AREV NANOTEC BRANDS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

STATED IN CANADIAN DOLLARS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AREV NanoTec Brands Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AREV NanoTec Brands Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

The consolidated financial statements of AREV NanoTec Brands Inc. for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 15,2020.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about AREV NanoTec Brands Inc.'s ability to continue as a going concern.

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

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 identified above 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.

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

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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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements.

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 Mickey Goldstein.

HARBOURSIDE CPA LLP

Vancouver, British Columbia
May 28, 2021

Harbourside CPA, LLP
Chartered Professional Accountants

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note		As at December 31, 2020		As at December 31, 2019
ASSETS					
Current Assets					
Cash		**$**	**297,626**	$	29,681
Amounts receivable	4		**26,441**		21,837
Inventory			**4,629**		–
Prepaid expenses			**14,172**		34,053
Assets held for sale	6		**515,379**		–
Total Current Assets			**858,247**		85,571
Non-current Assets					
Property and equipment	6,		**323,873**		793,853
Right of use asset	7		**94,971**		–
Investment	5		**1**		–
Total Assets		**$**	**1,277,092**	$	879,424
LIABILITIES					
Current Liabilities					
Accounts payable and accrued interest	9, 12	**$**	**549,095**	$	370,815
Due to related parties	12		**633,195**		461,221
Lease liability	7		**47,358**		–
Loan payable	11		**162,970**		100,000
Convertible debenture	10, 12		**473,408**		473,182
			1,866,026		1,405,218
Non-current Liabilities					
Lease liability	7		**52,300**		–
Total Liabilities			**1,918,326**		1,405,218
SHAREHOLDERS' DEFICIT					
Share capital	13		**12,045,076**		11,315,076
Shares issuable			**105,100**		7,500
Share subscriptions receivable			**(12,500)**		(12,500)
Equity portion of convertible debentures			**49,841**		49,841
Share based payment reserve			**2,284,567**		2,178,608
Accumulated other comprehensive income			**133**		254
Deficit			**(15,113,451)**		(14,064,573)
Total Shareholders' Deficit			**(641,234)**		(525,794)
Total Liabilities and Shareholders' Deficit		**$**	**1,277,092**	$	879,424
Nature of Operations and Going Concern	1				
Commitments	16				
Subsequent events	18				

Approved and authorized for issuance on behalf of the Board of Directors on May 28, 2021:

/s/ Mike Withrow

Mike Withrow, Director

/s/ Michael Frank Phillet

Michael Frank Phillet, Director

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

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Note		**Year ended December 31, 2020**		Year ended December 31, 2019
REVENUE		$	**190,577**	$	194,686
EXPENSES					
Advertising and marketing			**5,293**		42,983
Amortization and depreciation	6,7		**148,653**		65,560
Ba debt expense			**-**		41,423
Consulting and management fees	12		**143,281**		368,716
Office and administration			**62,086**		78,562
Professional fees			**92,616**		136,146
Property expenses			**81,789**		50,740
Rent and utilities			**20,939**		44,090
Research and development			**128,009**		1,148,664
Share-based payments	12, 13		**105,959**		1,193,046
Transfer agent and regulatory fees			**52,172**		46,540
Travel and accommodation			**2,920**		45,813
Total expenses			**843,717**		3,262,283
			(653,140)		(3,067,597)
Other Items					
Accretion of discount on convertible debentures			**(225)**		(26,931)
Gain on settlement of debt	13		**-**		27,879
Gain on forgiveness of debt			**-**		17,484
Interest expense			**(58,593)**		(46,289)
Loss on impairment of assets	6, 8, 12		**(200,000)**		-
Loss on impairment of investment	5		**(79,999)**		-
Loss on revaluation of assets held for sale	6		**(56,921)**		-
Write-down of deposits			**-**		(97,382)
Total other items			**(395,738)**		(125,239)
Net Loss			**(1,048,878)**		(3,192,836)
Other Comprehensive Income (Loss)					
Unrealized gain (loss) on foreign currency translation			**(121)**		122
Total Comprehensive Loss		$	**(1,048,999)**	**$**	(3,192,714)
Basic and Diluted Loss per Share		$	**(0.07)**	**$**	(0.36)
Weighted Average Number of Shares			**15,361,496**		8,912,479

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

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares	Amount	Share Subscription Receivable	Shares Issuable	Equity Portion of Convertible Debentures	Share-based Payment Reserve	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity (Deficit)
BALANCE, DECEMBER 31, 2018	8,130,700 $	9,648,627 $	(12,500) $	7,500 $	45,000 $	1,117,562 $	132 $	(10,871,737) $	(65,416)
Shares issued for cash	138,890	250,002	–	–	–	–	–	–	250,002
Shares issued for debt settlement	154,884	204,447	–	–	–	–	–	–	204,447
Shares issued for services	366,666	132,000	–	–	–	–	–	–	132,000
Shares issued for research and development	666,667	1,080,000	–	–	–	–	–	–	1,080,000
Share-based payments	–	–	–	–	–	1,061,046	–	–	1,061,046
Equity portion of convertible debenture	–	–	–	–	4,841	–	–	–	4,841
Foreign currency translation gain	–	–	–	–	–	–	122	–	122
Net loss for the year	–	–	–	–	–	–	–	(3,192,836)	(3,192,836)
BALANCE, DECEMBER 31, 2019	9,457,807 $	11,315,076 $	(12,500) $	7,500 $	49,841 $	2,178,608 $	254 $	(14,064,573) $	**(525,794)**

	Shares	Amount	Share Subscription Receivable	Shares Issuable	Equity Portion of Convertible Debentures	Share-based Payment Reserve	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity (Deficit)
BALANCE, DECEMBER 31, 2019	9,457,807 $	11,315,076 $	(12,500) $	7,500 $	49,841 $	2,178,608 $	254 $	(14,064,573) $	(525,794)
Shares issued for cash	7,500,000	450,000	–	–	–	–	–	–	450,000
Shares issued for debt settlement	1,000,000	100,000	–	–	–	–	–	–	100,000
Shares issued on exercise of warrants	2,250,000	180,000	–	–	–	–	–	–	180,000
Share-based payments	–	–	–	–	–	105,959	–	–	105,959
Share subscriptions received	–	–	–	97,600	–	–	–	–	97,600
Foreign currency translation loss	–	–	–	–	–	–	(121)	–	(121)
Net loss for the year	–	–	–	–	–	–	–	(1,048,878)	(1,048,878)
BALANCE, DECEMBER 31, 2020	20,207,807 $	12,045,076 $	(12,500) $	105,100 $	49,841 $	2,284,567 $	133 $	(15,113,451) $	(641,234)

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

Stated in Canadian dollars

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31, 2020		Year ended December 31, 2019
OPERATING ACTIVITIES				
Net loss for the period	**$**	**(1,048,878)**	$	(3,192,836)
Items not involving cash:				
Amortization and depreciation		**148,653**		65,560
Accretion on discount on convertible debentures		**225**		26,931
Bad Debt		**-**		41,423
Finance interest		**9,851**		-
Loss on impairment of assets		**200,000**		-
Loss on impairment of investment		**79,999**		-
Loss on revaluation of assets held for sale		**56,921**		-
Gain on settlement of debt		**-**		(27,879)
Gain on forgiveness of debt		**-**		(17,484)
Share based payments		**105,959**		1,061,046
Shares issued to finance research and development		**-**		1,080,000
Shares issued for services		**-**		132,000
Write down of deposits		**-**		97,382
Changes in non-cash working capital:				
Amounts receivable		**(4,604)**		(33,919)
Inventory		**(4,629)**		-
Prepaid expenses and deposits		**19,880**		(49,437)
Accounts payable and accrued liabilities		**178,163**		361,251
Advances from related parties		**234,944**		342,205
Net cash used in operating activities		**(23,516)**		(113,757)
INVESTING ACTIVITIES				
Proceeds from formation of joint venture		**20,000**		-
Purchase of property and equipment		**(308,156)**		(215,060)
Purchase of intangible assets		**(95,333)**		-
Lease payments on right-of-use assets		**(52,650)**		-
Net cash used in investing activities		**(436,139)**		(215,060)
FINANCING ACTIVITIES				
Proceeds from issue of common shares		**450,000**		250,002
Proceeds from exercise of warrants		**180,000**		-
Proceeds from loan payable		**-**		100,000
Proceeds from share subscriptions received		**97,600**		-
Net cash provided by financing activities		**727,600**		350,002
Effects of foreign exchange rate changes on cash		**-**		122
Change in cash		**267,945**		21,307
Cash, beginning		**29,681**		8,374
Cash, end	**$**	**297,626**	$	29,681

Supplemental cash flow information (Note 15)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations and going concern

AREV NanoTec Brands Inc. (formerly AREV Brands International Ltd.) (the "Company") was incorporated under the Business Corporations Act (Alberta) on November 22, 2005. The Company focuses on R&D of formulations and is currently commencing to expand the distribution of its line of branded natural health and cannabis infused products.

The registered address of the Company is Suite 440, 890 West Pender Street, Vancouver, BC, V6C 1J9. The principal place of business of the Company is 18 - 91 Golden Drive, Coquitlam, BC, V3K 6R2. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "AREV" and on October 9, 2019, the common shares began trading on the OTCQB Market ("OTCQB") under the symbol "AREVF".

On March 19, 2020, the Company consolidated its share capital on a 6-for-1 basis. These consolidated financial statements reflect this share consolidation on a retroactive basis.

On March 11, 2020, the World Health Organization declared the coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, as well as financial markets globally, potentially leading to an economic downturn. Efforts to contain the virus have severely limited the mobility of people and businesses. However, it is not possible for the Company at this time to predict the duration or magnitude of the impact towards the Company's business or results from its operations.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2020, the Company had a working capital deficit of $1,007,779 and an accumulated deficit of $15,113,451. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast doubt on the ability of the Company to continue as a going concern. These condensed consolidated statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. These adjustments could be material

2. Significant accounting policies

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. These consolidated statements are presented in Canadian dollars, which is also the Company's functional currency. In addition, these consolidated statements have been prepared using the accrual basis of accounting except for cash flow information.

c) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned inactive subsidiary, Deutsche Medizinal Cannabis UG, incorporated in Munich, Germany. All inter-company transactions and balances have been eliminated.

d) Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

<u>Significant estimates:</u>

Allowance for Doubtful Accounts

The Company estimates the amount of accounts receivable that may not be collectable and will allow for a write down of such amounts. Management uses historical information on the recoverability of accounts receivable and also looks at specific account balances in determining an allowance.

Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful management of cannabis operations. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Useful Life of Property, Plant and Equipment and Intangible Assets

Property, plant and equipment are amortized over its estimated useful life. Estimated useful lives are determined based on current facts and past management experience and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

2. Significant accounting policies (continued…)

d) Use of estimates and judgements (continued…)

Significant estimates: (continued…)

Share-Based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

Discount rates used in convertible debentures

The Company calculates the liability portion of convertible debentures by calculating the present value of the loan and related interest, using a discount rate equal to the market rate that would be given for a similar debt, without a conversion feature.

Significant judgements:

Going concern

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

Joint Arrangements

On June 18, 2020, the Company entered into a joint arrangement agreement, whereby, once formed, the Company will hold a 50% interest in the venture. (Note 5). The Company will have joint control over the arrangement and unanimous consent is required from all parties to the agreement for certain key strategic, operating, investing and financing policies. Therefore, this arrangement will be classified as joint venture once the venture is formed

2. Significant accounting policies (continued…)

e) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

f) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they are incurred.

Depreciation of property and equipment is provided using the declining balance and straight-line method at the following rates approximating their estimated useful lives:

Equipment 30%
Leasehold improvements 3 years

g) Intangible assets

Intangible assets that are acquired by the Company such as formulations and intellectual development, have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. These assets are reviewed for impairment or obsolescence when events or changes in circumstances indicate that the carrying amount may not be recoverable. If impaired, intangible assets are written down to fair value based on discounted cash flows or other valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Significant accounting policies (continued…)

h) Impairment of non-current assets

The carrying value of property and equipment, intangible assets, and other long-term assets is reviewed annually for indicators that the carrying value of an asset or cash generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in the consolidated statement of operations.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the asset or cash-generating unit in its present form.

Reversals of impairments are recognized when there are indicators that an impairment loss recognized in prior periods may no longer exist or may have decreased. In this event, the carrying amount of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in the consolidated statement of operations. The revised recoverable amount is limited to the original carrying amount less amortization as if no impairment had been recognized for the asset or cash generating unit for prior periods.

i) Joint arrangements

Pursuant to IFRS 11, Joint Arrangements, the Company is required to classify its interest in a joint arrangement as a joint venture or joint operation. A joint venture will be accounted for using the equity method of accounting, whereas a joint operation will recognize the venture's share of the assets, liabilities, revenue and expenses of the joint operation.

j) Assets held for sale

Non-current assets and disposal groups are classified as assets held for sale ("HFS") if it is highly probable that the value of these assets will be recovered primarily through sale rather than through continuing use. They are recorded at the lower of carrying amount and fair value less cost to sell. Impairment losses on initial classification as HFS and subsequent gains and losses on re-measurement are recognized in the income statement. Once classified as held for sale, property, and equipment are no longer amortized. The assets and liabilities are presented as held for sale in the statements of financial position when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and management is committed to the sale, which should be expected to be completed within one year form the date of classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Significant accounting policies (continued…)

k) Comprehensive loss

Comprehensive income (loss) is the change in the Company's net assets that result from certain unrealized gains or losses not recognized in the statements of profit and loss.

l) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss is incurred during the year, basic and diluted loss per share are the same, as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

m) Share-based payments

The fair value of the stock options is measured at the grant date and recognized as share-based payments expense, with a corresponding increase in share-based payment reserve over the vesting period. The fair value of the stock is measured using the Black Scholes option pricing model taking into account the terms and conditions upon which the stock options were granted. The Company measures share-based compensation to non-employees at the fair value of the goods or services received. If the fair value of the goods or services cannot be measured reliably, the value of the options is used, measured using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of stock options that will ultimately vest. When stock options are exercised, the amount previously recorded as share based payments is recorded as share capital.

n) Foreign currency translation

The Company's functional currency is Canadian dollars and the functional currency of Deutsche Medizinal Cannabis UG is the Euro. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions. Material foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

2. Significant accounting policies (continued…)

o) Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the consolidated statement of financial position date, plus any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred income 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.

p) Revenue recognition

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligations within the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when the amount of revenue can be measured reliably, the economic benefits associated with the revenue will flow to the Company, the stage of completion can be measured reliably, and the costs incurred for the transaction can be measured reliably.

Revenue is derived from the short-term rental of the Company's equipment. Customers are billed upon the completion of the rental period and revenue is recognized when the rental period has ended.

2. Significant accounting policies (continued…)

q) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of operations.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Amounts receivable	Amortized cost
Assets held for sale	Amortized cost
Investment	Fair value through profit and loss
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Due to related parties	Amortized cost
Convertible debentures	Amortized cost

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Financial assets at FVTPL</u>

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

<u>Financial assets at amortized cost</u>

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

2. Significant accounting policies (continued…)

r) Financial instruments (continued…)

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issuance costs.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2. Significant accounting policies (continued…)

s) Leases

Leases On January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16"). The Company chose to apply the effect of changes using the modified retrospective approach without restating comparative amounts for the year ended December 31, 2018, with the cumulative effect of initially applying the standards recognized at the date of initial application which is January 1, 2019. The right-of-use assets are measured on adoption at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to the lease recognized in the statement of financial position at adoption.

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets – The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease liabilities – At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate
.
Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

2. Significant accounting policies (continued…)

s) Leases (continued…)

(ii) Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of net loss and comprehensive loss due to its operating nature.

(iii) Subleases

In classifying a sublease, the Company classifies the sublease as a finance lease or an operating lease as follows:

- If the head lease is a short-term lease, the sublease is classified as an operating lease.
- Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

3. Financial instruments and risk management

Fair Values

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which include cash, amounts receivable, assets held for sale, investments, accounts payable and accrued liabilities, loans payable, convertible debt, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

The Company’s risk exposure and the impact on the Company’s financial instruments is summarized below

a) Credit Risk

Credit risk is the risk of financial loss to the Company if any counterparty fails to discharge its obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amounts receivable . The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable consists primarily of GST receivable from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

Stated in Canadian dollars

3. Financial instruments and risk management (continued…)

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations as they become due.

c) Market risk

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

(i) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a change in interest rates is minimal, as the Company does not have any variable interest rate investments or financial liabilities.

(ii) Price risk
The Company is not exposed to price risk, as it has no investments in publicly traded securities as at December 31, 2020.

(iii) Currency risk
The Company is not exposed to significant currency risk, as the majority of its transactions are in Canada using the Canadian dollar.

4. Amounts receivable

		December 31, 2020		**December 31, 2019**
GST receivable	**$**	**22,914**	$	18,902
Miscellaneous		**3,527**		2,935
	$	**26,441**	$	21,837

5. Joint Venture

On June 18, 2020, the Company entered into a Joint Venture Agreement with Absolem Mushroom Extraction Inc. (“Absolem”). The goal of the joint venture is to develop a series of proprietary extraction procedures on a broad variety of fungi production what might be considered to be mushrooms of a “medicinal nature”. As at December 31, 2020, the Joint Venture has not been formed.

Upon formation of the joint venture the Company will have a 50% interest in the joint venture in return for providing Absolem with use of the equipment and providing its expertise, knowledge, knowhow, research methods, scientific facilities and personnel. Absolem. contributed $20,000 cash and issued 1,066,667 common shares of Absolem to the Company, valued at $80,000, in addition to providing supplies of mushrooms for research purposes of the joint venture. The common shares of Absolem are subject to share resale restrictions (i) no sales prior to a date that is 4 months after the distribution date or the date that Absolem becomes a reporting issuer in Canada , and (ii) without Absolem’s consent the shares are released over a 36 month period following the listing of Absolem’s securities on a Canadian stock exchange.

The 1,066,667 common shares of issued to the Company have been impaired by $79,999, to $1 as at December 31, 2020.

As at December 31, 2020, the Company owes $100,000 to this joint venture.

Stated in Canadian dollars

6. Property and equipment

COST

		Land		Equipment		Leasehold Improvement		Total
Balance, December 31, 2018	$	-	$	1		3,200	$	3,201
Additions		572,300		287,112		-		859,412
Balance, December 31, 2019		572,300		287,113		3,200		862,613
Additions		-		308,156		-		308,156
Reclassification of assets held for sale		(572,300)		-		-		(572,300)
Impairment (Note 12)		-		(104,667)		-		(104,667)
Balance, December 31, 2020	$	-	$	490,602	$	3,200	$	493,802

ACCUMULATED DEPRECIATION:

		Land		Equipment		Leasehold Improvement		Total
Balance, December 31, 2018	$	-	$	-	$	3,200	$	3,200
Additions		-		65,560		-		65,560
Balance, December 31, 2019		-		65,560		3,200		68,760
Additions		-		101,169		-		101,169
Balance, December 31, 2020	$	-	$	166,729	$	3,200	$	169,929

CARRYING AMOUNTS:

		Land		Equipment		Leasehold Improvement		Total
As at December 31, 2019		572,300		221,553		-		793,853
As at December 31, 2020	$	-	$	323,873	$	-	$	323,873

Land held for sale is the Company's interest in a property in Sorrento, BC. The property which was listed for sale as at December 31, 2020. The sale of the land closed on March 29, 2021 for net proceeds of $515,165 (Note 18). As at December 31, 2020 a loss on revaluation of assets held for sales of $56,921 was recognized.

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Leases

The following tables summarize the difference between the operating lease commitment disclosed immediately preceding the date of recognition and the lease liability recognized in the consolidated statement of financial position:

Right of Use Asset		
Balance, December 31, 2019	$	-
Additions		142,455
Amortization		(47,484)
Balance, December 31, 2020	$	94,971

Lease Liability		
Balance, December 31, 2019	$	-
Additions		142,455
Lease payment		(52,650)
Lease interest		9,853
Balance, December 31, 2020	$	99,658

Current portion	$	47,358
Long-term portion		52,300
Balance, December 31, 2020	$	99,658

8. Intangible Assets

On April 4, 2020, the Company entered into an asset purchase agreement with a company controlled by the Chief Executive Officer of the Company. Pursuant to the agreement, the Company agreed to purchase a flash freezing extraction apparatus, the method, engineering know-how, business models and trade secrets consideration for $200,000. Of the $200,000 purchase price $104,667 was allocated to the equipment (Note 6) and $95,333 was allocated to the intangible assets. As at December 31, 2020 a loss on impairment of the equipment and the intangible assets was recognized to write-down the equipment and intangible assets to $nil. (Note 12).

9. Accounts payable and accrued liabilities:

		December 31, 2020		December 31, 2019
Trade payables	$	432,942	$	306,673
Accrued interest payable		116,153		64,142
	$	**549,095**	$	$ 370,815

10. Convertible debenture

On July 3, 2018, the Company issued a $450,000 convertible debenture related to the asset purchase and sale agreement with Matthew Harvey carrying on business under the branding “BC Bud Depot”. The debenture accrues interest at 8% per annum, was due on July 3, 2019, and is convertible into common shares of the Company at a price of $3.00 per common share. As at December 31, 2020, the accrued interest on the debenture totalled $89,753 (December 31, 2019 - $53,852). This interest is included in the accounts payable and accrued interest. On January 29, 2020, the Company filed a lawsuit against Matthew Harvey for non-delivery of assets and is claiming that $5,250,000 paid for the assets by the issuance of shares of the Company. The lawsuit was filed in the Supreme Court of BC. With the exception of this debenture and its accrued interest, no additional assets or liabilities have been included in these financial statements as the outcome of the litigation cannot be reasonably determined at this time (Note 16).

On January 17, 2019, the Company closed a purchase and sale agreement to acquire a 100% interest in real estate located in Sorrento, B.C. from a company controlled by the Chief Executive Officer of the Company. The purchase price was $572,300 of which $23,408 was paid by way of a convertible debenture issued by the Company accruing interest at 8% per annum. The remaining balance was paid in cash, of which $526,592 was paid in fiscal 2018 and the remaining $22,300 paid in fiscal 2019. The outstanding principal amount and outstanding accruing interest of the convertible debenture is convertible into common shares of the Company at a price of $1.80 per common share. As at December 31, 2020, the accrued interest on the debenture totalled $7,554 (2019 - $3,693) and is included in accounts payable and accrued liabilities. (Note 12).

11. Loan payable

On March 5, 2019, the Company borrowed $100,000 (2019 - $100,000) from an arm’s length party which bears interest at 8% compounded annually, is unsecured by a specific fixed asset and due on demand. As at December 31, 2020, the accrued interest on the loan payable totalled $14,597 (December 31, 2019 - $6,597) and is included in accounts payable and accrued liabilities.

On January 17, 2019, the Company acquired land which had a mortgage retained on title in the amount of $62,970. The mortgage is non-interest bearing is subject to repayment upon the Company disposing of the land (Note 18). As at December 31, 2020 $62,970 (2019 - $62,970 included in due to related parties) is outstanding. (Note 12).

12. Related party transactions

Related parties include key management, the board of Directors, close family members and enterprises which are controlled by these individuals.

As at December 31, 2020, the Company owed a Director of the Company $101,561 (2019 $ 64,616) for management fees as Corporate Secretary. The amount owing is non-interest bearing, unsecured, and due on demand. During the year ended December 31, 2020, the Company incurred $72,000 (2019 - $72,000) of consulting fees to the director.

As at December 31, 2020, the Company owed $220,331 (2019 - $71,995) to Companies controlled by the Chief Executive Officer of the Company. The amounts consists of $189,369 (2019 - $52,505) which is non-interest bearing, unsecured, and due on demand, and $23,408 (2019 – $23,182) plus accrued interest of $7,554 (2019 - $3,693) from a convertible debenture (note 10). During the year ended December 31, 2020, the Company purchased equipment and intangible assets (notes 6 and 8) from a Company controlled by the Chief Executive Officer of the Company for proceeds of $200,000. The assets were written down to $nil during the year ended December 31, 2020

As at December 31, 2020, the Company owed $242,265 (December 31, 2019 - $291,531) to the Chief Executive Officer of the Company. The amount owing is non-interest bearing, unsecured, and due on demand. During the year ended December 31, 2020, the Company settled $100,000 in debt owing to the Chief Executive Officer of the Company by the issuance of 1,000,000 common shares of the Company at $0.10 per share.

As at December 31, 2020, the Company owed $nil (2019 - $52,531) to a company where the former Chief Financial Officer of the Company is a partner. The amount owing is non-interest bearing, unsecured, and due on demand and is included in accounts payable and accrued liabilities. During the year ended December 31, 2020, the Company incurred $nil (2019 - $60,000) of accounting fees to a company where the former Chief Financial Officer of the Company is a partner.

During the year ended December 31, 2020, the Company incurred $nil (2019 - $20,800) of consulting fees to Companies of former Directors of the Company.

As at December 31, 2020, the Company owes the joint venture to be formed with Absolem $100,000 (2019 - $nil).

During the year ended December 31, 2020, the Company granted stock options with a fair value of $40,980 (2019 - $983,083) to key management personnel.

13. Share capital

a) Authorized capital:

- unlimited common shares without par value
- 20,000,000 preferred shares, issuable in one or more series
- 20,000,000 redeemable preferred shares, issuable in one or more series

b) Issued or allotted and fully paid:

Share issuances during the year ended December 31, 2020:

On April 3, 2020, the Company issued 3,750,000 units at $0.06 per unit for proceeds of $225,000. Each unit was comprised of one common share and one share purchase with each warrant being exercisable at $0.08 per share expiring two years from the date of issuance.

On April 17, 2020, the Company issued 3,750,000 units at $0.06 per unit for proceeds of $225,000. Each unit was comprised of one common share and one share purchase warrant with each warrant being exercisable at $0.08 per share expiring two years from the date of issuance.

On July 13, 2020, the Company settled $100,000 in debt with the CEO of the Company by the issuance of 1,000,000 common shares at $0.10.

On December 22, 2020, the Company received share subscription proceeds in advance of $97,600.

On December 31, 2020, 2,250,000 warrants were exercised at a price of $0.08 per share for 2,250,000 shares.

Share issuances during the year ended December 31, 2019:

On February 19, 2019, the Company issued 666,667 common shares with a fair value of $1,080,000 to acquire branding and intellectual property under the name Canna Gold, which has been recorded under research and development.

On April 25, 2019 the Company issued 154,884 common shares with a fair value of $204,447 to settle debts of $232,327 owing to two vendors, resulting in a gain on settlement of debt of $27,879.

On May 6, 2019, the Company issued 138,890 units at a price of $1.80 per unit, for proceeds of $250,002. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable at $3.00 per share for a period of 12 months from the date of issuance.

On November 21, 2019, the Company issued 366,666 common shares with a fair value of $132,000 as a milestone success fee to a director and Chief Executive Officer of the Company.

13. Share capital (continued…)

d) Stock options

The Company has a stock option plan pursuant to which the Board of Directors may grant options to purchase common shares to the officers, directors, and employees of the Company or affiliated companies and to consultants retained by the Company. The aggregate number of common shares reserved for issuance under the stock option plan is set at a maximum of 10% of the total number of shares outstanding at the time the options are granted. Furthermore, the aggregate number of shares issuable to one individual may not exceed 5% of the total number of issued and outstanding common shares of the Company. The exercise price of all options issued under the stock option plan may not be less than the closing market price on the last business day prior to the date the option was granted.

Stock option issuances during the year ended December 31, 2020:

On December 14, 2020, the Company granted 400,000 stock options to directors, officers and consultants of the Company at a price of $0.15 per option for a period of 5 years from the date of issuance.

On December 20, 2020, the Company granted 300,000 stock options to consultants of the Company at a price of $0.17 per option for a period of 5 years form the date of issuance.

Stock option issuances during the year ended December 31, 2019:

On February 12, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of $1.44 per option for a period of 5 years from the date of issuance.

On April 25, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of $1.32 per option for a period of 5 years from the date of issuance.

On May 2, 2019, the Company granted 533,333 stock options to officers and consultants of the Company at a price of $1.95 per option for a period of 5 years from the date of issuance.

On June 10, 2019, the Company granted 100,000 stock options to directors, officers and consultants of the Company at a price of $1.56 per option for a period of 5 years from the date of issuance.

On July 16, 2019, the Company granted 16,667 stock options to a consultant of the Company at a price of $1.38 per option for a period of 5 years from the date of issuance.

Stated in Canadian dollars

13. Share capital (continued…)

c) Stock options (continued…)

Option activity during the years is summarized as follows:

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2018	**400,000**	**$2.34**
Granted	**683,333**	**$1.55**
Cancelled	**(870,833)**	**$1.99**
Outstanding, December 31, 2019	**212,500**	**$2.19**
Granted	**700,000**	**$0.16**
Cancelled	**(112,500)**	**$2.40**
Outstanding, December 31, 2020	**800,000**	**$0.38**

Additional information regarding stock options outstanding as at December 31, 2020, is as follows:

	Outstanding and exercisable		
Exercise prices $	Number of options	Weighted average remaining contractual life (years)	Expiry date
2.94	8,333	1.93	December 7, 2022
2.40	33,333	2.70	September 14, 2023
1.32	16,667	3.32	April 25, 2024
1.95	16,667	3.34	May 2, 2024
1.56	8,333	3.44	June 10, 2024
1.38	16,667	3.54	July 16, 2024
0.15	400,000	4.96	December 14, 2025
0.17	300,000	4.98	December 24, 2025
	800,000	4.73	

During the year ended December 31, 2020, the Company recorded share-based compensation of $105,959 (2019 - $1,061,046). The weighted average grant date fair value of stock options granted during the year ended December 31, 2020 was $0.15 per share. The fair value for stock options granted have been estimated suing the Black-Scholes option pricing model assuming no expected dividends or forfeitures and the following weighted average assumptions:

	Year ended December 31, 2020	Year ended December 31, 2019
Risk-free interest rate	0.44%	1.60%
Expected life (in years)	5	5
Expected volatility	202.7%	89.8%

Stated in Canadian dollars

13. Share capital (continued…)

d) Share purchase warrants

	Number of warrants	Weighted average exercise price $
Balance, December 31, 2018	559,767	2.22
Issued	138,890	3.00
Expired	(443,100)	2.40
Balance, December 31, 2019	255,557	1.77
Issued	7,500,000	0.08
Exercised	(2,250,000)	0.08
Expired	(255,557)	1.77
Balance, December 31, 2020	5,250,000	0.08

As at December 31, 2020, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price $	Expiry date	Weighted average remaining contractual life (years)
1,500,000	0.08	April 3, 2022	1.25
3,750,000	0.08	April 17, 2022	1.29
5,250,000	0.08		1.28

14. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to sustain future development of the business. The capital structure of the Company consists of cash and equity comprised of issued share capital, share subscriptions receivable, and contributed surplus.

The Company manages its capital structure and makes adjustments to it according to economic market conditions. Management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses expected capital requirements for the fiscal period. In order to maintain or adjust the capital structure, the Company may adjust spending, issue new shares, sell assets, or incur debt.

The Company is not subject to externally imposed capital requirements and there have been no changes to the Company's capital management policy during the year ended December 31, 2020.

Stated in Canadian dollars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Supplemental cash flow information

		Year ended December 31, 2020	Year ended December 31, 2019
Non-cash investing and financing activities:			
Acquisition of land paid by convertible debenture issued	**$**	**–** $	18,567
Acquisition of property and equipment paid by an arm's length party		**–**	32,100
Acquisition of property and equipment paid by related party		**–**	32,250
Shares issued for debt settlement		**100,000**	204,447

16. Commitments and contingencies

Lease Commitments:

On December 2, 2019, the Company entered into an industrial lease agreement until December 2, 2022. The lease commenced on January 2, 2020. Expected annual payments under this lease arrangement are as follows:

	$
2021	53,623
2022	54,635
	108,258

Pending Litigation:

On January 29, 2020, the Company commenced litigation in the Supreme Court of British Columbia against the Defendant, Matthew Harvey, the vendor of the BC Bud Depot Assets. The Company is seeking damages, punitive damages, interest, injunctive relief, and costs relating to breach of contract between Matthew Harvey and the Company. The outcome of the litigation cannot be reasonably determined at this time. (Note 10).

Stated in Canadian dollars

17. Income taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

		2020		2019
Loss before tax		**(1,048,878)**		(3,192,714)
Canadian statutory income tax rate		**27%**		27%
Income tax recovery at statutory rate	**$**	**(283,000)**	$	(862,065)
Tax effect of:				
Non-deductible items and other		**102,775**		322,122
Change in unrecognized temporary differences		**1,730,225**		539,943
Change due to prior year tax return		**(1,550,000)**		-
Income tax expense (recovery) from continuing operations	**$**	**–**	$	–

The significant components of deferred income tax assets and liabilities are as follows:

		2020		2019
Deferred income tax assets				
Non-capital losses carried forward	**$**	**3,182,000**	$	3,130,117
Property and equipment		**2,069,000**		400,658
Investments		**11,00**		-
Finance Lease obligation		**27,000**		-
Share issuance costs		**2,000**		3,931
Total gross deferred income tax assets	**$**	**5,291,000**	$	3,534,706
Offset by deferred tax liabilities below		**(26,000)**		-
Unrecognized deferred income tax assets		**(5,265,000)**		(3,534,706)
Net deferred income tax assets	**$**	**–**	$	–

Deferred tax liabilities are attributable to the following:

		2020		2019
Right of use assets	**$**	**(26,000)**	$	-
Deferred tax liabilities				
Offset by deferred tax liabilities above		**26,000**		-
Net deferred tax liabilities	**$**	**–**	$	–

Stated in Canadian dollars

17. Income taxes (continued…)

The significant components of the Company's unrecognized deferred tax assets are as follows:

	Expiry date range	December 31, 2020		December 31, 2019	
Non-capital losses	2027 - 2040	$	11,786,643	$	11,593,025
Property and equipment	No expiry	$	7,661,410	$	1,483,919
Share issuance costs	2042	$	8,200	$	14,560
Investments	No expiry	$	79,999	$	-
Right of use asset	No expiry	$	99,658	$	-

Tax attributes are subject to review, and potential change by tax authorities

18. Subsequent events

On January 6, 2021, the Company completed a non-brokered private placement of 1,000,000 units at a price of CAD$0.10 per unit, for $100,000. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.15 per share for a period of 12 months.

On January 25, 2021, the Company announced that it has agreed to enter into an operation agreement (the "Transaction") with Vapen Kentucky, LLC ("Vapen KY"), a Kentucky-based producer of CBD isolate and distillate, to supply extracted CBD oils from their local operation and provide production services to the Company in Kentucky for the Company's BARE branded line of CBD infused nutraceutical products. The Company advanced USD$30,000 to Vapen KY to be utilized to build out the production facilities, as necessary. The Company provided Vapen KY with the specifications for the processing and operating facilities, the equipment necessary to produce its products and training for Vapen KY's employees. The Company will pay a service fee for production staffing and occupancy services as well as purchase CBD extracted oils from Vapen KY at prices to be agreed upon in the operating agreement. The terms of the transaction are subject to the negotiation and execution of an operating agreement.

On March 23, 2021, the Company sold its land holding in Sorrento, B.C. The closing price was $518,165. Funds received were utilized to repay related mortgage indebtedness of the property in addition to payment of other related accrued liabilities on the land. The net proceeds to the Company were approximately $60,000. (Note 6).

On March 31, 2021, the Company closed a non-brokered private placement of 2,680,0000 units at a price of CAD$0.25 per unit, for $670,000. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.28 per share for a period of 24 months. An insider has subscribed for 400,000 units of the financing.

18. Subsequent events (continued…)

On March 31, 2021, the Company signed a Collaboration and Exclusivity Agreement ("the Collaboration Agreement") with one of the world's leading hep-derived cannabinoid product developers and producers ("Collaboration Co"). Under the Collaboration Agreement, Collaboration Co. will be the Company's exclusive supplier for bulk cannabinoid materials used in its products exported to the United Kingdom (UK) and he European Union (EU), subject to validation of Collaboration Co.'s Novel Foods Application. At such time as the Food Standards Agency publishes the list of validated applications, Collaboration Co. will be able to use the Company's ingredients and proprietary formulations, which include Sea Cucumber, Hops and Ginseng extracts in the production of products targeted at UK and EU markets. The Company paid USD$10,000 to Collaboration Co. relating to filing fees associated with Novel Foods Application.

Subsequent to December 31, 2020, the Company issued 300,000 common shares from the exercise of stock options and 485,000 common shares from the exercise of common share purchase warrants for gross proceeds of $51,000 and $38,800 respectively.