level 3 recurring fair value measurement (Note 16). The following assumptions were used:

2020 Debenture	March 15, 2021*	December 31, 2020	At inception
Volatility	93.02%	84.24%	149.84%
Risk-free interest rate	0.01%	0.08%	0.12%
Term remaining (years)	0.25	0.11	0.50
Stock price	$ 1.00	$ 0.94	$ 0.86

**Date of conversion/repayment*

Upon initial recognition, the Company recorded derivative liabilities of $92,939 in 2020. During the year ended December 31, 2021, the Company recorded a loss of $26,586 on the revaluation of the derivative liabilities (2020 – a gain of $92,939). During the year ended December 31, 2021, $18,455 of the 2020 Debenture were converted and the Company recorded $2,452, representing the fair value of the derivative liability at the conversion date, as members' capital.

(Expressed in United States dollars, except indicated otherwise)

14. DERIVATIVE LIABILITIES (continued)

2021 Debenture

Similar to the other debentures, the 2021 Debenture contained down round protection on the conversion feature and was classified as derivatives liabilities and measured at fair value with change in fair value recognized in the consolidated statements of loss and comprehensive loss at each period end.

The Company used the multinomial lattice model to estimate the fair value of the derivative liabilities with respect to the 2021 Debenture at each reporting date. This is a Level 3 recurring fair value measurement (Note 18). The following assumptions were used:

2021 Debenture	March 15, 2021*	At inception
Volatility	94.07%	96.00%
Risk-free interest rate	0.03%	0.07%
Term remaining (years)	0.34	0.50
Stock price	$ 1.00	$ 0.96

**Date of repayment*

Upon initial recognition, the Company recorded derivative liabilities of $37,615 in February 2021. During the year ended December 31, 2021, the Company recorded a gain of $7,286 on the revaluation of the derivative liabilities (2020 – Nil). During the year ended December 31, 2021, the 2021 Debenture was fully repaid and the Company transferred $30,329, representing the fair value of the derivative liability to contributed surplus.

	2018 Debenture $	2019 Debentures $	2020 Debenture $	2021 Debenture $	Total $
Balance, January 1, 2020	148,813	142,598	-	-	291,411
Allocated from derivative liabilities (Note 13)	-	460,508	92,939	-	553,447
Transferred to contributed surplus upon repayment	(4,702)	(255,538)	-	-	(260,240)
Transferred to member's capital upon conversion	(19,165)	-	-	-	(19,165)
Change in fair value	(124,946)	(35,439)	(92,939)	-	(253,324)
Balance, December 31, 2020	-	312,129	-	-	312,129
Allocated from derivative liabilities (Note 13)	-	-	-	37,615	37,615
Transferred to contributed surplus upon repayment	-	(47,257)	(24,134)	(30,329)	(101,720)
Transferred to member's capital upon conversion	-	(212,260)	(2,452)	-	(214,712)
Change in fair value	-	(52,612)	26,586	(7,286)	(33,312)
Balance, December 31, 2021	**-**	**-**	**-**	**-**	**-**

(Expressed in United States dollars, except indicated otherwise)

15. REVERSE TAKOVER (RTO) TRANSACTION

On November 15, 2021, the Company completed the RTO transaction of GSL LLC (the Transaction). In connection with the closing of the RTO, Prominex Resource Corp's name changed to Green Scientific Labs Holdings Inc. and also implemented a dual share class structure consisting of Subordinate Voting Shares and Class B multiple voting shares ("Multiple Voting Shares"). At closing of the RTO, there were 14,701,745 Subordinate Voting Shares and 64,972 Multiple Voting Shares issued and outstanding.

Since Prominex Resource Corp operations did not constitute a business prior to November 15, 2021, the transaction has been accounted for as an asset acquisition that is not a business combination. Therefore, Prominex Resource Corp's share capital, reserves and deficit at the time of the RTO Transaction have been eliminated and the RTO Transaction costs have been expensed. Instead, the Transaction has been accounted under IFRS 2 Share-Based Payment. In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity, the legal subsidiary, being GSL LLC, would have issued to the legal parent entity, being Green Scientific Labs Holdings Inc., for the shareholders of Green Scientific Labs Holdings Inc. to obtain the same percentage ownership interest of approximately 2.45% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measures being the price per unit of a concurrent financing (note 9 (g)) for Subscription Receipts consisting of common shares and warrants. The Company applied Black-Scholes pricing model to determine the split between the fair value of the common shares and the warrants using an iterative approach such that the value of the warrant plus the share are equal to the offering price of the unit. The share price was determined to be approximately 61% of the $3.85 unit offering after using the following assumptions: expected life – 3 years; annualized volatility – 125.12%; risk-free interest rate – 1.22%; dividend rate – 0%; exercise price - $4.50.

GSL LLC was considered as the accounting acquirer and Prominex Resource Corp was considered as the accounting acquiree in these consolidated financial statements, with the equity consideration and identifiable assets acquired and liabilities assumed being measured at fair value using the acquisition method of accounting.

The following table summarizes the consideration paid and the fair value of the identifiable assets acquired, and liabilities assumed as of the date of acquisition:

Common shares (512,000 common shares at $2.36 per share)	$ 1,208,320
Replacement options (Note 9)	101,319
Total consideration	1,309,639
Identifiable assets acquired and liabilities assumed:	
Cash	214,761
Other receivables	11,830
Accounts payable and other payables	(207,824)
	18,767
Excess of RTO transaction consideration over net assets acquired	**1,290,872**

In connection with the RTO, the Company incurred other listing costs of $2,853,966 which included finders' fee, advisory fees, legal and regulatory expenses.

(Expressed in United States dollars, except indicated otherwise)

16. LOSS PER SHARE

The following table shows the components used in the calculation of basic and diluted loss per share for loss attributable to common shareholders.

	December 31, 2021	December 31, 2020
Net loss attributable to common shares ($)	(8,524,042)	(910,682)
Weighted-average number of shares outstanding - basic (#)	11,381,454	9,800,546
Weighted-average number of shares outstanding - diluted (#)	11,381,454	9,800,546
Loss per share: ($)		
Basic	(0.75)	(0.09)
Diluted	(0.75)	(0.09)

The Company's potentially dilutive securities which include stock options and warrants have been excluded from the computation of diluted loss per share as the effect would be to reduce the loss per share. Therefore, the weighted-average number of common share outstanding used to calculate both basic and diluted net loss per share attributable to common shareholders is the same. For the year ended December 31, 2021, the Company excluded 76,500 and 1,216,416 common shares issuable, respectively, upon exercise of the Company's stock options and warrants as the effect was anti-dilutive.

17. INCOME TAXES

The reconciliation of the combined Canadian Federal and Provincial statutory income tax rate of 26.5% (2020: 26.5%) to the effective tax rate is as follows:

	2021 $	2020 $
Loss before income taxes	**(8,524,042)**	**—**
Expected income tax recovery	(2,258,870)	—
Difference in foreign tax rate and other adjustments	293,539	
Share based compensation	128,856	—
Other non-deductible expenses	342,081	
Change in tax benefits not recognized	1,494,394	—
Income tax recovery	**—**	**—**

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the consolidated financial position and their corresponding tax values. Deferred tax assets have not been recognized in respect of the following net deductible temporary differences:

	2021 $	2020 $
Non-capital losses carried forward - US	6,045,935	—
Total	**6,045,935**	—

Share issue costs incurred in 2021 will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not possible that future taxable profit will be available against which the group can utilize the benefits therefrom.

(Expressed in United States dollars, except indicated otherwise)

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and to execute its operating and strategic plans, managing healthy liquidity reserves and access to capital. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support business development. The directors do not establish quantitative return on capital criteria for management, but rather rely on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and seek to raise additional amounts, as needed. The Company is not subject to externally imposed capital requirements apart from the need to maintain its listing in accordance with stock exchange requirements. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company plans to use existing funds, as well as funds from the future sale of services, to fund operations and expansion activities. However, the Company may attempt to issue new shares or issue new debt for acquisitions. There can be no assurance that the Company will be able to continue raising capital in this manner.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The classification of the financial instruments, as well as their gross carrying values, are shown in the table below:

	December 31, 2021 $	December 31, 2020 $
Financial assets at amortized cost		
Cash	5,184,166	154,076
Trade receivables	766,042	515,952
Other receivables	264,725	-
Total financial assets	**6,214,933**	**670,028**
Financial liabilities at FVTPL		
Derivative liabilities	197,267	312,129
Financial liabilities at amortized cost		
Accounts payable and other payables	2,039,745	606,697
Loans and borrowings	-	186,300
Convertible debentures	-	515,333
Lease liabilities	5,982,459	2,112,146
Total financial liabilities	**8,219,471**	**3,732,605**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three 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.

There have been no transfers between fair value levels during the year ended December 31, 2021 and 2020.

Cash, trade receivables, other receivable, accounts payable and all other payables, except $66,514, are all short-term in nature and, as such, their carrying values approximate fair value.

(Expressed in United States dollars, except indicated otherwise)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

As at December 31, 2021 and 2020, there were no financial assets or liabilities measured and recognized in the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy above with the exception of the derivative liabilities, which is Level 3 fair value measurements.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. Management mitigate these risks by assessing, monitoring and approving the Company's risk management processes:

a. Credit Risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposures at December 31, 2021 and 2020 are the carrying amount of cash and trade receivables. To reduce credit risk, all significant cash balances are placed with major, reputable, U.S. financial institutions. The Company has concentration of credit risk as the top three trade debtors accounted for approximately 84% and 63% of its total trade receivables balance as at December 31, 2021 and December 31, 2020, respectively. Three of the Company's customers accounted for 65% of total revenue. In view of this, management regularly assesses by monitoring the individual profile of its trade receivables. In this regard, management considers that the credit concentration risk has been significantly mitigated. The following table provides information regarding the aged trading receivables:

	Current	31-60 days	61-90 days	91+ days
December 31, 2021	79%	15%	1%	5%
December 31, 2020	83%	1%	0%	16%

b. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following undiscounted contractual obligations:

	Less than 1 year	**2 to 3 years**	**4 to 5 years**	**Greater than 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts payable and other payables	1,973,231	35,873	30,641	-	**2,039,745**
Lease liabilities	1,655,244	3,349,898	4,552,451	-	**9,557,593**
December 31, 2021	**3,628,475**	**3,385,771**	**4,583,092**	**-**	**11,597,338**
Accounts payable and other payables	606,697	-	-	-	**606,697**
Loans and borrowings	-	186,300	-	-	**186,300**
Convertible debentures	715,194	52,733	-	-	**767,927**
Lease liabilities	609,112	891,429	1,821,151	-	**3,321,692**
December 31, 2020	**1,931,003**	**1,130,462**	**1,821,151**	**-**	**4,882,616**

c. Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently, the Company has no assets or liabilities with a variable interest rate. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's lease obligations bear fixed interest rates. As at December 31, 2021, the Company did not have any outstanding loans and borrowings.

20. COVID-19 AND ITS IMPACT ON THE BUSINESS ENVIRONMENT

Beginning in March 2020, the Governments of Canada and the United States, as well as other foreign governments instituted emergency measures as a result of the COVID-19 virus outbreak. The virus has had a major impact on North America and international securities, currency markets and consumer activity which may impact the Company's financial position, its results of future operations and its future cash flows significantly. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of future operations, financial position, and liquidity in fiscal year 2022.