Phyto Extractions Inc.
(formerly Adastra Labs Holdings Ltd.)

Consolidated Financial Statements

For the year ended December 31, 2020 and period ended December 31, 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Phyto Extractions Inc. (formerly Adastra Labs Holdings Ltd.)

Opinion

We have audited the accompanying consolidated financial statements of Phyto Extractions Inc. (formerly Adastra Labs Holdings Ltd.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of changes in equity, loss and comprehensive loss, and cash flows for the year ended December 31, 2020 and for the eight months ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the year ended December 31, 2020 and for the eight months ended December 31, 2019 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had working capital of $105,093 and has incurred losses since inception. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 28, 2021

Consolidated Statements of Financial Position

As at December 31, 2020 and December 31, 2019

	Note	**December 31, 2020 $**	December 31, 2019 $
Assets			
Current assets			
Cash		1,145,461	2,376,826
Receivables and prepayments	4	1,129,189	461,167
Marketable securities	5	-	1,500
Inventory	6	1,421,237	-
		3,695,887	2,839,493
Non-current assets			
Deposits	7	4,000	4,000
Property, plant and equipment	7	10,037,063	8,507,517
		10,041,063	8,511,517
Total assets		**13,736,950**	11,351,010
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities		1,147,964	873,402
Mortgage Payable	13	2,442,830	2,437,175
		3,590,794	3,310,577
Non-current liabilities			
Convertible debenture	14	-	2,955,511
Government loan	2	60,000	-
Total liabilities		**3,650,794**	6,266,088
Equity			
Share capital	8	15,822,152	8,348,407
Reserves		5,441,814	298,461
Deficit		(11,177,810)	(3,561,946)
Total equity		**10,086,156**	5,084,922
Total liabilities and equity		**13,736,950**	11,351,010

Nature of operations and going concern	**1**
Events after the reporting period	**16**

Approved on behalf of the Board of Directors on April 28, 2021:

"Scott Munro" **Director** *"George Routhier"* **Director**

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

Consolidated Statements of Changes in Equity

For the year ended December 31, 2020 and the eight months ended December 31, 2019

	Number of shares	Share capital	Debenture Reserves	Reserves	Deficit	Total equity (deficiency)
	#	$	$	$	$	$
May 1, 2019	27,046,111	4,614,000	-	-	(903,989)	3,710,011
Convertible debenture - pre RTO	-	-	298,461	-	-	298,461
Reverse acquisition transaction (Note 3):						
Issuance of shares pursuant to reverse acquisition	7,218,678	1,082,802	-	-	-	1,082,802
Private placement units issued	1,964,152	2,651,605	-	-	-	2,651,605
Loss and comprehensive loss	-	-	-	-	(2,657,957)	(2,657,957)
December 31, 2019	**36,228,941**	**8,348,407**	**298,461**	**-**	**(3,561,946)**	**5,084,922**
January 1, 2020	36,228,941	8,348,407	298,461	-	(3,561,946)	5,084,922
Convertible debentures - settlement	2,532,140	3,418,390	(298,461)	70,814	-	3,190,743
Units issued for cash	3,882,667	3,494,400	-	-	-	3,494,400
Share issue costs	-	(60,100)	-	38,500	-	(21,600)
Shares issued for cash - warrants	42,967	77,340	-	-	-	77,340
Shares issued - services	156,894	131,791	-	-	-	131,791
Shares issued - debt settlement	490,491	411,924	-	-	-	411,924
Share-based payments	-	-	-	5,332,500	-	5,332,500
Loss and comprehensive loss for the year	-	-	-	-	(7,615,864)	(7,615,864)
December 31, 2020	**43,334,100**	**15,822,152**	**-**	**5,441,814**	**(11,177,810)**	**10,086,156**

Consolidated Statements of Loss and Comprehensive Loss

	Note	For the year ended December 31, 2020 $	For the eight months ended December 31, 2019 $
Revenue		2,499,355	-
Cost of sales		1,713,774	-
Gross profit		785,581	-
Expenses			
Advertising and promotion		749,258	56,817
Accretion	14	58,405	13,259
Depreciation	7	92,700	78,172
Insurance		69,294	18,820
Office expenses		227,271	179,938
Professional fees and consulting	10	704,297	447,784
Rent		-	10,806
Research expenses		181,750	-
Share-based payments	8,10	5,332,500	-
Travel		4,029	20,273
Wages and salaries	10	526,327	302,513
Total operating expenses		7,945,831	1,128,382
Loss from operating expenses		**(7,160,250)**	**(1,128,382)**
Interest expense	13,14	(399,248)	(227,955)
Interest income		8,303	7,764
Listing expense	3	-	(1,309,384)
Realized loss on marketable securities	5	(1,500)	-
Write-down of inventory	6	(63,169)	-
Loss and comprehensive loss for the year		**(7,615,864)**	**(2,657,957)**
Loss per share			
Weighted average number of common shares outstanding			
- basic #	**8**	**39,695,235**	**27,495,882**
- diluted #	**8**	**39,695,235**	**27,495,882**
Basic loss per share $	**8**	(0.19)	(0.10)
Diluted loss per share $	**8**	(0.19)	(0.10)

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

Consolidated Statements of Cash Flows

	Note	For the year ended December 31, 2020	For the eight months ended December 31, 2019
Operating activities			
Loss for the year		(7,615,864)	(2,657,957)
Adjustments for non-cash items:			
Accretion		58,405	13,259
Depreciation		92,700	78,172
Interest expense		399,248	227,955
Interest income		(8,303)	(7,764)
Listing expense		-	1,309,384
Realized loss on marketable securities		1,500	-
Share-based compensation		5,332,500	-
Shares for services		131,791	-
Net change in non-cash working capital items	12	(1,225,727)	(396,493)
		(2,833,750)	**(1,433,444)**
Financing activities			
Issue of units for cash		3,472,800	2,651,605
Warrants exercised		77,340	-
Borrowing costs mortgage		(18,345)	-
Interest paid - mortgage		(196,699)	(134,530)
Convertible debenture		-	3,177,000
Loan proceeds		60,000	-
		3,395,096	**5,694,075**
Investing activities			
Acquisition of property, plant and equipment		(1,801,014)	(4,365,559)
Interest income		8,303	7,764
Cash acquired on reverse acquisition		-	111,496
		(1,792,711)	**(4,246,299)**
Net increase in cash		(1,231,365)	14,332
Cash, beginning of year		2,376,826	2,362,494
Cash, end of year		**1,145,461**	**2,376,826**
Supplemental cash flow information	12		

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

1. Nature of operations and going concern

Phyto Extractions Inc. (formerly Adastra Labs Holdings Ltd.) (the "Company") 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. (formerly Arrowstar Resources 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.

On April 9, 2021, the Company consolidated the Company's issued share capital on a ratio of three (3) old common shares for every one (1) new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this Share Consolidation. Additionally, the Company changed their name to Phyto Extractions Inc.

On October 19, 2019, Health Canada issued a Analytical testing license on the Company's facility to Chemia Analytics Inc., ("Chemia"). Chemia is a wholly owned subsidiary of the Company. On March 13, 2020, 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 Resources Ltd. ("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 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 13).

As at December 31, 2020, the Company had a working capital (deficit) of $105,093 (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 accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") and have been applied consistently by the Company and its subsidiaries.

These financial statements have been prepared on an historical cost basis, except for financial instruments which are classified as fair value through profit or loss ("FVTPL"). 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:

Phyto Extractions Ltd. (formerly 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.

(c) Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at each reporting date and the reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements is as follows:

Fair value of stock options and finders' compensation options

Determining the fair value of stock options and compensatory options (finders' options) requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

2. Significant accounting policies (continued)

Acquisitions

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset requires the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of relevant facts and circumstances, the Company concluded that the acquisition disclosed in Note 3 was acquisition of assets. The values assigned to common shares and the allocation of the purchase price to the net liabilities in the acquisition are based on numerous estimates and judgements of the relative fair values of net liabilities.

Property, Plant and Equipment

The estimated useful lives of property plant and equipment are reviewed by management and adjusted if necessary. To estimate property, plant and equipment's useful life, management must use its past experience with the same or similar assets, review engineering estimates and industry practices for similar pieces of property, plant and equipment and/or apply statistical methods to assist in its determination of useful life. Additionally, management makes estimates with respect to the fair value of equipment acquired for non-monetary consideration. The Company assesses fair value by comparing market prices for similar types of property, plant and equipment.

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in Note 1 involves judgment regarding future funding available for its operations and working capital requirements.

2. Significant accounting policies (continued)

Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. No depreciation is recorded in the year of disposal.

Depreciation is recognized over the following terms, intended to depreciate the cost of property, plant and equipment, less its residual values if any, over its estimated useful lives:

Furniture and equipment	20% declining balance
Leasehold improvements	10 years straight line
Buildings	20 years straight line
Extraction equipment	20% declining balance
Laboratory equipment	20% declining balance
Computer software	20% declining balance

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 probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of equipment is recognized in profit or loss.

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve.

Share-based payment transactions

The Company has a stock option plan that provides for the granting of options to Officers, Directors, related company employees and consultants to acquire shares of the Company. The fair value of the options is measured on grant date and is recognized as an expense with a corresponding increase in contributed surplus as the options vest.

Options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an operating expense and as contributed surplus. When options are exercised the consideration received is recorded as share capital and the related share-based payments originally recorded as contributed surplus are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed from contributed surplus and credited to deficit.

2. Significant accounting policies (continued)

Loss per share

Basic loss per share is computed by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that (i) net loss attributable to common shareholders are adjusted for the dilutive effect of warrants and stock options. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting periods. For the period presented, diluted loss per share equals basic loss per share as there were no dilutive stock options or warrants outstanding.

Financial instruments

Effective June 18, 2018 (date of incorporation), the Company adopted IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 provides three different measurement categories for non-derivative financial assets – subsequently measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income – while all non-derivative financial liabilities are classified as subsequently measured at amortized cost. The category into which a financial asset is placed and the resultant accounting treatment is largely dependent on the nature of the business of the entity holding the financial asset. All financial instruments are initially recognized at fair value.

Financial assets

Measurement

The Company initially recognizes financial assets on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company classifies all of its financial assets, except cash, as subsequently measured at amortized cost. Cash is classified as FVTPL. All financial assets that do not meet the criteria to be recognized as subsequently measured at amortized cost or subsequently measured at fair value through other comprehensive income are classified as FVTPL.

Impairment of financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss 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.

Financial liabilities

The Company measures all of its financial liabilities as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

2. Significant accounting policies (continued)

Impairment of non-financial assets

The carrying amount of the Company's long-lived assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units "CGU"). The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Income taxes

Income tax comprises current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, adjusted for any amendments to tax payable in respect of previous years.

Deferred income tax is provided for, based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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 December 31, 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)

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.

Revenue

Cannabis concentrate sales revenue earned under fee for service agreements, is recognized at a point in time when the Company is considered to have satisfied its performance obligations. The performance obligations are considered satisfied once all of the following have been met: (i) the manufacturing process (services) are complete; (ii) regulatory quality assurance, and customer quality assurance specifications (acceptance of the finished goods) have been met; and (iii) when the transaction price can be reliably measured in instances of variable consideration or non-monetary consideration.

At times, the Company may enter into contracts with customers where payment for the services provided by the Company is in the form of retention of a certain portion of the finished goods. In such instances, the consideration amount is variable and it's determined based on fair market values for the same or similar goods. As fair market values are readily available for cannabis concentrate, the level of estimation uncertainty is limited.

Revenues are recorded net of discounts but inclusive of freight in the sale of goods. Once the customer has accepted the finished goods, the Company has no obligations for returns, refunds, warranties or similar obligations.

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.

Government assistance

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 year ended December 31, 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 year ended December 31, 2020, the Company qualified for a government-guaranteed bank loan of $60,000 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 ($15,000). Funds can be used to pay non-deferrable operating expenses including payroll.

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 Arrowstars 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:

	December 31, 2020	December 31, 2019
	$	$
Trade accounts receivable	971,102	-
Sales tax recoverable	1,578	303,708
Prepaid expenses	156,509	157,459
	1,129,189	**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 year ended December 31, 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:

	December 31, 2020 $	December 31, 2019 $
Extracted cannabis and hemp oils (finished goods)	908,117	-
Production work in process - distillate	273,937	-
Dried cannabis and hemp biomass	239,183	-
	1,421,237	**-**

Inventory expensed to cost of sales during the year ended December 31, 2020 was $1,148,692 (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								
December 31, 2019	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
Additions	-	-	25,407	-	149,100	1,862,707	64,522	2,101,736
December 31, 2020	**1,592,232**	**1,999,328**	**84,849**	**12,105**	**211,395**	**2,911,209**	**3,928,281**	**10,739,399**
Accumulated depreciation								
December 31, 2019	-	122,679	7,467	-	-	-	-	130,146
Depreciation	-	93,832	12,936	1,816	20,527	296,978	146,101	572,190
December 31, 2020	**-**	**216,511**	**20,403**	**1,816**	**20,527**	**296,978**	**146,101**	**702,336**
Net book value								
December 31, 2019	1,592,232	1,876,649	51,975	-	-	-	3,863,759	8,507,517
December 31, 2020	**1,592,232**	**1,782,817**	**64,446**	**10,289**	**190,868**	**2,614,231**	**3,782,180**	**10,037,063**

During the year ended December 31, 2020, the Company allocated $479,490 (2019 – $nil) of depreciation to cost of sales and $92,700 (2019 - $53,867) to operating expense.

As at December 31, 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 year ended December 31, 2020:

(i) On January 17, 2020, the Company issued 189,934 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 $2.25 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 266,760 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 $2.25 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 200,589 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 $2.25 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 3,882,667 units were issued at a price of $0.90 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 $1.50 until July 13, 2022.

In conjunction with the financing, finders' fees of $21,600 in cash were paid and 24,067 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 ($1.59 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 647,280 common shares at a fair value price of $0.84 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 759,605 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 $2.25 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 year ended December 31, 2020: (Continued)

(vi) On July 28, 2020, the Company issued 953,564 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 $2.25 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 161,688 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 $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(viii) During the year ended December 31, 2020, the Company issued 42,967 common shares related to the exercise of 42,967 warrants at an exercise price of $1.80 per share.

Transactions for the issue of share capital during the period ended December 31, 2019:

On December 20, 2019, the Company closed 1,964,152 unit offering at a price of $1.35 per unit for gross proceeds of $2,651,605, with each unit consisting of one (1) common share of the Company and one underlying share purchase warrant exercisable at $1.80 for three years from the date of closing December 20, 2022. The warrants were given a value of $nil using the residual value method.

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 December 31, 2020, 6,500,000 common shares were held in escrow (December 31, 2019 – 8,666,667).

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 2,523,333 stock options with exercise price of $1.35 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 ($1.02 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

On June 1, 2020, the Company granted 66,667 stock options with exercise price of $1.35 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 ($0.33 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 1,616,667 stock options with exercise price of $2.34 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 ($1.74 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 December 31, 2020 and December 31, 2019 and changes during the year/period then ended is as follows:

	Year ended December 31, 2020		Period ended December 31, 2019	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of year/period	-	-	-	-
Granted	4,206,667	1.73	-	-
Cancelled	(40,000)	1.35	-	-
Options outstanding, end of year/period	**4,166,667**	**1.73**	-	-

As at December 31, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
2,483,333	2,483,333	1.35	January 30, 2025	4.08
66,667	66,667	1.35	June 1, 2022	1.42
1,616,667	1,616,667	2.34	August 5, 2025	4.60
4,166,667	**4,166,667**			**4.24**

Compensation Options

As at December 31, 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)
24,067	24,067	0.90	July 13, 2022	1.53
24,067	**24,067**			**1.53**

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 December 31, 2020 and December 31, 2019 and changes during the year/period then ended is as follows:

	Year ended December 31, 2020		Period ended December 31, 2019	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period	2,470,552	2.19	-	-
Replaced on RTO	-	-	506,400	2.76
Issued - attached to units	6,414,807	1.80	1,964,152	1.80
Exercised	(42,967)	1.80	-	-
Expired	(506,400)	2.76	-	-
Warrants outstanding, end of period	**8,335,992**	**1.80**	2,470,552	2.19

As at December 31, 2020, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding #	Warrants exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
1,921,185	1,921,185	1.80	December 19, 2022	1.97
189,934	189,934	2.25	January 17, 2022	1.05
266,760	266,760	2.25	January 27, 2022	1.07
200,589	200,589	2.25	July 10, 2022	1.52
3,882,667	3,882,667	1.50	July 13, 2022	1.53
759,605	759,605	2.25	July 16, 2022	1.54
953,564	953,564	2.25	July 28, 2022	1.57
161,688	161,688	2.25	August 5, 2022	1.59
8,335,992	**8,335,992**			1.61

9. **Loss per share**

The calculation of basic loss per share for the year ended December 31, 2020 was based on the loss attributable to common shareholders of $7,615,864 (2019 - $2,657,957), and a weighted average number of common shares outstanding of 39,695,235 (2019 – 34,360,992).

All warrants outstanding as at December 31, 2020 and December 31, 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 years ended December 31, 2020 or December 31, 2019.

During the year ended December 31, 2020, 1,933,333 (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 year ended December 31, 2020 $	Transactions year ended December 31, 2019 $	**Balances outstanding December 31, 2020 $**	Balances outstanding December 31, 2019 $
DBM CPA	150,900	107,298	12,915	-
Andrew Hale	180,091	120,115	-	-
Pipedreemz	2,500	17,500	-	-
	333,491	244,913	**12,915**	-

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. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes for the year/period ended December 31, 2020 and December 31, 2019, is as follows:

	December 31, 2020 $	December 31, 2019 $
Loss for the period	(7,615,864)	(2,657,957)
Expected income tax (recovery)	(2,056,000)	(718,000)
Other	(79,000)	80,000
Permanent differences	1,439,000	353,000
Change in recognized deductible temporary differences	696,000	285,000
Total income tax expense (recovery)	-	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	December 31,2020	December 31, 2019
Deferred tax assets (liabilities)		
Property and equipment	185,000	37,000
Non-capital losses available for future period	1,037,000	489,000
	1,222,000	526,000
Unrecognized deferred tax assets	(1,222,000)	(526,000)
Net deferred tax assets	**$ -**	**$ -**

The Company's unused temporary differences, and unused tax losses that have not been included on the statements of financial position as at December 31, 2020 and December 31, 2019 are as follows:

	December 31, 2020 $	Expiry Date Range	December 31, 2019 $	Expiry Date Range
Property, plant and equipment	683,000	N/A	137,000	N/A
Non-capital loss carry forwards	3,840,000	2038 to 2040	1,814,000	2038 to 2039

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

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12. Supplemental cash flow information

Changes in non-cash operating working capital during the year/period ended December 31, 2020 and December 31, 2019 were comprised of the following:

	December 31, 2020 $	December 31, 2019 $
Receivables and prepayments	(668,022)	(411,396)
Accounts payable and accrued liabilities	384,042	14,903
Inventory	(941,747)	-
Net change	**(1,225,727)**	(396,493)

The Company incurred non-cash financing and investing activities during the year/period ended December 31, 2020 and December 31, 2019 as follows:

	December 31, 2020 $	December 31, 2019 $
Non-cash financing activities		
Conversion of convertible debentures - debenture reserves	298,461	-
Convertible debentures - settlement	(3,418,390)	-
Convertible debentures - reserves	(70,814)	298,461
Share issuance costs - Compensation Options	(38,500)	-
	(3,229,243)	298,461
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	274,692	385,894
Shares issued for debt settlement	411,924	-
	686,616	385,894

During the period ended December 31, 2020 no amounts were paid for income tax expenses.

13. 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 year ended December 31, 2020 was $42,457 (2019 - $164,242).

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.

13. Mortgage payable (continued)

The Second Mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79%.

The carrying value of the Second Mortgage payable at December 31, 2020 was $2,442,830. 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 December 31, 2020 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total $2,478,613. Total interest expense during the year ended December 31, 2020 was $178,242 (2019 - $nil).

On February 1, 2021, the Company renewed the mortgage of $2,446,000 which bears interest at the rate of 8.00% per annum, calculated monthly. The mortgage matures on February 1, 2022 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

14. Convertible debentures

On October 31, 2019, the Company closed a 2,353,333 convertible debenture unit offering at a price of $1.35 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 $2.25 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 $3.00 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 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 year ended December 31, 2020, the Company settled principal plus accrued interest of $3,418,390 relating to the debentures through the issuance of 2,532,140 units. The Company reversed $298,461 from debenture reserves in connection with the settlement.

The Company recorded interest expense of $169,552 (2019 - $63,713) and accretion expense of $58,405 (2019 - $13,259) related to the convertible debentures during the year ended December 31, 2020. The carrying value of the convertible debentures at December 31, 2020 was $nil (2019 - $2,955,511) and the carrying value of debenture reserves was $nil (2019 - $298,461).

15. 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 year ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

15. 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 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 $
December 31, 2020				
Cash	1,145,461	-	-	1,145,461
Deposits	4,000	-	-	4,000
	1,149,461	**-**	**-**	**1,149,461**
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.

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the year ended December 31, 2020, the Company's sales were generated by three customers representing 79%, 16% and 5%.

16. Segmented information

The Company has a single reportable segment: the provision of goods and services to the cannabis industry in Canada. All the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

17. Events after the reporting period

(a) On March 10, 2021, the Company announced the appointment of J. Scott Munro as President, CEO and Director in conjunction with the resignation and retirement of Andrew Hale from said position.

(b) On March 29, 2021, the Company announced the resignation of Blaine Bailey as Director.