Adastra Labs Holdings Ltd.
(formerly Arrowstar Resources Ltd.)

Condensed Interim Consolidated Financial Statements

For the nine months ended
September 30, 2020

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Adastra Labs Holdings Ltd. ("the Company") as at September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and September 30, 2019, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity's auditor.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – Prepared by Management)

As at September 30, 2020 and December 31, 2019

	Note	September 30, 2020 $	December 31, 2019 $
Assets			
Current assets			
Cash		2,309,090	2,376,826
Receivables and prepayments	4	190,010	461,167
Marketable securities	5	-	1,500
Inventory	6	1,155,172	-
		3,654,272	2,839,493
Non-current assets			
Deposits	7	4,000	4,000
Property and equipment	7	10,175,854	8,507,517
		10,179,854	8,511,517
Total assets		**13,834,126**	11,351,010
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities	10	1,360,282	873,402
Mortgage payable	12	2,438,161	2,437,175
		3,798,443	3,310,577
Non-current liabilities			
Convertible debentures	13	-	2,955,511
Government loan	2(e)	40,000	-
Total liabilities		**3,838,443**	6,266,088
Equity			
Share capital	8	15,822,152	8,348,407
Debenture reserves	13	-	298,461
Reserves	8	5,441,814	-
Deficit		(11,268,283)	(3,561,946)
Total equity		**9,995,683**	5,084,922
Total liabilities and equity		**13,834,126**	11,351,010

Nature of operations and going concern **1**

Approved on behalf of the Board of Directors on November 27, 2020:

"Andrew Hale" **Director** *"Blaine Bailey"* **Director**

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

For the nine months ended September 30, 2020 and September 30, 2019

	Number of shares #	Share capital $	Debenture reserves $	Reserves $	Subscriptions received $	Deficit $	Total equity (deficiency) $
January 1, 2019	1	1	-	-	-	(443,783)	(443,782)
Cancellation of incorporation share	(1)	(1)	-	-	-	-	(1)
Shares issued for cash - private placements	81,138,333	4,614,000	-	-	-	-	4,614,000
Subscriptions received	-	-	-	-	1,732,000	-	1,732,000
Loss and comprehensive loss for the period	-	-	-	-	-	(1,167,118)	(1,167,118)
September 30, 2019	81,138,333	4,614,000	-	-	1,732,000	(1,610,901)	4,735,099
January 1, 2020	108,686,822	8,348,407	298,461	-	-	(3,561,946)	5,084,922
Convertible debentures - settlement	7,596,421	3,418,390	(298,461)	70,814	-	-	3,190,743
Units issued for cash	11,648,001	3,494,400	-	-	-	-	3,494,400
Share issue costs	-	(60,100)	-	38,500	-	-	(21,600)
Shares issued for cash - warrants	128,900	77,340	-	-	-	-	77,340
Shares issued - services	470,682	131,791	-	-	-	-	131,791
Shares issued - debt settlement	1,471,158	411,924	-	-	-	-	411,924
Share-based payments	-	-	-	5,332,500	-	-	5,332,500
Loss and comprehensive loss for the period	-	-	-	-	-	(7,706,337)	(7,706,337)
September 30, 2020	**130,001,984**	**15,822,152**	**-**	**5,441,814**	**-**	**(11,268,283)**	**9,995,683**

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited – Prepared by Management)

For the three and nine months ended September 30,

		Three months ended September 30,		Nine months ended September 30,	
		2020	**2019**	**2020**	**2019**
	Note	**$**	$	**$**	$
Revenue		825,903	-	1,254,258	-
Cost of sales		(875,485)	-	(1,088,721)	-
Gross profit (loss)		(49,582)	-	165,537	-
Expenses					
Advertising and promotion		433,859	40,620	694,380	40,620
Accretion	13	14,768	-	58,405	-
Depreciation	7	21,750	26,893	70,261	53,867
Insurance		21,442	2,412	51,843	13,029
Office expenses		150,854	56,127	390,335	168,648
Professional fees and consulting	10	174,913	135,952	570,814	423,196
Rent		-	3,208	-	25,960
Share-based payments	8,10	2,795,200	-	5,332,500	-
Travel		1,192	-	2,827	-
Wages and salaries	10	154,063	94,558	353,050	293,980
Loss from operating expenses		**(3,768,041)**	(359,770)	**(7,524,415)**	(1,019,300)
Interest expense	12,13	(78,096)	(50,968)	(350,378)	(159,983)
Interest income		-	2,479	4,419	12,165
Realized loss on marketable securities	5	-	-	(1,500)	-
Loss and comprehensive loss for the period		**(3,895,719)**	(408,259)	**(7,706,337)**	(1,167,118)
Loss per share					
Weighted average number of common shares outstanding					
- basic #	**9**	**115,534,598**	81,138,333	**115,420,385**	63,208,406
- diluted #	**9**	**115,534,598**	81,138,333	**115,420,385**	63,208,406
Basic loss per share $	**9**	(0.03)	(0.01)	(0.07)	(0.02)
Diluted loss per share $	**9**	(0.03)	(0.01)	(0.07)	(0.02)

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

Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

For the nine months ended September 30,

	Note	2020	2019
Operating activities			
Loss for the period		(7,706,337)	(1,167,118)
Adjustments for non-cash items:			
Accretion		58,405	-
Depreciation		388,321	53,867
Interest expense		343,942	159,983
Interest income		(4,419)	(12,165)
Share-based payments		5,332,500	-
Services paid in shares		131,791	-
Realized loss on marketable securities		1,500	-
Net change in non-cash working capital items	11	(803,623)	253,814
		(2,257,920)	(711,619)
Financing activities			
Issue of units for cash, net of share issue costs		3,472,800	2,415,301
Subscriptions received		-	890,000
Warrants exercised		77,340	-
Proceeds - mortgage		-	2,446,000
Borrowing costs - mortgage		(18,345)	(50,755)
Interest paid - mortgage		(147,781)	(159,983)
Increase in bank indebtedness		-	94,782
Loan proceeds		40,000	-
		3,424,014	5,635,345
Investing activities			
Acquisition of property and equipment		(1,238,249)	(6,286,167)
Interest income		4,419	12,165
		(1,233,830)	(6,274,002)
Net decrease in cash		(67,736)	(1,350,276)
Cash, beginning of period		2,376,826	1,350,276
Cash, end of period		**2,309,090**	-
Supplemental cash flow information	11		

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

1. Nature of operations and going concern

Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.) (the “Company” or “Arrowstar”) was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company changed its name to Adastra Labs Holdings Ltd., on December 19, 2019. The Company is an extraction and processing solutions company. The Company’s mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol “XTRX”.

The Company’s registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

Health Canada issued an Analytical testing license on the Company’s facility to Chemia Analytics Inc., (“Chemia”). Chemia is a wholly owned subsidiary of the Company. Additionally, Health Canada issued a Standard Processing License on the Company’s facility to Adastra Labs Inc., (“Labs”). Labs is a wholly owned subsidiary of the Company.

On December 20, 2019, Arrowstar acquired all of the issued and outstanding common shares of Adastra Labs Holdings (2019) Ltd. (“Adastra”) a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover (“RTO”) of the Company by Adastra (the “Transaction”). The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra (note 3). These unaudited condensed interim consolidated financial statements (the “financial statements”) include the results of operations of Arrowstar since December 20, 2019. The comparative figures are those of Adastra prior to the RTO. At the time of the transaction the Company changed its financial year end from April 30 to December 31.

These financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

The Company’s ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable (note 12).

As at September 30, 2020, the Company had a working capital deficit of $144,171 (December 31, 2019 - $471,084) and has incurred losses since inception. These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements it could be necessary to restate the Company’s assets and liabilities on a liquidation basis.

2. Significant accounting policies

(a) Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company‘s annual audited financial statements for the year ended December 31, 2019, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts on these financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries (note 2(b)).

2. Significant accounting policies (continued)

(b) Principles of consolidation

These financial statements include the financial information of the Company and its subsidiaries.

The financial statements include the following entities:

Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.)	Legal parent company
Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)	Holding company
Adastra Labs Inc.	Extraction and concentrates production company
Chemia Analytics Inc.	Cannabis testing an analysis laboratory company
1178562 B.C. Ltd.	Facility owner
Adastra Brands Inc.	Intellectual property company

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company.

These financial statements account for Arrowstar as a controlled entity (accounting acquiree) requiring consolidation since the date of the RTO (notes 1 and 3), effective December 20, 2019.

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its annual financial statements for the year ended December 31, 2020. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financials.

(c) COVID-19 estimation uncertainty

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This has resulted in governments worldwide, including the Canadian government, to enact emergency measures to combat the spread of the virus. These measures, which include social distancing, the implementation of travel bans, and closures of non-essential businesses, have caused material disruption to businesses globally, resulting in an economic slowdown. The production and sale of cannabis have been recognized as essential services across Canada. As at September 30, 2020, the Company has not observed any material impairments of assets or a significant change in the fair value of assets, due to the COVID-19 pandemic.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business, financial position and operating results remain unknown at this time. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

2. Significant accounting policies (continued)

(d) Application of new accounting policies

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of cannabis and hemp biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. Costs of extracted cannabis and hemp oil inventory are comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including labor related costs, consumables, materials, packaging supplies, utilities, facility costs, analytical testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products and services. Primary costs include raw materials, packaging, direct labor, overhead, shipping and the depreciation of production equipment and facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. The Company recognizes the cost of sales as the associated revenue is recognized.

(e) IFRS Standards in effect but not previously applicable:

IAS 20 – Government assistance ("IAS 20")

Government grants and assistance are recognized as a reduction in the related expense in the period in which the grant or assistance become receivable on all conditions, if any, have been satisfied.

During the period ended September 30, 2020, the Company determined the impact on the revenue of the Company and its subsidiaries, as a result of the COVID-19 pandemic, qualified the Company to apply for the Canadian Emergency Wage Subsidy ("CEWS") provided by the Government of Canada. As a result, the Company has recorded a reduction in wages and salaries of $10,288 (2019 – $nil).

During the period ended September 30, 2020, the Company qualified for a government-guaranteed bank loan of $40,000 which is interest-free. If the balance of the loan is repaid on or before December 31, 2022, 25% will not have to be repaid ($10,000). Funds can be used to pay non-deferrable operating expenses including payroll.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued by the IASB to provide guidance on how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers and is effective for years beginning on or after January 1, 2018.

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

1. Identifying the contract with the customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis biomass and oil is recognized at a point in time when the Company has satisfied the performance obligations under the customer contracts. Revenue from toll processing and white label manufacturing, under fee for service agreements, is recognized over time under the customer contracts.

3. Reverse acquisition

As described in note 1, on December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based payments*. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstar's public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in these financial statements. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

	December 20, 2019
Net assets (liabilities) of Arrowstar acquired:	**$**
Cash	111,496
Receivables	10,802
Other assets	7,504
Accounts payable	(356,384)
Net liabilities acquired	**(226,582)**
Consideration paid in RTO of Arrowstar:	**$**
Common shares (fair value 21,656,034 common shares at $0.05 per share)	1,082,802
Total consideration paid	**1,082,802**
Listing expense	**1,309,384**

The Transaction was measured at the fair value of the shares that Adastra would have had to issue to the shareholders of Arrowstar, to give the shareholders of Arrowstar the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

4. Receivables and prepayments

Receivables and prepayments consist of the following:

	September 30, 2020	December 31, 2019
	$	$
Trade accounts receivable	9,246	-
Sales tax recoverable	103,542	303,708
Prepaid expenses	77,222	157,459
	190,010	**461,167**

5. Marketable securities

On November 8, 2011, the Company received 10,000 shares in Dunnedin Ventures Inc. as part of a property option agreement. The shares were valued at $1,500 at the RTO date and included in other assets. During the nine months ended September 30, 2020, the Company disposed of the shares for no proceeds and accordingly, realized a loss on disposition in the amount of $1,500.

6. Inventory

Inventory consist of the following:

	September 30, 2020 $	December 31, 2019 $
Extracted cannabis and hemp oils (finished goods)	776,965	-
Dried cannabis and hemp biomass	378,207	-
	1,155,172	**-**

Inventory expensed to cost of sales in the nine months ended September 30, 2020 was $1,088,721 (2019 – $nil).

7. Property and equipment

	Land $	Building $	Furniture and equipment $	Computer software $	Laboratory equipment $	Extraction equipment $	Building improvements $	Total $
Cost								
May 1, 2019	1,592,232	1,982,512	11,823	-	-	-	299,643	3,886,210
Additions	-	16,816	47,619	12,105	62,295	1,048,502	3,564,116	4,751,453
December 31, 2019	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
Accumulated depreciation								
May 1, 2019	-	49,563	2,411	-	-	-	-	51,974
Depreciation	-	73,116	5,056	-	-	-	-	78,172
December 31, 2019	-	122,679	7,467	-	-	-	-	130,146
Cost								
January 1, 2020	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
Additions	-	-	18,373	-	139,305	1,844,961	54,019	2,056,658
September 30, 2020	**1,592,232**	**1,999,328**	**77,815**	**12,105**	**201,600**	**2,893,463**	**3,917,778**	**10,694,321**
Accumulated depreciation								
January 1, 2020	-	122,679	7,467	-	-	-	-	130,146
Depreciation	-	70,374	9,174	1,211	13,195	197,098	97,269	388,321
September 30, 2020	**-**	**193,053**	**16,641**	**1,211**	**13,195**	**197,098**	**97,269**	**518,467**
Net book value								
December 31, 2019	1,592,232	1,876,649	51,975	-	-	1,048,502	3,863,759	8,507,517
September 30, 2020	**1,592,232**	**1,806,275**	**61,174**	**10,894**	**188,405**	**2,696,365**	**3,820,509**	**10,175,854**

During the nine months ended September 30, 2020, the Company allocated $318,060 (2019 – $nil) of depreciation to cost of sales and $70,261 (2019 - $53,867) to operating expense.

As at September 30, 2020, the Company had $4,000 in other deposits (December 31, 2019 - $4,000) from the RTO date and were included in deposits.

8. Share capital

Transactions for the issue of share capital during the nine months ended September 30, 2020:

(i) On January 17, 2020, the Company issued 569,802 units on conversion of $250,000 of principal and $6,411 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(ii) On January 27, 2020, the Company issued 800,280 units on conversion of $350,000 of principal and $10,126 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iii) On July 10, 2020, the Company issued 601,766 units on conversion of $250,000 of principal and $20,795 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iv) On July 13, 2020, the Company completed a non-brokered private placement whereby 11,648,001 units were issued at a price of $0.30 per unit for gross proceeds of $3,494,400. Each unit consists one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $0.50 until July 13, 2022.

In conjunction with the financing, finders' fees of $21,600 in cash were paid and 72,000 compensation options (each a "Compensation Option") were granted. Each Compensation Option entitles the holder to purchase a unit on the same terms as the offering for a period of two years from the date of issuance. Each underlying common share purchase warrant (a "Compensation Option Warrant") will be subject to the same terms as the warrants attached to the units sold in the financing. If the Compensation Option Warrants are accelerated prior to the exercise of the Compensation Option, each Compensation Option Warrant will expire 30 days after the date of exercise of the Compensation Option. The fair value of the Compensation Option was $38,500 ($0.53 per Compensation Option) and was recognized as a share issuance cost. The fair value of the Compensation Options was estimated using the Black-Scholes option pricing model using the following assumptions:

Assumptions	
Risk-free interest rate	0.28%
Expected stock price volatility	100.00%
Expected dividend yield	0.00%
Expected life	2 years

Additionally, the Company settled services and outstanding indebtedness of $543,175 through the issuance of 1,941,840 common shares at a fair value price of $0.28 per common share. The common shares issued in connection with the services and debt settlement are subject to a hold period that expires four months and one day from the date of issuance.

(v) On July 16, 2020, the Company issued 2,278,816 units on conversion of $945,000 of principal and $80,467 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

8. Share capital (continued)

Transactions for the issue of share capital during the nine months ended September 30, 2020:
(Continued)

(vi) On July 28, 2020, the Company issued 2,860,692 units on conversion of $1,182,000 of principal and $105,311 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(vii) On August 5, 2020, the Company issued 485,065 units on conversion of $200,000 of principal and $18,279 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $0.75 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(viii) During the period ended September 30, 2020, the Company issued 128,900 common shares related to the exercise of 128,900 warrants at an exercise price of $0.60 per share.

Transactions for the issue of share capital during the nine months ended September 30, 2019:

(i) On June 20, 2018, the Company issued 1 common share for $1 on incorporation, the Company cancelled the incorporation share on February 7, 2019.

(ii) On February 7, 2019, the Company closed a private placement for the issuance of 26,000,000 common shares at a price of $0.005 per share for gross proceeds of $130,000.

(iii) On February 28, 2019, the Company closed a private placement for the issuance of 21,750,000 common shares at a price of $0.02 per share for gross proceeds of $435,000.

(iv) On March 7, 2019, the Company closed a private placement for the issuance of 21,053,333 common shares at a price of $0.075 per share for gross proceeds of $1,579,000.

(v) On March 31, 2019, the Company closed a private placement for the issuance of 8,203,333 common shares at a price of $0.15 per share for gross proceeds of $1,230,500.

(vi) On April 30, 2019, the Company closed a private placement for the issuance of 4,131,667 common shares at a price of $0.30 per share for gross proceeds of $1,239,500.

Escrowed shares

The Company entered into an Escrow Agreement in connection with closing the RTO on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023.

As at September 30, 2020, 19,500,000 common shares were held in escrow (December 31, 2019 – 26,000,000).

Stock options

The Company has an incentive stock option plan (the "Plan") which provides for the granting of options. Under the Plan the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Options granted under the Plan may have a maximum term of ten years. A participant, who is not a consultant conducting investor relations activities, who is granted an option that is exercisable at the market price at the date of grant, will have their options vest immediately, unless otherwise determined by the Board of Directors. Options granted at below market prices will vest one-sixth every three months.

A participant who is a consultant conducting investor relations activities who is granted an option under the Plan will become vested with the right to exercise one-quarter of the option upon conclusion of every three months subsequent to the grant date. All options are to be settled by physical delivery of shares.

8. Share capital (continued)

Stock options (continued)

On January 30, 2020, the Company granted 7,570,000 stock options with exercise price of $0.45 to certain Directors, Officers, employees and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,537,300 ($0.34 per option) and was recognized as a share-based payment expense. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

Assumptions	
Risk-free interest rate	1.29%
Expected stock price volatility	100.00%
Expected dividend yield	0.00%
Expected life	5 years

During the period ended September 30, 2020, the Company cancelled 120,000 stock options. $40,800 representing the fair value of the stock options granted and vested was reversed from reserves and credited to share-based payments expense.

On June 1, 2020, the Company granted 200,000 stock options with exercise price of $0.45 to an employee. The options expire two years from the date of grant and vest immediately. The fair value of these options was $22,200 ($0.11 per option) and was recognized as a share-based payment expense. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

Assumptions	
Risk-free interest rate	0.39%
Expected stock price volatility	100.00%
Expected dividend yield	0.00%
Expected life	2 years

On August 5, 2020, the Company granted 4,850,000 stock options with exercise price of $0.78 to certain Directors, Officers, employees and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,813,800 ($0.58 per option) and was recognized as a share-based payment expense. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

Assumptions	
Risk-free interest rate	0.34%
Expected stock price volatility	100.00%
Expected dividend yield	0.00%
Expected life	5 years

8. **Share capital** (continued)

Stock options (continued)

A summary of the status of the Company's options as at September 30, 2020 and December 31, 2019 and changes during the periods then ended is as follows:

	Period ended September 30, 2020		Period ended December 31, 2019	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period	-	-	-	-
Granted	12,620,000	0.57	-	-
Cancelled	(120,000)	0.45	-	-
Options outstanding, end of period	**12,500,000**	**0.57**	-	-

As at September 30, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
7,450,000	7,450,000	0.45	January 30, 2025	4.59
200,000	200,000	0.45	June 1, 2022	1.67
4,850,000	4,850,000	0.78	August 5, 2025	4.85
12,500,000	**12,500,000**			**4.49**

Compensation Options

As at September 30, 2020, the Company has Compensation Options outstanding and exercisable as follows:

Compensation Options outstanding #	Compensation Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
72,000	72,000	0.30	July 13, 2022	1.78
72,000	**72,000**			**1.78**

Warrants

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to the warrants attached to private placement units. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

8. Share capital (continued)

Warrants (continued)

A summary of the status of the Company's warrants as at September 30, 2020 and December 31, 2019 and changes during the periods then ended is as follows:

	Period ended September 30, 2020		Period ended December 31, 2019	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period	7,411,655	0.73	-	-
Replaced on RTO	-	-	1,519,200	0.92
Issued - attached to units	19,244,422	0.60	5,892,455	0.60
Exercised	(128,900)	0.60	-	-
Expired	(1,519,200)	0.92	-	-
Warrants outstanding, end of period	**25,007,977**	**0.60**	7,411,655	0.73

As at September 30, 2020, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding #	Warrants exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
5,763,555	5,763,555	0.60	December 2, 2022	2.22
569,802	569,802	0.75	January 17, 2022	1.30
800,280	800,280	0.75	January 27, 2022	1.33
601,766	601,766	0.75	July 10, 2022	1.78
11,648,001	11,648,001	0.50	July 13, 2022	1.78
2,278,816	2,278,816	0.75	July 16, 2022	1.79
2,860,692	2,860,692	0.75	July 28, 2022	1.82
485,065	485,065	0.75	August 5, 2022	1.85
25,007,977	**25,007,977**			1.86

9. Loss per share

The calculation of basic loss per share for the nine month period ended September 30, 2020 was based on the loss attributable to common shareholders of $7,706,337 (2019 - $1,167,118), and a weighted average number of common shares outstanding of 109,942,692 (2019 – 63,208,406).

All warrants and stock options outstanding as at September 30, 2020 and 2019, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

10. Related party payables and transactions

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended September 30, 2020 or September 30, 2019.

During the period ended September 30, 2020, 5,800,000 (2019 – nil) options were granted to Officers and Directors having a fair value on grant of $2,531,999 (2019 – $nil).

The following related parties transacted with the Company or Company controlled entities during the periods:

(a) Andrew Hale is a Director and the Company's President and CEO.

(b) Blaine Bailey is a Director and Chairman of the Company's Audit Committee.

(c) Stephen Brohman is the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provides the Company with accounting and tax services.

(d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Transactions nine months ended September 30, 2020 $	Transactions nine months ended September 30, 2019 $	**Balances outstanding September 30, 2020 $**	Balances outstanding December 31, 2019 $
DBM CPA	114,750	84,884	12,600	-
Andrew Hale	135,070	135,129	-	-
Pipedreemz	2,500	23,200	-	-
	252,320	243,213	**12,600**	-

All related party balances are unsecured and are due within thirty days without interest.

The transactions with the key management personnel and Directors are included in operating expenses as follows:

(a) Consulting fees

- Includes the advisory services of Director, George Routhier, charged to the Company by Pipedreemz.

(b) Professional fees

- Includes the accounting and tax services of the Company's CFO, Stephen Brohman, charged to the Company by DBM CPA.

(g) Wages and salaries

- Includes charges by Andrew Hale for salaries paid to Officer.

11. Supplemental cash flow information

Changes in non-cash operating working capital during the nine months ended September 30, 2020 and September 30, 2019 were comprised of the following:

	September 30, 2020	September 30, 2019
	$	$
Receivables and prepayments	271,157	771,061
Accounts payable and accrued liabilities	80,492	(517,247)
Inventory	(1,155,172)	-
Net change	**(803,523)**	253,814

The Company incurred non-cash financing and investing activities during the nine months ended September 30, 2020 and September 30, 2019 as follows:

	September 30, 2020	September 30, 2019
	$	$
Non-cash financing activities		
Conversion of convertible debentures - debenture reserves	298,461	-
Convertible debentures - settlement	(3,418,390)	-
Convertible debentures - reserves	(70,814)	-
Share issuance costs - Compensation Options	(38,500)	-
	(3,229,243)	-
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	792,279	885,000
Shares issued for debt settlement	412,024	-
	1,204,303	885,000

During the nine months ended September 30, 2020, amounts paid for interest totaled $350,378 (2019 - $147,818). No amounts were paid for income taxes during any of the periods presented.

12. Mortgage payable

a) On January 7, 2019, the Company entered into a mortgage for $2,446,000 (the "First Mortgage") which bore interest at the rate of 8.25% per annum, calculated monthly. The First Mortgage matured on February 1, 2020 and was renewed as discussed below.

The First Mortgage payable was recorded at amortized cost and bore an effective interest rate of 10.44%.

The carrying value of the First Mortgage at December 31, 2019 was $2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $50,755 which were amortized over the term of the First Mortgage using the effective interest rate method.

The Company maintained minimum interest only payments of $16,816 per month in connection with the First Mortgage. Total interest expense of the First Mortgage during the period ended September 30, 2020 was $33,632 (2019 - $109,015).

b) On February 1, 2020, the Company renewed the First Mortgage of $2,446,000 (the "Second Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Second Mortgage matures on February 1, 2021 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

12. Mortgage payable (continued)

The Second Mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79% as at September 30, 2020.

The carrying value of the Second Mortgage payable at September 30, 2020 was $2,438,161. Included in mortgage payable (on initial recognition) were the related mortgage transaction costs of $18,345 which are being amortized over the term of the Second Mortgage using the effective interest rate method.

The Company maintains minimum interest only payments of $16,307 per month. As at September 30, 2020 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total $2,527,533. Total interest expense during the period ended September 30, 2020 was $114,149 (2019 - $nil).

13. Convertible debentures

On October 31, 2019, the Company closed a 7,060,000 convertible debenture unit offering at a price of $0.45 per debenture unit for gross proceeds $3,177,000. Each debenture consisted of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converted their debenture unit, they were entitled to one common share and one share purchase warrant exercisable at $0.75 per share exercisable two years from the date of the convertible debenture closing October 31, 2021 at the holder's discretion.

If the closing price of the Common Shares of the Company was higher than $1.00 for any 10 consecutive trading days, the expiry date of the Warrants may be accelerated to the 30th day after the date of a news release announcing such acceleration. The debentures were secured to the facility subordinate to the mortgage currently on the facility.

As the debentures were convertible into units, the liability and equity components were presented separately on the condensed interim consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 16% totaling $2,878,539. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component was recorded in debenture reserves on the consolidated statement of financial position totaling $298,461. The debentures, net of the equity components were accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability was equal the principal balance at maturity.

During the nine months ended September 30, 2020, the Company settled principal plus accrued interest of $3,418,390 relating to the debentures through the issuance of 7,596,421 units. The Company reversed $298,461 from debenture reserves in connection with the settlement.

The Company recorded interest expense of $169,552 and accretion expense of $58,405 related to the convertible debentures during the period ended September 30, 2020 (2019 - $nil). The carrying value of the convertible debentures at September 30, 2020 was $nil (December 31, 2019 - $2,955,511) and the carrying value of debenture reserves was $nil (December 31, 2019 - $298,461).

14. Financial risk management

Capital management

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

14. Financial risk management (continued)

Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable and accrued liabilities, mortgage payable and loan payable.

The carrying value of accounts payable and accrued liabilities, and loan payable approximated their fair value because of the short-term nature of these instruments. Mortgage payable approximate fair value due to its market rates of interest charged.

Financial instruments measured at fair value on the condensed interim consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $	Level 2 $	Level 3 $	Total $
September 30, 2020				
Cash	2,309,090	-	-	2,309,090
Deposits	4,000	-	-	4,000
	2,313,090	**-**	**-**	**2,313,090**
December 31, 2019				
Cash	2,376,826	-	-	2,376,826
Marketable securities	1,500	-	-	1,500
Deposits	4,000	-	-	4,000
	2,382,326	-	-	2,382,326

Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and currency risk.

(a) Credit risk

The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

(c) Currency risk

The Company is not exposed to currency risk.