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

Condensed Interim Consolidated Financial Statements

For the three months ended
March 31, 2021

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 Phyto Extractions Inc. (“the Company”) for the three months ended March 31, 2021 and March 31, 2020, 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.

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

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – Prepared by Management)

As at March 31, 2021 and December 31, 2020

	Note	March 31, 2021 $	December 31, 2020 $
Assets			
Current assets			
Cash		622,778	1,145,461
Receivables and prepayments	4	369,005	1,129,189
Inventory	6	1,918,214	1,421,237
		2,909,997	3,695,887
Non-current assets			
Deposits	7	4,000	4,000
Property and equipment	7	10,268,803	10,037,063
		10,272,803	10,041,063
Total assets		**13,182,800**	13,736,950
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities	10	971,033	1,147,964
Mortgage payable	12	2,429,123	2,442,830
		3,400,156	3,590,794
Non-current liabilities			
Government loan	2	60,000	60,000
Total liabilities		**3,460,156**	3,650,794
Equity			
Share capital	8	15,822,152	15,822,152
Reserves	8	5,441,814	5,441,814
Deficit		(11,541,322)	(11,177,810)
Total equity		**9,722,644**	10,086,156
Total liabilities and equity		**13,182,800**	13,736,950

Nature of operations and going concern	**1**
Events after the reporting period	**15**

Approved on behalf of the Board of Directors on May 31, 2021:

"Michael Forbes" **Director** *"Donald Dinsmore"* **Director**

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

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited – Prepared by Management)

For the three months ended March 31, 2021 and March 31, 2020

	Number of shares	Share capital	Debenture reserves	Reserves	Deficit	Total equity
	#	$	$	$	$	$
January 1, 2020	36,228,941	8,348,407	298,461	-	(3,561,946)	5,084,922
Convertible debenture - settlement	456,694	616,537	(56,366)	-	-	560,171
Share-based payments	-	-	-	2,537,300	-	2,537,300
Loss and comprehensive loss for the period	-	-	-	-	(3,343,034)	(3,343,034)
March 31, 2020	36,685,635	8,964,944	242,095	2,537,300	(6,904,980)	4,839,359
January 1, 2021	43,334,100	15,822,152	-	5,441,814	(11,177,810)	10,086,156
Loss and comprehensive loss for the period	-	-	-	-	(363,512)	(363,512)
March 31, 2021	**43,334,100**	**15,822,152**	**-**	**5,441,814**	**(11,541,322)**	**9,722,644**

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

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

For the three months ended March 31,

	Note	2021 $	2020 $
Revenue		589,138	-
Cost of sales		(402,216)	-
Gross profit		186,922	-
Expenses			
Advertising and promotion		30,187	53,817
Accretion	13	-	21,088
Depreciation	7	21,623	34,313
Insurance		15,729	11,463
Office expenses		90,044	145,785
Professional fees and consulting	10	93,187	286,295
Research expenses		34,454	-
Share-based payments	8,10	-	2,537,300
Travel		511	700
Wages and salaries	10	182,036	112,462
Total operating expenses		467,771	3,203,223
Loss from operating expenses		**(280,849)**	**(3,203,223)**
Interest expense	12,13	(59,213)	(141,835)
Interest income		561	3,524
Gain on settlement of accounts payable		57,500	-
Realized loss on marketable securities	5	-	(1,500)
Write-down of inventory	6	(81,511)	-
Loss and comprehensive loss for the period		**(363,512)**	(3,343,034)

Loss per share			
Weighted average number of common shares outstanding			
- basic #	**9**	**43,334,100**	36,571,004
- diluted #	**9**	**43,334,100**	36,571,004
Basic loss per share $	**9**	(0.01)	(0.09)
Diluted loss per share $	**9**	(0.01)	(0.09)

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

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

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

For the three months ended March 31,

	Note	2021	2020
Operating activities			
Loss and comprehensive loss for the period		(363,512)	(3,343,034)
Adjustments for non-cash items:			
Depreciation		226,163	34,313
Accretion		-	21,088
Interest expense		53,561	141,833
Interest income		(561)	(3,524)
Share-based payments		-	2,537,300
Gain on settlement of accounts payable		(57,500)	-
Realized loss on marketable securities		-	1,500
Net change in non-cash working capital items	11	(156,241)	132,202
		(298,090)	(478,322)
Financing activities			
Borrowing costs - mortgage		(18,345)	(18,345)
Interest paid - mortgage		(48,920)	(49,939)
		(67,265)	(68,284)
Investing activities			
Acquisition property and equipment		(157,889)	(593,756)
Interest income		561	3,524
		(157,328)	(590,232)
Net decrease in cash		(522,683)	(1,136,838)
Cash, beginning of period		1,145,461	2,376,826
Cash, end of period		**622,778**	1,239,988
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

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 12).

As at March 31, 2021, the Company had a working capital (deficit) of $(490,159) (December 31, 2020 – $105,093) 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, 2020, 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.

2. Significant accounting policies (continued)

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)).

(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.)	Legal parent company
(formerly Arrowstar Resources Ltd.)	
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, 2021. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financials.

(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.

2. Significant accounting policies (continued)

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 March 31,2021, 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.

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.

2. Significant accounting policies (continued)

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.

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 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.

Net assets (liabilities) of Arrowstar acquired:	**December 20, 2019** **$**
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:

	March 31, 2021 $	December 31, 2020 $
Trade accounts receivable	185,817	971,102
Sales tax recoverable	7,238	1,578
Prepaid expenses	175,950	156,509
	369,005	**1,129,189**

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:

	March 31, 2021 $	December 31, 2020 $
Extracted cannabis and hemp oils (finished goods)	1,440,597	908,117
Production work in process - distillate	16,278	273,937
Dried cannabis and hemp biomass	419,691	239,183
Packaging materials	41,648	-
	1,918,214	**1,421,237**

Inventory expensed to cost of sales in the three months ended March 31, 2021 was $402,216 (2020 – $nil).

7. Property and equipment

	Land	Building	Furniture and equipment	Computer software	Laboratory equipment	Extraction equipment	Building improvements	Total
	$	$	$	$	$	$	$	$
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
Cost								
December 31, 2020	1,592,232	1,999,328	84,849	12,105	211,395	2,911,210	3,928,280	10,739,399
Additions	-	-	3,831	100,000	152,920	201,152	-	457,903
March 31, 2021	**1,592,232**	**1,999,328**	**88,680**	**112,105**	**364,315**	**3,112,362**	**3,928,280**	**11,197,302**
Accumulated depreciation								
December 31, 2020	-	216,511	20,403	1,816	20,527	296,978	146,101	702,336
Depreciation	-	23,458	3,318	514	13,367	135,740	49,766	226,163
March 31, 2021	**-**	**239,969**	**23,721**	**2,330**	**33,894**	**432,718**	**195,867**	**928,499**
Net book value								
December 31, 2020	1,592,232	1,782,817	64,446	10,289	190,868	2,614,231	3,782,180	10,037,063
March 31, 2021	**1,592,232**	**1,759,359**	**64,959**	**109,775**	**330,421**	**2,679,644**	**3,732,413**	**10,268,803**

During the three months ended March 31, 2021, the Company allocated $204,540 (2020 – $nil) of depreciation to cost of sales and $21,623 (2020 - $34,313) to operating expense.

As at March 31, 2021, the Company had $4,000 in other deposits (March 31, 2020 - $4,000) from the RTO date and were included in deposits.

8. Share capital

No transactions for the issue of share capital during the three months ended March 31, 2021.

Transactions for the issue of share capital during the three months ended March 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.

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 March 31, 2021, 5,200,000 common shares were held in escrow (December 31, 2020 – 6,500,000).

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.

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

8. **Share capital** (continued)

Stock options (continued)

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

A summary of the status of the Company's options as at March 31, 2021 and December 31, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended December 31, 2020	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	4,166,667	1.73	-	-
Granted	-	-	4,206,667	1.73
Cancelled	-	-	(40,000)	1.35
Options outstanding, end of period/year	**4,166,667**	**1.73**	4,166,667	1.73

8. Share capital (continued)

Stock options (continued)

As at March 31, 2021, 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	3.83
66,667	66,667	1.35	June 1, 2022	1.17
1,616,667	1,616,667	2.34	August 5, 2025	4.35
4,166,667	**4,166,667**			**3.99**

Compensation Options

As at March 31, 2021, the Company has Compensation Options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
12,000	12,000	0.90	July 13, 2022	1.28
12,000	**12,000**			**1.28**

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.

A summary of the status of the Company's warrants as at March 31, 2021 and December 31, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended December 31, 2020	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period	8,335,992	1.80	2,470,552	2.19
Issued - attached to units	-	-	6,414,807	1.80
Exercised	-	-	(42,967)	1.80
Expired	-	-	(506,400)	2.76
Warrants outstanding, end of period	**8,335,992**	**1.80**	8,335,992	1.80

8. Share capital (continued)

Warrants (continued)

As at March 31, 2021, 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	1.72
189,934	189,934	2.25	January 17, 2022	0.80
266,760	266,760	2.25	January 27, 2022	0.83
200,589	200,589	2.25	July 10, 2022	1.28
3,882,667	3,882,667	1.50	July 13, 2022	1.28
759,605	759,605	2.25	July 16, 2022	1.29
953,564	953,564	2.25	July 28, 2022	1.33
161,688	161,688	2.25	August 5, 2022	1.35
8,335,992	**8,335,992**			1.37

9. Loss per share

The calculation of basic loss per share for the three month period ended March 31, 2021 was based on the loss attributable to common shareholders of $363,512 (2020 - $3,343,034), and a weighted average number of common shares outstanding of 43,334,100 (2020 – 36,571,004).

All warrants and stock options outstanding as at March 31, 2021 and 2020, 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 March 31, 2021 or March 31, 2020.

During the period ended March 31, 2021, no options were granted (2020 – 1,133,333) to Officers and Directors having a fair value on grant of $nil (2020 – $1,139,612).

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:

10. Related party payables and transactions (continued)

	Transactions three months ended March 31, 2021	Transactions three months ended March 31, 2020	**Balances outstanding March 31, 2021**	Balances outstanding December 31, 2020
	$	$	**$**	$
DBM CPA	30,000	36,000	8,400	150,900
Andrew Hale	47,479	45,028	-	180,091
Pipedreemz	-	2,500	-	2,500
	77,479	83,528	**8,400**	333,491

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 three months ended March 31, 2021 and March 31, 2020 were comprised of the following:

	March 31, 2021	March 31, 2020
	$	$
Receivables and prepayments	760,184	(23,111)
Accounts payable and accrued liabilities	(419,448)	155,313
Inventory	(496,977)	-
Net change	**(156,241)**	132,202

The Company incurred non-cash financing and investing activities during the three months ended March 31, 2021 and March 31, 2020 as follows:

	2021	2020
	$	$
Non-cash financing activities		
Convertible debentures - settlement	-	(616,537)
Convertible debentures - reserves	-	56,366
	-	(560,171)
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	300,014	251,424
	300,014	251,424

During the three months ended March 31, 2021 no amounts were paid for income tax expense.

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 March 31, 2021 was $nil (2020 - $33,632).

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.

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 maintained minimum interest only payments of $16,307 per month. Total interest expense during the period ended March 31, 2021 was $35,783 (2020 - $16,307).

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

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

The carrying value of the Third Mortgage payable at March 31, 2021 was $2,429,123. Included in mortgage payable are the related mortgage transaction costs of $18,345 which are being amortized over the term of the Third Mortgage using the effective interest rate method.

The Company maintains minimum interest only payments of $16,307 per month. As at March 31, 2021 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total $2,625,373. Total interest expense during the period ended March 31, 2021 was $17,775 (2020 - $nil).

13. 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.

During the three months ended March 31, 2021, the Company recorded interest expense of $nil (2020 - $81,602) and accretion expense of $nil (2020 - $21,088).

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 three months ended March 31, 2021. 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
	$	$	$	$
March 31, 2021				
Cash	622,778	-	-	622,778
Deposits	4,000	-	-	4,000
	626,778	**-**	**-**	**626,778**
December 31, 2020				
Cash	1,145,461	-	-	1,145,461
Deposits	4,000	-	-	4,000
	1,149,461	-	-	1,149,461

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 period ended March 31, 2021, the Company's sales were generated by two customers representing approximately 59% and 41%.

15. Events after the reporting period

(a) On April 30, 2021, the Company announced the resignation of J. Scott Munro as President, CEO and Director.

(b) On May 10, 2021, the Company announced the appointment of Michael Forbes as President, CEO and Director in conjunction with the resignation of J. Scott Munro from said position. Additionally, Donald Dinsmore, Chief Operating Officer of the Company was appointed Director.