AGRAFLORA ORGANICS INTERNATIONAL INC.

Consolidated Financial Statements
Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Agraflora Organics International Inc.

Opinion
We have audited the consolidated financial statements of Agraflora Organics International Inc. (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying 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 years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern
We draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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 comprises the information included in Management’s Discussion and Analysis.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 audit 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 Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 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 Cherry Ho.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
May 3, 2021

(Expressed in Canadian Dollars)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		$ 274,390	$ 4,076,295
Amounts receivable	5	148,856	836,417
Inventory	21	111,226	5,135
Loans receivable	6	-	205,721
Prepaids and deposits	7	27,308	1,073,617
		561,780	6,197,185
Non-current assets			
Investments	10,11,14	30,003,716	50,791,920
Prepayment for acquisitions	7	-	11,902,083
Property and equipment	8	16,699,784	8,837,948
Convertible debenture receivable	14	-	24,636,507
Loans receivable	6	13,300,936	-
Intangible assets and goodwill	9, 13	1,166,667	5,251,056
TOTAL ASSETS		**$ 61,732,883**	**$ 107,616,699**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	15	$ 8,489,438	$ 2,407,377
Current portion of lease liability	16	206,048	113,340
Deferred revenue	26	323,891	-
Deferred grant revenue	18	26,294	-
Loans payable	18	896,725	-
Contingent consideration payable	13	5,000,000	-
Derivative liabilities	13,17	10,138,800	-
Convertible loan payable	17	-	7,569,106
		25,081,196	10,089,823
Non-current liabilities			
Convertible loan payable	17	28,382,844	28,191,802
Deferred grant revenue	18	45,018	-
Derivative liabilities	14,17	-	1,465,129
Mortgage payable	18	1,443,000	-
Long-term lease liability	16	3,052,262	1,770,392
TOTAL LIABILITIES		**58,004,320**	**41,517,146**
SHAREHOLDERS' EQUITY			
Share capital	19	178,875,214	149,515,773
Obligation to issue shares	19	1,500,000	-
Reserves	19	31,741,363	40,464,785
Accumulated other comprehensive income		8,187	-
Deficit		(207,377,315)	(123,209,175)
Attributable to shareholders		4,747,449	66,771,383
Non-controlling interest	12	(1,018,886)	(671,830)
TOTAL SHAREHOLDERS' EQUITY		**3,728,563**	**66,099,553**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 61,732,883**	**$ 107,616,699**

Nature and continuance of operations (Note 1)
Commitments (Note 24)
Subsequent events (Note 27)

AGRAFLORA ORGANICS INTERNATIONAL INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2020	December 31, 2019
Sales		$ 1,491,678	$ 3,888
Cost of goods sold		(965,739)	(12,996)
		525,939	(9,108)
Expenses			
Amortization	8,9	1,019,300	151,477
Consulting and management	20	7,677,008	13,188,159
Corporate development		976,193	4,075,429
Finance and other costs	17	5,727,777	212,452
Foreign exchange loss (gain)		(13,806)	61,222
Development and compliance		159,007	56,205
Distribution expenses (recovery)		(15,742)	-
Due diligence		7,000	-
Investor communications		23,184	288,379
Insurance		81,401	-
Office and sundry		454,426	269,412
Other general and operating costs		491,092	-
Production costs		292,117	-
Professional fees		2,100,637	715,737
Property taxes and fees		124,803	-
Regulatory and transfer agent fees		232,216	513,751
Rent expense		96,240	46,858
Repairs and maintenance		18,084	-
Research and development		394,945	396,479
Share-based compensation	12,19	3,396,618	37,133,311
Transaction costs	7, 10,12,17,19	5,878,353	30,110,126
Wages and salary		1,292,195	39,660
		(30,413,048)	(87,249,549)
Loss before other items		(29,887,109)	(87,258,657)
Other items			
Fair value movement on investments	14	4,553,743	-
Change in derivative liability and contingent consideration	13,17	150,335	-
Gain (loss) on debt settlement	15,19	(639,784)	17,537
Gain on sale of marketable securities	4	-	1,178,210
Gain on write-off of accounts payable	15	47,671	-
Gain on loan payable	18	32,540	-
Government grant revenue	18	273,124	-
Impairment of property, plant and equipment, intangible asset and goodwill	8,9	(33,685,650)	(4,089,089)
Impairment of investment	10,11	(8,459,815)	-
Interest income	6	101,671	32,745
Loss on disposition of equity investments	10,11	-	(362,499)
Loss on disposal of property, plant and equipment	8	(129,181)	-
Gain (loss) on sale of assets	8,10	308,672	(2,392,236)
Provision on loan receivable	6	(212,033)	(419,945)
Share of losses in equity accounted investments	10,11	(4,732,476)	(2,217,148)
Write-off of accounts receivable	5	(1,158,462)	(446,610)
Write-off of convertible loan receivable	14	(29,210,673)	-
Write-off of prepaid expenses	7	(553,668)	-
Write-off of inventory		(2,169)	-
Net loss for the year		**(103,203,264)**	**(101,691,169)**
Other Comprehensive Loss			
Items that may be reclassified subsequently to profit or loss			
Foreign Exchange gain on translating foreign operations		8,187	-
Net loss and comprehensive loss for the year		**$ (103,195,077)**	**$ (101,691,169)**
Net loss attributable to:			
Shareholders of Agraflora Organics International Inc.		$ (102,856,208)	$ (100,981,067)
Non-controlling interests	12,13	(347,056)	(710,102)
		$ (103,203,264)	**$ (101,691,169)**
Net and comprehensive loss attributable to:			
Shareholders of Agraflora Organics International Inc.		$ (102,848,021)	$ (100,981,067)
Non-controlling interests	12,13	(347,056)	(710,102)
		$ (103,195,077)	**$ (101,691,169)**
Net loss per share – basic and diluted		**$ (0.08)**	**$ (0.16)**
Weighted average number of common shares outstanding		**1,308,443,006**	**651,174,193**

AGRAFLORA ORGANICS INTERNATIONAL INC.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital									
	Number of shares	Amount	Subscriptions received	Share-based payment reserves	Warrant reserve	Non-controlling interest	AOCI	Obligation to issue shares	Deficit	Total
Balance at December 31, 2018	**375,948,316**	**$ 48,624,710**	**$ (61,000)**	**$ 2,568,276**	**$ 817,464**	**$ -**	**$ -**	**$ -**	**$ (22,279,489)**	**$ 29,669,961**
Net and comprehensive loss for the year	-	-	-	-	-	(710,102)	-	-	(100,981,067)	(101,691,169)
Non-controlling interest on acquisition of SUHM	-	-	-	-	-	38,272	-	-	-	38,272
Subscriptions received	-	-	61,000	-	-	-	-	-	-	61,000
Options exercised (Note 19)	23,125,000	2,931,750	-	-	-	-	-	-	-	2,931,750
Fair value of warrants exercised / expired	-	7,955	-	-	(7,955)	-	-	-	-	-
Fair value of options exercised / expired	-	1,994,930	-	(2,046,311)	-	-	-	-	51,381	-
Warrants exercised (Note 19)	13,147,700	1,051,816	-	-	-	-	-	-	-	1,051,816
Shares issued for equity participation (Note 19)	44,582,040	20,000,000	-	-	-	-	-	-	-	20,000,000
Shares issued for acquisition (Note 19)	416,614,153	55,466,452	-	-	-	-	-	-	-	55,466,452
Shares issued for service (Note 19)	24,031,690	8,530,229	-	-	-	-	-	-	-	8,530,229
Shares issued for transaction costs (Note 19)	36,554,097	10,813,663	-	-	-	-	-	-	-	10,813,663
Share-based compensation (Notes 12 and 19)	-	-	-	12,009,481	25,123,830	-	-	-	-	37,133,311
Issuance of special warrants (Note 19)	-	-	-	-	2,000,000	-	-	-	-	2,000,000
Shares issued for debt settlement (Note 19)	319,551	94,268	-	-	-	-	-	-	-	94,268
Balance at December 31, 2019	**934,322,547**	**149,515,773**	**-**	**12,531,446**	**27,933,339**	**(671,830)**	**-**	**-**	**(123,209,175)**	**66,099,553**
Net and comprehensive loss for the year	-	-	-	-	-	(347,056)	8,187	-	(102,856,208)	(13,195,077)
Expired warrants (Note 19)	-	-	-	-	(8,252,116)	-	-	-	8,252,116	-
Expired options (Note 19)	-	-	-	(10,435,952)	-	-	-	-	10,435,952	-
Fair value adjustment (Notes 9, 13)		(6,828,126)	-	-	-	-	-	-	-	(6,828,126)
Transaction cost (Note 19)	58,823,529	5,882,353	-	-	-	-	-	-	-	5,882,353
Consulting fees	-	-	-	-	-	-	-	1,500,000	-	1,500,000
Conversion of special warrants (Note 19)	6,666,667	616,667	-	-	(616,667)	-	-	-	-	-
Shares for services (Note 19)	23,602,938	1,568,000	-	-	-	-	-	-	-	1,568,000
Shares for acquisition (Note 19)	76,666,666	6,168,221	-	-	-	-	-	-	-	6,168,221
Shares for debt settlement (Note 15,17,19)	374,325,417	19,978,654	-	-	6,788,306	-	-	-	-	26,766,960
Private placements (Note 19)	32,312,000	2,029,600	-	-	393,800	-	-	-	-	2,423,400
Share issuance cost – finder fees	-	(3,150)	-	-	-	-	-	-	-	(3,150)
Finders warrants issued	-	(2,589)	-	-	2,589	-	-	-	-	-
Shares returned to treasury (Note 19)	(542,426)	(50,189)	-	-	-	-	-	-	-	(50,189)
Share-based compensation (Notes 12, 19)	-	-	-	3,396,618	-	-	-	-	-	3,396,618
Balance at December 31, 2020	**1,506,177,338**	**$ 178,875,214**	**$ -**	**$ 5,492,112**	**$ 26,249,251**	**$ (1,018,886)**	**$ 8,187**	**$ 1,500,000**	**$ (207,377,315)**	**$ 3,728,563**

AGRAFLORA ORGANICS INTERNATIONAL INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2020	December 31, 2019
Operating activities		
Net loss for the year	$ (103,203,264)	$ (101,691,169)
Adjustments for:		
Amortization	1,019,300	151,477
Loss (gain) on sale of assets	(308,672)	2,392,236
Write-off of prepaid expenses	553,668	-
Loss on disposition of equity investments	-	362,499
Impairment of property, plant and equipment goodwill and intangible asset	33,685,649	9,813,448
Interest income	(101,671)	-
Impairment of investment	8,459,815	-
Provision on loan receivable	212,033	419,945
Accrued interest	5,515,406	131,787
Gain on loan payable	(32,540)	-
Share of losses in equity investments	4,732,476	2,217,148
Fair value change on movement in investments	(4,553,743)	-
Non-cash consulting fees	3,068,000	8,530,229
Transaction cost	5,882,353	27,927,126
Loss (gain) on debt settlement	639,333	(17,537)
Gain on sale of marketable securities	-	(1,178,210)
Share-based compensation	3,396,618	37,133,311
Write-off of inventory	2,169	-
Foreign exchange loss (gain)	5,938	61,222
Loss on disposal of property, plant and equipment	129,181	-
Write-off of convertible loan receivable	29,210,673	-
Write-off of amounts receivable	1,158,913	446,610
Fair value change in derivative liabilities	(150,335)	-
Changes in non-cash working capital items:		
Accounts receivables	(562,086)	(582,908)
Prepaids	521,874	(924,869)
Inventory	19,665	(5,135)
Accounts payable and accruals	6,009,359	999,239
Net cash flows used in operating activities	(4,689,888)	(13,813,551)
Financing activities		
Proceeds from convertible debt	9,770,000	12,487,042
Repayment of lease liability	(510,303)	(154,755)
Proceeds from loan received	639,020	-
Proceeds on issuance of special warrants	-	2,000,000
Proceeds on issuance of common shares, net of subscriptions received / receivable	2,420,250	24,044,566
Net cash flows provided by financing activities	12,318,967	38,376,853
Investing activities		
Expenditures on equipment	(5,616,827)	(4,226,274)
Funds advanced for investments made	-	(430,000)
Proceeds from sale of property, plant and equipment	407,372	-
Cash obtained on acquisitions	246,915	-
Purchase of intangible assets	(22,189)	-
Acquisition of The Good Company GmbH	(1,763,119)	-
Prepayment for acquisitions	-	(1,600,000)
Deferred revenues – property sale	322,000	-
Investment in marketable securities	-	(2,200,000)
Investment in and advances to PSC	(5,005,136)	(22,092,436)
Loan advances (repayments)	-	(657,185)
Net cash flows used in investing activities	(11,430,984)	(31,205,895)
Change in cash	(3,801,905)	(6,642,593)
Cash, beginning	4,076,295	10,718,888
Cash, ending	**$ 274,390**	**$ 4,076,295**

Non-cash transactions (Note 22)

1. NATURE AND CONTINUANCE OF OPERATIONS

AgraFlora Organics International Inc. (the "Company" or "Agraflora") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). The diversified Company focused exclusively on the cannabis industry. The Company's flagship assets include its 70% equity interest in Propagation Services Canada, a 2,200,000 sq. ft. greenhouse complex in Delta, B.C. In addition, Agraflora's wholly owned subsidiary Farmako GmbH is a distributor of medical cannabis in Europe. The Company's corporate office is located at Suite 810, 789 West Pender Street, Vancouver, British Columbia V6C 1H2. The Company trades on the Canadian Stock Exchange (the "CSE") under the symbol "AGRA". The Company also trades on the OTC Pink Sheets ("OTCPK") under the symbol "AGFAF" and the Frankfurt Stock Exchange under the symbol "PU3".

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 23. At December 31, 2020, the Company has a working capital deficit of $24,519,416 (December 31, 2019 - $3,892,638), and an accumulated deficit of $207,377,315 (December 31, 2019 - $123,209,175).

The Company generates minimal cash flow from operations and therefore relies upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the statement of financial position classifications used. These consolidated financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

Basis of preparation

The consolidated financial statements of the Company comply 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").

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 3, 2021.

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Basis of Consolidation

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. These consolidated financial statements include the accounts of the Company and its principal subsidiaries:

	Ownership Interest 2020	Ownership Interest 2019	Jurisdiction
AAA Heidelberg Inc.	100%	100%	Canada
Potluck Potions and Edibles Inc.	80%	80%	Canada
Canutra Naturals Ltd.	100%	100%	Canada
SUHM Investments Inc.	100%	100%	Canada
The Edibles and Infusions Corp.	80%	80%	Canada
11122347 Canada Corp d/b/a Canada Cap Corp	80%	80%	Canada
1180782 B.C. Ltd. d/b/a Delta Organic Cannabis Corp.	100%	100%	Canada
11353675 Canada Corp. d/b/a CanaBeer	80%	80%	Canada
11353705 Canada Corp. d/b/a Canada Gum Corp.	80%	80%	Canada
Trichome Canabrands Inc.	100%	100%	Canada
Sanna Health Corp.	100%	-	Canada
The Good Company GmbH	100%	-	Germany
11406426 Canada Corp. d/b/a Canada Formulations Corp	80%	80%	Canada

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Presentation and functional currency
The functional currency of the parent company, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency is the Canadian dollar for the Company's Canadian subsidiaries and the Euro for The Good Company GmbH.

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (the exchange rate at the reporting date). Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the statement of comprehensive loss.

Foreign operations:
The financial results and financial position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:
- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the foreign operation is disposed

2. BASIS OF PREPARATION (continued)

Significant accounting judgments and estimates

The preparation of these consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimates and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: fair value allocation in business combination and asset acquisitions, value of marketable securities and other financial instruments; impairment of non-financial assets; discount rate used, and share-based compensation.

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its cannabis assets. This includes estimating the fair value of intangible assets held relating to the cannabis operations.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements. The continuation of the Company as a going concern requires judgment and factors used are disclosed in Note 1.

Management has applied significant estimates and judgements related to the following:

Business combination and asset acquisition

Judgement is required to determine if the Company’s acquisition represented a business combination or an asset purchase. More specifically, management concluded that most of the Company’s acquisitions did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs. For acquisitions that represented the purchase of assets, no goodwill was recognized on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. As the Company concluded that most of the acquisitions were asset acquisitions, an allocation of the purchase price to the individual identifiable assets acquired, including intangible assets, and liabilities assumed based on their fair values at the date of purchase was required. The fair values of the net assets acquired were calculated using significant estimates and judgments. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statement of financial position.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of the purchase prices.

Convertible debenture receivable

Management is required to make a number of estimates when determining the valuation of its convertible debenture receivable, which used option pricing models that involved various estimates and assumptions.

2. BASIS OF PREPARATION (continued)

Significant accounting judgments and estimates (continued)
Investment in associates
The Company uses judgment in its assessment of whether the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, including but not limited to, the ability to exercise significant influence through board representation, material transactions with the investee, provision of technical information, and the interchange of managerial personnel. Whether an investment is classified as an investment in associate can have a significant impact on the entries made on and after acquisition

COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company’s operations during the year ended December 31, 2020. The production and sale of cannabis has been recognized as essential services across Canada and Europe. As at December 31, 2020, we have not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on our business, financial position and operating results in the future. 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 including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash
Cash in the consolidated statement of financial position is comprised of cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Equity accounted investments
Equity accounted investments are those entities in which the Company has significant influence, but does not have control over the financial and operating policies of the investees. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. Joint arrangement entities are those over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint ventures are joint arrangements whereby the parties have joint control of the arrangement and have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to $nil and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity accounted investments (continued)

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary adjustments are made to bring the accounting policies of associates in line with those of the Company.

At December 31, 2020 and 2019 the Company accounts for the following entities using the equity method as the Company does not have control over these entities:

	Ownership Interest	Jurisdiction
Propagation Services Canada Inc.	70%	Canada
Eurasia Infused Cosmetics Inc.	50%	Canada
JJ Wolf Investment Ltd.	50%	Canada

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use, and in the year of acquisition, only one-half of normal rates are used.

Furniture and equipment - 20% declining balance
Computers - 30% declining balance
Building - 6% declining balance
Right-of-use asset - straight-line over term of lease
Leasehold improvements - straight-line over term of lease

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is calculated on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Health Canada licenses – Useful life of the facility or lease term
Other operational licenses – Useful life of the facility or lease term
Non-compete agreement – over the duration of the non-compete agreement
Customer relationships – 6 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as research and development expenses on the consolidated statement of comprehensive loss as incurred. Capitalized deferred development costs are internally generated intangible assets.

Inventory

Inventory is valued at the lower of cost and net realizable value. The Company's inventory is comprised of cannabis products, hemp products, and purchased finished goods for resale. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

The goodwill balance is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a CGU level by comparing the carrying value to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in the statement of comprehensive loss. Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the fair value equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed in the statement of comprehensive loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in the statement of comprehensive loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

Non-controlling interests
Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interests held prior to obtaining control and the NCI in the acquiree, over the fair value of the identifiable net asset acquired, is recorded as goodwill.

Impairment

Long-lived assets
At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the consolidated statement of comprehensive loss.

Share capital
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions
The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Income taxes
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

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

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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

Loss per share
The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting
The Company operates in the cannabis segment in Canada and Germany.

IFRS 15 – Revenue from contracts with customers
IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), amended revenue recognition requirements and established principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

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

Revenue from the sale of hemp health products and cannabis to medical and recreational customers are recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

Financial instruments
The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)
The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification IFRS 9
Cash	FVTPL
Amounts receivable	Amortized cost
Loans receivable	Amortized cost
Marketable securities	FVTPL
Convertible debenture receivable	FVTPL
Accounts payable	Amortized cost
Loans payable	Amortized cost
Contingent consideration payable	FVTPL
Mortgage payable	Amortized cost
Convertible loan payable	Amortized cost
Derivative liability	FVTPL

(ii) Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive loss (“OCI”). On derecognition, gains and losses accumulated in OCI are reclassified to the consolidated statement of comprehensive loss.

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in the statement of comprehensive loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to the consolidated statement of comprehensive loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)
(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in the consolidatd statement of comprehensive loss.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in “finance and other costs” in the consolidated statement of comprehensive (loss) income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company’s lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee’s incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statement of comprehensive (loss) income. Short term leases are defined as leases with a lease term of 12 months or less.

Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of comprehensive loss.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

The Company recognizes government grants initially as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis in the periods in which the Company recognizes the expenses for the related costs for which the grants are intended to compensate.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. A forgivable loan from the government is treated as a government grant as long as there is reasonable assurance that the Company will meet the terms for forgiveness of the loan. The amount of the grant portion which is unexpended is recognized as a deferred government grant to be recognized in profit or loss on a systematic basis over the term of the loan.

The Company recognizes government subsidies when there is reasonable assurance that it will comply with the conditions required to qualify for the subsidy and that the condition of the subsidy is also reasonably assured. Government subsidies received are recognized on the consolidated statement of income (loss) and comprehensive income (loss) as other income.

Newly adopted accounting standards

Amendments to IFRS 3, Business Combinations (“IFRS 3”)
In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business.

The amendments are effective for business combinations and asset acquisitions occurring on or after January 1, 2020. The adoption of the amendments to IFRS 3 did not have an impact on the Company’s consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company’s consolidated financial statements.

(Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

The continuity of the Company's marketable securities is as follows:

	December 31, 2018	Additions	Disposals	Realized gain (losses)	December 31, 2019 and 2020
Investment in public and private entities:	$	$	$	$	$
Volt Energy Inc.	21,875	-	37,500	15,625	-
Empower Clinics Inc	-	1,000,000	1,000,000	-	-
Transnational Cannabis Ltd.	-	9,703	156,000	146,297	-
Cannabis Clonal Corp.	-	300,000	300,000	-	-
1205293 B.C. Ltd.	-	500,000	500,000	-	-
Roughrider Capital Corp.	-	-	532,500	532,500	-
Eurolife Brands Inc.	-	-	433,920	433,920	-
Mindful Capital Inc.	-	400,000	400,000	-	-
Sire Bioscience Inc.	-	498,684	548,552	49,868	-
Total	21,875	2,708,387	3,908,472	1,178,210	-

Investment in equities include both publicly-traded and private investments. The fair value of investments in publicly-traded entities is based on quoted closing prices at the valuation date. The fair value of investments in private entities were estimated based on a Level 3 market approach of fair value. During the year ended December 31, 2019, the Company obtained and purchased several investments for a total of $2,708,387 (Note 10).

During the year ended December 31, 2019, all of the marketable securities held by the Company were sold to JJ Wolf Investment Ltd. ("JJ Wolf") for $3,908,472, being the fair value of 10,000,000 (Note 10) shares received in consideration for the sale, resulting in a realized gain on sale of $1,178,210.

Transnational Cannabis Ltd.

The Company entered into a Cannabis Strain and Genetics Transfer Agreement with Transnational Cannabis Ltd. ("Transnational") on April 9, 2019, whereby the Company sold a portfolio of cannabis strains with a cost of $9,703 to Transnational in exchange for 1,000,000 common shares of Transnational.

On May 21, 2019, the Company entered into a commercial rights and offtake agreement with Transnational, whereby Transnational will purchase 20,000 kilograms of dried cannabis per annum for a term of 5 years expiring on December 31, 2024 from Propagation Services Canada Inc. ("PSC"). On May 28, 2019, in consideration for facilitating the execution of the Offtake Agreement, the Company issued 2,000,000 common shares with a fair value of $780,000 to an arm's length third party as transaction costs (Note 19).

On July 24, 2019, the Company sold its 1,000,000 common shares of Transnational to JJ Wolf (Note 10).

Eurolife Brands Inc.
On July 15, 2019, the Company purchased 452 common shares of 1216165 B.C. Ltd for cash payment of $0.0452. During the year ended December 31, 2019, the Company sold all of the common shares of 1216165 B.C Ltd in exchange for 3,616,000 common shares of Eurolife Brands Inc.

On July 24, 2019, the Company sold its 3,616,000 common shares of Eurolife Brands Inc. to JJ Wolf (Note 10).

4. MARKETABLE SECURITIES (CONTINUED)

Roughrider Capital Corp.
In 2018, Volt Energy Inc. (“Volt”) Volt spun out its oil and gas assets into Roughrider Capital Corp. (“Roughrider”) and distributed to the Volt shareholders two common shares of Roughrider for every one Class A Volt shares held. As a result, the Company received 1,250,000 Roughrider common shares for its 625,000 common shares of Volt. At December 31, 2018, the Company recorded the Roughrider shares at $Nil due to lack of market and uncertainty of realizing any value. The 1,250,000 Roughrider shares were valued at $156,250 prior to sale to JJ Wolf.

On April 2, 2019, the Company entered into a Share Purchase Option agreement with a third party, whereby the Company was granted an option to purchase all of the shares of AgraLeaf SA for a period of 12 months. On May 13, 2019, the Company assigned and transferred to Roughrider the option to purchase all of the optioned shares of AgraLeaf SA for a purchase price of 3,010,000 common shares of Roughrider. The shares were received and were initially valued at $376,250.

On July, 24, 2019, the Company sold its 4,260,000 common shares of Roughrider to JJ Wolf. (Note 10).

Sire Bioscience Inc.
On February 28, 2019, the Company entered into a Simple Agreement for Future Equity (“SAFE”) with Sire Bioscience Inc. (“Sire”) (formerly Best Cannabis Products Inc. (“BCP”)) whereby the Company invested $230,000 (“Purchase Amount”) into Sire. Pursuant to the terms of the agreement, Sire is required to issue shares of BCP at a discount of 20% and subject to a valuation cap of $8,672,500, upon the occurrence of certain events as indicated below:

- In the event of equity financing, Sire will automatically issue shares to the Company equal to the Purchase Amount divided by the conversion price if there is a transaction or series of related transactions with the principal purpose of raising capital pursuant to which Sire issues and sells shares at a fixed pre-money valuation of $20,000,000 or more generating gross proceeds to Sire of at least $10,000,000 before the expiration or termination of this SAFE; and
- In the event of liquidity, the Company will receive from Sire the number of shares equal to the Purchase Amount divided by the liquidity price.

In the event of dissolution, Sire will repay the Company the Purchase Amount, due and payable to the Company immediately prior to, or concurrent with, the consummation of the dissolution event.

The termination of the SAFE agreement is the earlier of the occurrence of any of the above events or December 31, 2019. If an equity financing, liquidity event or dissolution event does not occur on or before December 31, 2019, Sire will automatically issue to the Company the number of shares equal to the Purchase Amount divided by the conversion price. The conversion price of the SAFE agreement is the higher of the price per share equal to the valuation cap divided by the corporation capitalization or the price per share of the shares sold in the equity financing multiplied by the discount rate.

On September 11, 2019, Sire completed an equity financing and issued 4,600,000 common shares of Sire to the Company with a fair value of $230,000. The Company did not recognize any gain from the conversion of investment to shares.

On August 27, 2018 the Company advanced $250,000 by way of a loan to Sire. The loan was due October 25, 2019 and bore interest at 4% per annum. As at December 31, 2018, a balance of $253,333 is receivable, including accrued interest. The Company further advanced $18,684 of loan to Sire during the year ended December 31, 2019. During the year ended December 31, 2019, the Company received a cash payment of $10,413 for the interest on the loan and converted its $250,000 convertible loan receivable and $18,684 of debt to 5,373,670 common shares of Sire with a fair value of $268,684. The Company did not recognize any gain or loss from the conversion of loan to shares.

On July, 24, 2019, the Company sold its 9,973,670 common shares of Sire to JJ Wolf. (Note 10).

(Expressed in Canadian Dollars)

5. AMOUNTS RECEIVABLE

	December 31, 2020 $	December 31, 2019 $
Current:		
Government sales tax recoverable	133,666	806,417
Other receivable	15,190	30,000
	148,856	836,417

During the year ended December 31, 2020, the Company wrote off $1,158,462 (2019 - $Nil) of government sales tax recoverable on the basis that the amounts were denied by the Canada Revenue Agency.

6. LOANS RECEIVABLE

	$
Loans receivable, December 31, 2018	**253,333**
Loan to 2459160 Ontario Ltd.	400,000
Loan to 1187744 BC Ltd.	200,000
Loan to Sire Bioscience Inc.	18,684
Accrued interest	32,746
Conversion of Sire Bioscience Inc. loan receivable to common shares	(268,684)
Cash payment from Sire Bioscience Inc.	(10,413)
Provision on loan receivable	(419,945)
Loans receivable, December 31, 2019	**205,721**
Loan to PSC	12,708,230
Accrued interest	324,018
Promissory note for sale of land	275,000
Provision on loan receivable	(212,033)
Total loans receivable, December 31, 2020	**13,300,936**

On July 2, 2019, the Company advanced $400,000 by way of a convertible loan to 2459160 Ontario Ltd. The loan is unsecured, matured on August 2, 2019 and bears interest at 10% per annum. The Company had the option to convert all or any portion of the principal amount of the loan, accrued interest and fees outstanding into common shares of 2459160 Ontario Ltd. before the maturity date, at the maximum allowable discount. As at December 31, 2019, the loan had matured and is no longer convertible. The outstanding loan receivable was $419,945, including accrued interest. During the year ended December 31, 2019, the Company recorded a provision of $419,945 against the loan and impaired the loan receivable to $Nil.

On July 10, 2019, the Company advanced $200,000 by way of a loan to an arm’s length party. The loan is due July 10, 2020 and bears interest at 6% per annum. At December 31, 2019, a balance of $205,721 was receivable, including accrued interest. During the year ended December 31, 2020, the Company recorded accrued interest of $6,312 on the loan and record a provision of $212,033 against the loan and impaired the loan receivable to $Nil.

On December 10, 2020, the Company’s subsidiary entered into a promissory note with an arm’s length party. for a total of $275,000 relating to the sale of land (Note 8). The promissory note matures on June 4, 2022, accrues interest at 9% per annum and is payable to the Company in monthly instalments starting from January 4, 2021. The balance of the loan is $275,000 as at December 31, 2020.

On November 6, 2020, the Company entered into a definitive loan agreement with PSC. The loan agreement has a maximum facility amount of $50,000,000, and includes previous advances made to PSC of $38,604,344. The loan has an interest rate of nil per annum which increases to 10% per annum upon an event of default.

(Expressed in Canadian Dollars)

6. LOANS RECEIVABLE (CONTINUED)

The balances are secured by a General Security Agreement, the loan has no stated maturity date and is repayable monthly out of 50% of PSC's EBITDA until PSC's loan outstanding with Houweling Nurseries Property Ltd ("HNL") is settled, after which the loan becomes repayable monthly out of 100% of PSC's EBITDA until the outstanding balance is settled.

As a result of executing the definitive loan agreement, the original advances are considered extinguished and replaced with the new loan, which has been advanced to PSC at a below-market interest rate. The fair value of the loan on initial recognition of $12,708,263 has been determined by discounting the estimated cash flows at a rate of 15%. The difference between the original advances and the fair value of the new loan is $25,896,081 which is included in the investment account and is considered a contribution to PSC (Note 11).

Subsequent to initial recognition, the loan will be measured at amortised cost using the effective interest method. During the year ended December 31, 2020, the Company has recorded $317,706 in interest income relating to the loan. The Company eliminated $222,394 of inter-company interest income, reducing the interest income by $222,394 to $95,312 and reducing the investment in PSC by $222,394.

The loan balance as of December 31, 2020 is $13,025,936 ($nil as of December 31, 2019).

7. PREPAID EXPENSES

	December 31, 2020 $	December 31, 2019 $
Current:		
Advances to third-party suppliers	27,308	1,065,784
Prepaid insurance and property taxes	-	7,833
Total	27,308	1,073,617
Prepayment for asset acquisitions	-	11,902,083
Total	27,308	12,975,700

On October 22, 2019, the Company entered into a Share Purchase Agreement and an Assignment and Assumption of Share Purchase Agreement to purchase 100% of the issued and outstanding shares of The Good Company GmbH ("The Good Company"), a German limited liability company on a pro-rata basis. As consideration, the Company paid cash consideration of $1,000,000, issued 47,916,667 common shares on November 4, 2019 (which were held in escrow) with an initial fair value of $10,302,083 and repayment of certain shareholder loans. A further $300,000 was also advanced during the year ended December 31, 2019. The cash paid and shares issued are recorded in prepaid expenses as the acquisition had not closed as of December 31, 2019. During the year ended December 31, 2020, the acquisition closed and the cash paid and shares issued were removed out of prepaid expenses.

On August 27, 2019, the Company entered into Letter of Intent to acquire 100% of all of the issued and outstanding common shares of 11371436 Canada Corp for a purchase price of $250,000. As consideration, the Company paid $150,000 during the year ended December 31, 2019 and paid $50,000 during the year ended December 31, 2020. The amounts recorded in prepayment of $200,000 were impaired during the year ended December 31, 2020 as the acquisition has become inactive, resulting in impairment in investment expense of $200,000.

During the year ended December 31, 2019, the Company advanced $150,000 towards potential acquisition of Farma Swiss S.A.S. The amounts recorded in prepayment of $150,000 were impaired during the year ended December 31, 2020 as the acquisition became inactive, resulting in impairment in investment expense of $150,000.

During the year ended December 31, 2020, the Company also recorded a write-off of $203,668 for other prepaid expenses.

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

Property and equipment are held by the Company and its subsidiaries. The buildings, certain furniture and equipment, computers and leasehold improvements are currently not available for use and have therefore not been amortized.

	Furniture & equipment $	Building $	Computers $	Right of use asset $	Leasehold improvements $	Land $	Total $
Cost:							
December 31, 2018	55,955	1,490,774	77,929	-	-	-	1,624,658
Additions	1,117,467	2,720,699	545	-	387,563	-	4,226,274
Acquired from business combinations / asset acquisitions	859,186	-	-	1,931,548	-	373,700	3,164,434
December 31, 2019	2,032,608	4,211,473	78,474	1,931,548	387,563	373,700	9,015,366
Additions	3,801,641	3,323,458	-	-	395,630	-	7,520,729
Impairment	(143,130)	(1,037,164)	-	-	(2,127,714)	-	(3,308,008)
Sale or disposal of assets	(377,604)	-	-	-	-	(373,700)	(751,304)
Acquired from business combinations / asset acquisitions	152,271	1,014,000	-	1,569,411	2,325,906	-	5,061,588
December 31, 2020	**5,465,786**	**7,511,767**	**78,474**	**3,500,959**	**981,385**	**-**	**17,538,371**
Amortization:							
At December 31, 2018	(20,156)	-	(13,403)	-	-	-	(33,559)
Charge for the year	(8,254)	-	(19,438)	(112,674)	-	-	(140,366)
Acquired from business combinations	(3,493)	-	-	-	-	-	(3,493)
At December 31, 2019	(31,903)	-	(32,841)	(112,674)	-	-	(177,418)
Charge for the year	(46,272)	(50,024)	(16,818)	(323,961)	(198,192)	-	(635,267)
Acquired from business combinations	-	-	-	(25,902)	-	-	(25,902)
December 31, 2020	**(78,175)**	**(50,024)**	**(49,659)**	**(462,537)**	**(198,192)**	**-**	**(838,587)**
Net book value:							
December 31, 2019	2,000,705	4,211,474	45,633	1,818,874	387,563	373,700	8,837,948
December 31, 2020	**5,387,611**	**7,461,743**	**28,815**	**3,038,422**	**783,193**	**-**	**16,699,784**

The right-of-use asset relates to the leased building and land in Winnipeg, Manitoba for the purpose of production of edibles and infusion products containing CBD and THC as well as leased manufacturing facility in Ontario upon acquisition of Sanna Health Corp. ("Sanna") (Note 12). The Manitoba and Ontario leases are reflected on the consolidated statement of financial position as right-of-use assets, with an associated lease liability (Note 16). The discount rate applied to the lease is 11.34% and 9.85%.

During the year ended December 31, 2020, the Company recorded an impairment of assets of $1,037,164 related to its subsidiary AAA Heidelberg Inc. and $2,127,714 related to its subsidiary Sanna.

During the year ended December 31, 2020, the Company sold land with a cost of $373,700 for total proceeds of $682,372 and record a gain on sale of $308,672. The Company entered into a promissory note of $275,000 with the purchaser relating to the sale (Note 6).

During the year ended December 31, 2020, the Company forfeited its right to certain equipment with a cost of $377,604 to offset corresponding accounts payable of $248,423 and recorded a loss on disposal of $129,181.

(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS AND GOODWILL

	Licenses $	Customer Relationships $	Intangible Agreement $	Non-Compete Agreement $	Goodwill $	Total $
Balance, December 31, 2018	**5,350,901**	**-**	**-**	**-**	**-**	**5,350,901**
Acquired from business combinations / asset acquisitions	-	-	40,709	200,000	9,484,015	9,724,724
Amortization	-	-	-	(11,111)	-	(11,111)
Impairment	(4,048,380)	-	(40,709)	-	(5,724,369)	(9,813,458)
Balance, December 31, 2019	**1,302,521**	**-**	**-**	**188,889**	**3,759,646**	**5,251,056**
Acquired from business combinations / asset acquisitions	12,466,581	795,132	-	-	13,393,384	26,655,097
Additions	22,189	-	-	-	-	22,189
Amortization	(273,463)	(88,348)	-	(22,222)	-	(384,033)
Impairment	(12,517,828)	(706,784)	-	-	(17,153,030)	(30,377,642)
Balance, December 31, 2020	**1,000,000**	**-**	**-**	**166,667**	**-**	**1,166,667**

During the years ended December 31, 2020 and 2019, the Company acquired intangibles and goodwill as disclosed in Notes 10, 12 and 13.

The Health Canada licenses arose as a result of acquisition of AAA Heidelberg Inc. (Note 10) and Sanna (Note 12). The distribution licenses arose as a result of acquisition of The Good Company (Note 13). The distribution licenses have an indefinite life and will not be amortized.

The Health Canada licenses that arose from the acquisition of Sanna are amortized on a straight-line basis over 10 years, resulting in amortization of $273,463 for the year ended December 31, 2020 (2019 - $Nil).

The non-compete agreement arose as a result of the acquisition of The Edibles and Infusions Corp. (Note 12) and is amortized on a straight-line basis over the 9-year term of the agreement, resulting in an amortization of $22,222 for the year ended December 31, 2020 (2019 - $Nil).

The goodwill and customer relationships arose as a result of the acquisition of The Good Company (Note 12). The goodwill will not be amortized as it has an indefinite life. The customer relationships will be amortized on a straight-line basis over its life of 6 years, resulting in an amortization amount of $88,348 for the year ended December 31, 2020 (2019 - $Nil). During the year ended December 31, 2020, the Company recognized an impairment loss on the customer relationships of $706,784.

The goodwill arose as a result of acquisition of Canutra Naturals Ltd and The Good Company. The Company determined the fair value of Cantura Naturals Ltd. on the acquisition date to be $3,759,646 and recognized an impairment loss on goodwill of $3,759,646 for the year ended December 31, 2020 (2019 - $5,724,369). The Company determined the fair value of other goodwill acquired from acquisition of The Good Company to be $13,393,384 and recognized an impairment loss on goodwill of $13,393,384 for the year ended December 31, 2020.

During the year ended December 31, 2020, the Company recorded an impairment of $1,302,522 on the AAA Heidelberg Inc. Health Canada license as result of the realized value on sale of the subsidiary (Note 27), an impairment of $5,263,537 on the Sanna Health Canada license as a result of revaluation, and an impairment loss of $5,951,770 on the licenses acquired from The Good Company as a result of revaluation.

(Expressed in Canadian Dollars)

10. INVESTMENTS

Investment in Glow Lifetech Ltd.

During the year ended December 31, 2019, the Company acquired a 37.5% interest in a private company Glow Lifetech Ltd. for $200,000. On June 10, 2019, Glow Lifetech Ltd. closed a private placement and diluted the Company's interest to 23.4%. The investment was accounted for as an equity interest. Under equity accounting, the Company's share of Glow Lifetech Ltd.'s loss for the year ended December 31, 2019 totaled $82,173. On July 24, 2019, the Company sold its investment in Glow Lifetech Ltd. to JJ Wolf pursuant to a share exchange agreement for $750,000. Prior to the sale, the Company recorded its investment in Glow Lifetech Ltd. at fair value, and recorded a realized gain of $632,173.

Investment in JJ Wolf Investments Ltd

During the year ended December 31, 2019, the Company entered into a share exchange agreement with JJ Wolf, whereby the Company sold certain assets valued at $4,658,482 to JJ Wolf in exchange for the issuance of 10,000,000 common shares in the capital of JJ Wolf, valued at $2,266,236, resulting in a realized loss on sale of $2,392,236. At December 31, 2020, the Company owns 50% (2019- 50%) of the common equity of JJ Wolf and the other 50% interest is owned by a former director. The Company commenced equity accounting its investment in JJ Wolf and recorded a loss on its equity investment of $486,781 for the year ended December 31, 2020 (2019 - $576,359). The investment balance as at December 31, 2020 is $1,203,096 (2019 - $1,689,877).

The Company transferred the assets listed below to JJ Wolf:

Asset	Shares transferred
Sire Bioscience Inc.	9,973,670 shares
Roughrider Capital Corp.	4,260,000 shares
Volt Energy Corp.	625,000 shares
Cannabis Clonal Corp.	3,000,000 shares
Empower Clinics Inc.	10,000,000 shares
Empower Clinics Inc.	10,000,000 warrants
1205293 B.C. Ltd.	5,000,000 shares
1205293 B.C. Ltd.	2,500,000 warrants
Transnational Cannabis Ltd.	1,000,000 shares
Mindful Capital Inc.	888,889 shares
Eurolife Brands Inc.	3,616,000 shares
Glow Lifetech Ltd.	3,750,000 shares

Eurasia Infused Cosmetics Inc.

On August 19, 2019, the Company entered into a Share Purchase Agreement with Eurasia Infused Cosmetics Inc. ("Eurasia"), a private company in British Columbia, whereby the Company purchased 50% of the outstanding common and preferred shares of Eurasia. On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of $4,050,000 and 1,500,000 finder's shares with a fair value of $405,000 for the common shares of Eurasia. The consideration received had a fair value of $Nil. Therefore, the Company expensed the $4,455,000 as transaction costs in the consolidated statement of comprehensive loss for the year ended December 31, 2019.

During the year ended December 31, 2019 the Company advanced $67,599 (US$50,000) to Eurasia as a shareholder loan. The loan is non-interest bearing and is to be repaid out of proceeds from the sale of products before the distribution of any dividends. The balance of this loan is impaired to $Nil as at December 31, 2020 resulting in impairment of investment expense of $67,599 (2019 - $Nil).

11. PROPAGATION SERVICES CANADA INC.

During the year ended December 31, 2018, the Company acquired a 40% interest in PSC, a joint venture which has ownership of the Houwelings Delta Propagation Facility (“Facility”), consisting of 2,200,000 square feet of greenhouse space and 1,700,000 square feet of irrigation space. On April 25, 2019, the Company issued 20,588,235 common shares with a fair value of $6,000,000 to acquire an additional 10% interest in PSC.

The Company entered into an earn-in agreement with Delta Organics Cannabis Corp. (“DOCC”) whereby DOCC can acquire an equity interest in the Company by committing $40,000,000 for the furtherance of the Facility’s lease obligations, construction expenses, and operational expenses. As consideration the Company will grant to DOCC the option to acquire up to 19.9% of the outstanding common shares of the Company and a 20% interest in class B non-voting shares of PSC pursuant to the terms of the agreement. DOCC had acquired 89,164,080 of the common shares of the Company for proceeds of $40,000,000 and received 20% of class B non-voting shares in PSC. As a result of granting 10% interest in class B non-voting shares in PSC on March 20, 2019 to DOCC, the Company recorded loss on disposal of $994,672.

On July 11, 2019, the Company completed the transaction pursuant to an Asset Purchase Agreement dated June 10, 2019 with Organic Flower Investments Group Inc. (“OFIG”) whereby the Company acquired 100% of all of issued and outstanding common shares of DOCC with a fair value of $12,000,000, which gave the Company an additional 20% equity interest in PSC. The Company now has a 70% equity interest in PSC. As of December 31, 2019, the Company had advanced $33,599,176 to PSC. This advance was unsecured, due on demand and was presented within the equity accounted investment.

During the year ended December 31, 2020, the Company entered into an amended and restated Shareholders Agreement with the shareholders of PSC. As a result, the Company’s level of influence in PSC has gone from significant influence to joint control. The interest in PSC will continue to be accounted for under the equity method as PSC is considered a joint venture.

On November 6, 2020, the Company entered into a definitive Loan Agreement with PSC (Note 6). As the terms to this Loan Agreement are substantially different than those for previous advances made to PSC, the Company has accounted for the modification as an extinguishment of the original advances made to PSC and has recognized a new loan receivable. The difference between the fair value of the new loan and the original advances is being recognized as a contribution to PSC in the amount of $25,896,081.

As at December 31, 2020, the Company considered certain indications to determine whether its investment in PSC was impaired and identified impairment indicators. As a result, the Company performed an impairment test and determined the recoverable amount of its investment in PSC. The recoverable amount is the higher of the fair value less cost of disposal ("FVLCD") and value in use ("VIU"). The FVLCD is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less cost to dispose. The VIU is the present value of the future cash flows expected to be derived from the investment. Due to the current significant loss position of PSC, the Company believes the VIU to be higher than its FVLCD. Therefore, the Company has used VIU as the recoverable amount. As a result, an impairment loss of $8,042,217 on the investment in PSC has been recognized. The impairment loss was recognized based on management’s assessment of PSC’s present value of expected future cash flows discounted at 15%.

Under equity accounting, the Company’s share of PSC’s losses for the year ended December 31, 2020 totaled $4,245,695 (2019 - $1,558,616).

(Expressed in Canadian Dollars)

11. PROPAGATION SERVICES CANADA INC. (CONTINUED)

The table below provides a continuity of the PSC investment:

	December 31, 2020 $	December 31, 2019 $
Opening balance	49,014,021	11,474,873
Acquisition of additional interests	-	18,000,000
Loss on disposal of interest	-	(994,672)
Adjustment of intercompany interest	(222,362)	
Advances	5,005,136	22,092,436
Extinguishment of original advances (Note 6)	(38,604,344)	-
Contribution to joint venture (Note 6)	25,896,081	-
Loss on equity investment	(4,245,695)	(1,558,616)
Impairment on investment in joint venture	(8,042,217)	-
Ending balance	**28,800,620**	**49,014,021**

The tables below provide a summary of PSC's financial position and profit and loss:

Summary statements of financial position as at	December 26, 2020 $	December 29, 2019 $
Non-current assets	36,324,920	44,854,017
Total assets	40,157,399	46,060,351
Current liabilities	2,875,571	40,739,297
Non-current liabilities	29,900,418	7,902,933
Shareholders' equity (deficiency)	10,256,981	(2,581,879)
Total liabilities and shareholders' equity (deficiency)	40,157,399	46,060,351

Summary statements of comprehensive loss for the year ended	December 26, 2020 $	December 29, 2019 $
Operating general and administration expenses	(3,312,489)	(1,683,737)
Other income (expenses)	(5,951,027)	(798,525)
Income tax recovery	3,198,237	-
Net loss and comprehensive loss	(6,065,279)	(2,482,262)

12. ACQUISITIONS

OFIG Acquisitions

On July 11, 2019, the Company completed the transaction pursuant to an Asset Purchase Agreement dated June 10, 2019 with OFIG whereby the Company acquired certain assets listed below from OFIG ("Vendor"). As consideration the Company issued 348,109,251 common shares with a fair value of $39,164,369 on July 11, 2019.

- Exclusive Distribution Agreement dated May 8, 2019 between the Vendor and Transnational which gives the Company access to a European distribution network of retail outlets and pharmacies, as well as commercial rights for cannabis processing / finishing at select European-GMP certified facilities. The Company assessed the fair value of this to be $Nil at acquisition date.
- Exclusive Sub-License Agreement dated May 30, 2019 between the Vendor and 1205293 B.C. Ltd. operating as True Focus Canada, which gives the Company rights to True Focus Canada's IP portfolio. The Company assessed the fair value of this to be $Nil.
- 80% of all of issued and outstanding common shares of 11353675 Canada Corp., which is party to an exclusive partnership agreement with a Toronto-based brewery to formulate, manufacture and distribute all cannabinoid-infused beverages developed by the brewery. The Company assessed the fair value of this to be $Nil at acquisition date.

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

OFIG Acquisitions (Continued)

- 100% of all of issued and outstanding common shares of SUHM Investments Inc. ("SUHM"). SUHM is an 80% partner of the Edibles and Infusions Joint Venture. The Company accounted for the acquisition as an asset acquisition.
- 80% of all of issued and outstanding common shares of Potluck Potions and Edibles Inc. ("Potluck"), a party to an exclusive cannabinoid-infused bottling and manufacturing agreement with a Toronto bottling facility. The Company assessed the fair value of this to be $Nil at acquisition date.
- 80% of all of issued and outstanding common shares of 11122347 Canada Corp., which is party to a distribution agreement and licensing agreement (collectively, the "Definitive Agreements") with Health Cap Holdings, Inc. ("HealthCap") whereby, subject to obtaining applicable licenses, HealthCap will manufacture, supply and license certain dosing caps. The Company assessed the fair value of this to be $Nil at acquisition date.
- 100% of all of issued and outstanding common shares of 1180782 B.C. Ltd. ("DOC"), which owns a 20% equity stake in PSC (Note 11).
- 80% of all of issued and outstanding common shares of 11353705 Canada Corp., which controls the rights to a proprietary manufacturing process and formulation catalogue for a Nicorette-inspired medicinal cannabinoid product line. The Company assessed the fair value of this to be $Nil at acquisition date.
- 80% of all of issued and outstanding common shares of 11406426 Canada Corp., which holds Canadian exclusive rights to a portfolio of cannabinoid-infused product formulations. The Company assessed the fair value of this to be $Nil at acquisition date.
- 100% of all of issued and outstanding common shares of Trichome Cannabrands Inc., which holds the rights to a portfolio of 57 registered trademarks in Canada for a diversified range of cannabis products and services. The Company assessed the fair value of this to be $Nil at acquisition date.
- 100% of all of issued and outstanding common shares of Canutra Naturals Ltd. ("Canutra"), which has operations in the cultivation, extraction, manufacturing, and marketing of premium skincare, cosmetics and cannabinoid product lines from its flagship facility in eastern Canada. The Company accounted for the acquisition as a business combination under IFRS 3 (Note 13).

The Company issued a finder's fee of 13,054,097 common shares with a fair value of $4,503,663 to an arm's length party for facilitating the acquisition. The finder fees were expensed as transaction costs. The Company also granted 6,040,000 stock options with a fair value of $1,110,733 and 129,927,633 warrants with a fair value of $25,123,830 as part of the consideration paid to acquire the assets from OFIG. The Company expensed the fair value of the warrants and options as share-based compensation expense.

The fair value above represents the price for a batch of assets and the allocations of the purchase price has been determine below, using the relative costing method.

	Relative fair value applied
	$
DOCC (Note 11)	12,000,000
SUHM (Edibles and Infusions)	17,440,000
Canutra Naturals Ltd. (Note 13)	9,724,369
Total	39,164,369

During the year ended December 31, 2020, the Company incurred transactions of $16,000 related to the acquisition of OFIG.

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

The Edibles and Infusions Corp.

On July 11, 2019, the Company acquired 100% of the issued and outstanding shares of SUHM. SUHM is an 80% partner of The Edibles and Infusions Corp. Joint Venture ("Edibles"). SUHM controls the joint venture. Edibles is developing an edibles manufacturing facility in Winnipeg, Manitoba. This acquisition has been accounted for as an asset acquisition as Edibles does not meet the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company issued common shares with a fair value of $17,440,000.

Consideration paid	**$**
Shares issued	17,440,000
Implied value of Edibles	17,478,272
Net assets acquired	
Cash	56,636
Accounts receivable	100,515
Property, plant and equipment	847,543
Intangible asset – non-compete agreement (Note 9)	200,000
Accounts payable and accrued liabilities	(813,334)
Total net assets acquired	391,360
Non-controlling interest	(38,272)
Transaction cost	17,086,912
Total	**17,440,000**

The non-controlling interest of 20% in Edibles is held by the joint venture partner.

	$
Non-controlling interest, December 31, 2018	-
Fair value of non-controlling interest on acquisition	38,272
Non-controlling interest in loss of Edibles to December 31 2019	(540,707)
Total non-controlling interest, December 31, 2019	(502,435)
Non-controlling interest in loss of Edibles to December 31, 2020	(345,873)
Total non-controlling interest, December 31, 2020	(848,308)

The tables below provide a summary of Edibles' financial position and profit and loss before intergroup eliminations:

Summary statements of financial position as at	December 31, 2020 $	December 31, 2019 $
Current assets	94,545	248,739
Non-current assets	13,309,364	6,436,043
Total assets	13,403,909	6,684,782
Current liabilities	13,975,678	7,426,563
Non-current liabilities	1,669,770	1,770,392
Equity attributable to AGRA	(1,393,231)	(2,009,738)
Non-controlling interests	(848,308)	(502,435)
Total liabilities and shareholders' deficiency	13,403,909	6,684,782

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

The Edibles and Infusions Corp. (Continued)

Summary statements of comprehensive loss for the year ended	December 31, 2020 $	December 31, 2019 $
Gross profit	-	(6,858)
Operating general and administration expenses	(1,866,231)	(2,696,675)
Other items	136,864	-
Net loss and comprehensive loss	(1,729,367)	(2,703,533)

Subsequent to the year end, the Company and other owners of Edibles entered into an agreement to sell Edibles to a third party (Note 27).

The net change in non-controlling interest ("NCI") is as follows:

	Edibles $	11122347 $	Potluck $	Total $
As at December 31, 2018	-	-	-	-
Initial recognition of NCI	38,272	-	-	38,272
Loss attributable to NCI	(540,707)	(40,295)	(129,100)	(710,102)
As at December 31, 2019	(502,435)	(40,295)	(129,100)	(671,830)
Loss attributable to NCI	(345,873)	-	(1,183)	(347,056)
As at December 31, 2020	(848,308)	(40,295)	(130,283)	(1,018,886)

Sanna Health Corp. Acquisition

On March 10, 2020, the Company closed the acquisition of 100% of the issued and outstanding common shares of Sanna pursuant to a Share Purchase agreement dated March 10, 2020. As consideration, on March 10, 2020, the Company issued 76,666,666 common shares of the Company with a fair value of $6,168,221.

This acquisition has been accounted for as an asset acquisition as Sanna does not meet the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company paid common shares with a fair value of $6,168,221.

Consideration paid	**$**
Shares issued	6,168,221
Net assets acquired	
Cash	89,247
Accounts receivable	80,972
Property, plant and equipment	5,005,467
Intangible asset – license (Note 9)	6,537,000
Accounts payable and accrued liabilities	(2,316,455)
Mortgage payable	(1,334,500)
Loan payable	(350,000)
Lease liabilities	(1,543,510)
Total net assets acquired	**6,168,221**

During the year ended December 31, 2020, the Company incurred transactions of $30,000 related to the acquisition of Sanna.

(Expressed in Canadian Dollars)

13. BUSINESS COMBINATION

Canutra Naturals Ltd.

On July 11, 2019 the Company acquired 100% of the issued and outstanding shares of Canutra. Canutra holds a research and cultivation license from Health Canada to process, cultivate and sell cannabis. This acquisition has been accounted for as business combination as Canutra met the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company issued 28,186,576 common shares with a fair value of $9,724,369. In accordance with IFRS 3 – Business Combination, the equity consideration on transfer was measured at fair value at the acquisition date, which is the date control was obtained.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the effective acquisition date:

Consideration paid	**$**
Shares issued	9,724,369
Net assets acquired	
Cash	129,255
Accounts receivable	24,032
Inventory	2,610
Property, plant and equipment	381,850
Accounts payable and accrued liabilities	(297,393)
Total net assets acquired	240,354
Balance allocated to	
Goodwill (Note 9)	9,484,015
Total	**9,724,369**

On the date of acquisition, the goodwill amount was impaired by $5,724,369 as the fair value of Canutra was $4,000,000 on the date of acquisition. An impairment of $3,759,646 was recorded during the year ended December 31, 2020 (Note 9), resulting in an ending balance of $Nil at December 31, 2020 (2019 - $3,759,646).

The Good Company

On October 22, 2019, the Company entered into a Share Purchase Agreement and an Assignment and Assumption of Share Purchase Agreement to purchase 100% of the issued and outstanding shares of The Good Company. On February 13, 2020, the Company closed the acquisition. Total consideration paid includes cash of $1,000,000 (paid), issuance of 47,916,667 common shares of the Company (issued on November 4, 2019) and repayment of certain shareholder loans of $1,763,120 (€1,202,674) and a cash payment of $300,000 (€203,818) on the closing date (paid). The 47,916,667 shares issued were initially measured at $10,302,083 in 2019, then revalued again on acquisition date at $3,473,957, resulting in an adjustment in fair value of $6,828,126.

(Expressed in Canadian Dollars)

13. BUSINESS COMBINATION (CONTINUED)

Under the terms of the Share Purchase Agreement, the sellers are entitled to receive additional shares of the Company corresponding to an aggregate deemed value of $5,000,000 if certain milestones are achieved or triggered within 18 months from the closing date of the Share Purchase Agreement or in the event that the sellers exercise an Earn-Out Shifting Option. The Share Purchase Agreement also includes a floor protection clause. The floor protection clause is in place to protect the vendors from significant declines in the value of the initial shares during the 18 months lock up period. The floor protection clause will trigger issuance of additional shares 12 months after closing. The Company recorded the Earn-Out considerations as contingent consideration payable at February 13, 2020 at its estimated fair value of $5,000,000 and the floor protection clause as a derivative liability with a fair value of $8,824,006, calculated using a Monte Carlo simulation method. The inputs used were stock price of $0.072, volatility of 110%, a risk-free rate of 1.6031% and a dividend rate of 0%. The derivative liability is subsequently measured at FVTPL. As at December 31, 2020, the estimated fair value of the contingent consideration relating to the Earn-Outs is determined to be $5,000,000 and the estimated fair value of the floor protection derivative liability is determined to be $10,138,772 resulting in a change in fair value of $1,314,766. The Company also agreed to make cash contributions to The Good Company totaling $1,200,000. Subsequent to year end, on February 11, 2021, the Company issued 20,000,000 common shares to settle the floor protection liability (Note 27).

Consideration paid	**$**
Cash	1,000,000
Repayment of shareholder loans	1,763,120
Shares issued	3,473,958
Fair value of earn-out contingent consideration	5,000,000
Fair value of floor protection derivative	8,824,006
Settlement of loan to The Good Company	300,000
Total	**20,361,084**

Net assets acquired	
Assets	509,882
Liabilities	(260,058)
Total net assets acquired	249,824
Balance allocated to	
Distribution Licenses (Note 9)	5,929,581
Customer Relationships (Note 9)	795,132
Accounts payable	(6,837)
Goodwill (Note 9)	13,393,384
	20,111,260
Total	**20,361,084**

At December 31, 2020, there were indicators of impairment and as such, the recoverable amount of goodwill was determined to be $Nil, resulting in goodwill impairment expense of $13,393,384 (Note 9).

14. CONVERTIBLE DEBENTURES RECEIVABLE

On December 30, 2019, the Company purchased 20,000 units ("Units") of senior unsecured convertible units of Transnational from three arm's length parties for $23,682,600 (US$18,000,000). The convertible debenture bears interest at 10% and expires on March 12, 2021. Each Unit consists of US$1,000 principal amount of convertible debenture and 1,428 common share purchase warrants of Transnational. Each convertible debenture warrant is exercisable into one common share of Transnational at an exercise price of US $0.50 for a period of two years from the closing date. The convertible debentures are convertible into the number of common shares equal to the principal amount divided by US$0.38 per debenture share. Upon conversion, the holder shall receive a cash payment equal to the accrued and unpaid interest due on the convertible debenture.

(Expressed in Canadian Dollars)

14. CONVERTIBLE DEBENTURES RECEIVABLE (CONTINED)_

The initial fair value of the convertible debenture was determined to be $24,636,507 and the fair value of the attached warrants, which are included in investments, was determined to be $20,423. During the year ended December 31, 2020, the fair value of the instruments was estimated to be $29,210,673 using the binomial lattice method, using a risk-free rate of 0.1076%, volatility of 136%, discount for lack of marketability of 20% and credit rating of CCC. The Company recorded a gain on fair value movements on investment of $4,553,743 prior to December 31, 2020. As at December 31, 2020, management determined the recoverable value of the convertible debenture was $Nil (December 31, 2019 - $24,636,507) and the value of the warrants was also $Nil (December 31, 2019 - $20,423). As a result, during the year ended December 31, 2020, the Company recorded a loss from write-off of the convertible debenture of $29,210,673.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020 $	December 31, 2019 $
Accounts payable (note 27)	8,072,382	1,932,845
Amount due to related parties (note 20)	165,778	123,341
Accrued liabilities	251,278	351,191
	8,489,438	**2,407,377**

During the year ended December 31, 2020, the Company settled certain debts with creditors and recorded a loss on debt settlement of $639,333 (2019: $Nil) and wrote off accounts payable of $47,671 (2019: $Nil) (Note 19).

16. LEASE LIABILITY

Manitoba Lease

The Company recorded a right-of-use asset for the lease facility in Manitoba as at December 31, 2019 (Note 8). The Company recognized right-of-use asset of $1,931,548 and lease liability of $1,931,548.

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 11.34%, which was estimated to be the Company's incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the year ended December 31, 2020:

	$
Balance, December 31, 2018	**-**
Lease additions	1,931,548
Lease payments	(154,755)
Interest expense on lease liabilities	106,939
Balance, December 31, 2019	**1,883,732**
Lease payments	(335,303)
Interest expense on lease liabilities	221,962
Balance, December 31, 2020	**1,770,391**
Current portion	(117,663)
Long-term portion	**1,652,728**

(Expressed in Canadian Dollars)

16. LEASE LIABILITY (CONTINUED)

The lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
	$	$	$
Less than 1 year	309,510	191,847	117,663
Between 1 and 5 years	1,287,046	604,068	682,978
More than 5 years	1,163,242	193,492	969,750
Balance, end of year	2,759,798	989,407	1,770,391
Long term lease liabilities	2,450,288	797,560	1,652,728

Ontario Lease

The Company acquired from Sanna a right-of-use asset for the lease manufacturing facility in Ontario. The Company recorded right-of-use asset of $1,569,411 and lease liability of $1,543,510 on acquisition date (Notes 8 and 12).

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 9.85% which was estimated to be the Company's incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the year ended December 31, 2020:

	$
Balance, December 31, 2018 and 2019	**-**
Lease acquired from acquisition	1,543,510
Interest expense on lease liabilities	119,409
Lease payments	(175,000)
Balance, December 31, 2020	**1,487,919**
Current portion	(88,385)
Long-term portion	**1,399,534**

The lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
	$	$	$
Less than 1 year	225,000	136,615	88,385
Between 1 and 5 years	960,000	442,918	517,082
More than 5 years	1,065,000	182,548	882,452
Balance, end of year	2,250,000	762,081	1,487,919
Long term lease liabilities	2,025,000	625,466	1,399,534

17. CONVERTIBLE DEBT

Long-term convertible debt:

During the year ended December 31, 2019, the Company closed a non-brokered private placement offering of 30,000 unsecured convertible debentures for gross proceeds of $30,000,000 from three arm's length parties. The debentures bear interest at a rate of 10% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2019. The debentures matured on December 31, 2020 and was extended to be due on March 12, 2022 after the Company's extension subsequent to year end (Note 27).

The debentures will be convertible at the holder's option into: (i) that number of common shares of the Company calculated on the basis of the aggregate principal amount of the debentures being converted divided by the conversion price of $0.30 per share (the "Conversion Price"); and (ii) a cash payment equal to the additional interest amount that such holder would have received if it had held the Debenture from the date of conversion to the maturity date. Holders converting their debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion.

The Company accounted for the convertible debentures issued for cash as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the face value of the debt to arrive at the liability component which is recorded at amortized cost and will be accreted to the face value over the term to maturity of the convertible debenture at an effective interest rate of 15%.

The fair value of the liability component was estimated to be $28,191,802 on grant and the fair value of the derivative liability at December 31, 2019 was estimated to be $1,465,129. The Company also expensed $26,551 of transaction cost associated with issuing the debentures. The Company utilized the financing to acquire convertible debentures (Note 14) from the same three arm's length parties. The net cash received following both transactions is approximately $4,973,450.

On August 7, 2020, the Company entered into securities exchange agreements with certain holders of the Company's convertible debentures and repaid $3,000,000 of convertible debentures and aggregate interest payment $1,500,000 owing as at June 30, 2020 by the issuance of 54,822,666 common shares and 27,411,333 common shares respectively and recorded a gain on debt settlement of $182,715 (Note 19).

At December 31, 2020, the fair value of the derivative liability was estimated to be $28, as a result of a decrease in fair value of $1,465,101. The Company recorded change in derivative liability gain of $1,465,101 during the year ended December 31, 2020.

At December 31, 2020, the liability component was $28,382,844 as a result of accretion of interest of recorded in finance and other costs of $4,691,042.

Subsequent to year end, the Company extended the maturity date of the convertible debentures by issuance of 54,000,000 common shares to satisfy the aggregate interest owing of $2,700,000 (Note 27).

Short-term convertible debt:

On October 25, 2019, the Company entered into a loan agreement with a private company to borrow an aggregate principal amount of a maximum of $12,500,000. The loan bears interest of 7.5% per annum, and the loan, including accrued interest and fees outstanding, is convertible at the election of the lender into common shares of the Company at any time before the maturity date at the maximum allowable discount. During the year ended December 31, 2020, the maximum amount of the loan was increased to $20,000,000.

As the loan conversion feature does not meet the fixed for fixed criteria, the entire loan was classified as a liability and measured at fair value. As at December 31, 2019, the fair value was $7,569,106. On April 30, 2020, the entire loan was settled with units of the Company with a fair value of $17,666,208 (Note 19).

18. LOANS PAYABLE

The Company acquired a $350,000 promissory note payable upon acquisition of Sanna. The loan is non-interest bearing and is due on demand. At December 31, 2020, the entire balance of $350,000 is due and outstanding.

The Canada Emergency Business Account ("CEBA") loan originally launched on April 9 2020 and is intended to support businesses during the COVID-19 pandemic. The value of the government loan received at below market rate of interest is treated as a government grant. Three of the Company's subsidiaries applied for and received the first $40,000 in funds, and the same three entities applied for the additional $20,000. Only two subsidiaries received the additional amount in the year ended December 31, 2020. The loans are interest free if fully repaid on or before December 31, 2022. If 75% of the loans are repaid on or before December 31, 2022, then the remaining 25% of the loans will be forgiven. The full value of the grants has been spent in the course of business operations and the gain has been recognized in other income.

The loans were recognized at fair value using an average interest rate of 15.65%. The difference between this discounted value of $76,732 and the proceeds received of $160,000 was recognized as a gain on CEBA loans of $83,268. The loan also had accretion of $5,930 for the year ended December 31, 2020. The balance of the loan as at December 31, 2020 was $82,662 and the Company recognized grant revenues of $11,957 during the year ended December 31, 2020.

On June 2, 2020, the Company received a loan from JJ Wolf of $350,000. The loan matures on June 2, 2022 and bears interest at 5% per annum, compounded monthly and payable on the maturity date. The Company discounted the loan at 10% and recorded an initial fair value of $317,460 and a gain on the loan of $32,540. During the year ended December 31, 2020, the Company recorded accretion on the loan of $17,584 and at December 31, 2020 the balance of the loan is $335,044.

On June 15, 2020, the Company received a loan of $80,000 from an arm's length party bearing interest of 8% per annum, due on demand. During the year ended December 31, 2020, the Company accrued interest of $533 on the loan payable and the entire balance of $80,533 was paid in full.

On September 24, 2020, the Company received a loan of $15,000 from an arm's length party. The loan is non-interest bearing and due on demand. At December 31, 2020, the entire balance of $15,000 is due and outstanding.

On October 30, 2020, the Company received a loan of $75,000 from an arm's length party. The loan is non-interest bearing and the total outstanding principal is due on demand. At December 31, 2020, the entire balance of $75,000 is due and outstanding.

On December 9, 2020, the Company received a loan of 25,000 Euros from a management member pursuant to ta secured drawdown facility agreement. The loan bears an interest of 20% per annum, with interest being payable on a monthly basis. At December 31, 2020, the entire balance of 25,000 Euros is due and outstanding.

During the year ended December 31, 2020, the Company assumed two mortgages, one for $1,200,000 ("First Mortgage) which bears interest at 10% and one for $100,000 ("Second Mortgage) which bears interest at 12% per annum. The mortgages relate to the building from the Sanna acquisition. The First Mortgage matures on October 1, 2021 and the Second Mortgage matures on October 23, 2021. During the year ended December 31, 2020, the Company recorded interest and penalties of $143,000 on the mortgages. As at December 31, 2020, the total amount of mortgages payable outstanding including accrued interest is $1,443,000.

19. SHARE CAPITAL

a) Common shares

Authorized:
Unlimited number of common shares without par value.

Issued:

On January 6, 2020, the Company issued 800,000 common shares with a fair value of $68,000 pursuant to a supply agreement entered into with Vendure Genetics Labs Inc. dated December 26, 2018 and amended on December 16, 2019 for the supply of certain cannabis plants and intellectual property rights.

On January 17, 2020, the Company issued 58,823,529 shares with a fair value of $5,882,353 for a transaction cost related to its investment in SUHM. The Company offset $50,000 of the transaction costs by amounts owed by SUHM.

On January 28, 2020, the Company issued 6,666,667 units of the Company upon conversion of the Special Warrants issued on September 27, 2019 (Note 19d).

On February 13, 2020, the Company recorded fair value adjustments on shares issued for acquisition of The Good Company of $6,828,126 (Note 13).

On March 10, 2020, the Company closed the acquisition of 100% of the issued and outstanding common shares of Sanna Health Corp. pursuant to a Share Purchase agreement dated March 10, 2020. As consideration, on March 10, 2020, the Company issued 76,666,666 common shares of the Company with a fair value of $6,818,221.

On April 7, 2020, the Company issued 3,731,846 common shares with a fair value of $186,592 to settle debt of $362,508 and recorded a gain on debt settlement of $175,916.

On April 30, 2020, the Company closed a non-brokered private placement offering of 266,666,667 units of the Company at a price of $0.075 per unit for gross proceeds of $20,000,000. Each unit consists of one common share and one transferable share purchase warrant. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share. The $20,000,000 tranche consisted of the settlement of a convertible debenture and debt owed to arm's length parties of $17,666,208 (Note 17) and $2,334,000 respectively. The fair value of the shares issued was $14,666,667 and a value of $6,788,307 was assigned to the warrants calculated using the Black-Scholes Option Pricing Model assuming an expected life of 2 years, a risk-free interest rate of 0.34%, an expected dividend rate of 0.00%, and an expected annual volatility of 116.06%, resulting in a loss on debt settlement of $1,454,765.

On May 4, 2020, the Company issued 2,692,905 common shares with a fair value of $148,110 to settle debt of $201,968 with certain creditors for past consulting and other services provided to the Company and recorded a gain on debt settlement of $53,858.

On May 25, 2020, the Company closed the second tranche of its non-brokered private placement offering of 20,700,000 units of the Company at a price of $0.075 per unit for gross proceeds of $1,552,500. Each unit consists of one common share and one transferable share purchase warrant. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share. The fair value of the shares issued was $1,449,000 and a value of $103,500 was assigned to the warrants. In connection with the private placement, the Company paid a cash finder's fee of $3,150 and 42,000 Finder's Warrants. The Finder's Warrants have the same terms as the unit warrants and are valued at $2,589 using the Black-Scholes Option Pricing Model assuming an expected life of assuming an expected life of 5 years, a risk-free interest rate of 0.36%, an expected dividend rate of 0.00%, and an expected annual volatility of 147% (Note 19b).

19. SHARE CAPITAL (CONTINUED)

Issued (continued):

On June 5, 2020, the Company issued 22,802,938 common shares with a fair value of $1,500,000 for transaction costs pursuant to the Edibles acquisition.

On July 8, 2020, the Company completed a non-brokered private placement of 11,612,000 units of the Company at a price of $0.075 per unit for gross proceeds of $870,900. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share for a period of five years from closing at a price of $0.10 per common share. The fair value of the shares issued was $580,600 and a value of $290,300 was assigned to the warrants.

On August 7, 2020, the Company issued 82,233,999 common shares pursuant to the exchange agreements with holders of the Company's 10% convertible debentures (Note 17) providing for the purchase of $3,000,000 principal amount of the debentures (the "Purchased Securities"). In exchange for the Purchased Securities, the Company issued 54,822,666 common shares at a fair value of $2,878,190. Further, the Company issued 27,411,333 common shares with a fair value of $1,439,095 to satisfy the aggregate interest payment of $1,500,000 owing as of June 30, 2020 on a pro-rata basis to the holders of the Debentures. The total fair value of the shares issued were $4,317,285 and Company recorded a gain on debt settlement of $182,715.

On August 7, 2020, the Company issued 4,000,000 common shares with a fair value of $210,000 to settle debt of $220,000 for services rendered and recorded a gain on debt settlement of $10,000 (Note 24).

On August 20, 2020, the Company returned 542,426 common shares to treasury out of 912,532 common shares previously issued on May 4, 2020 to a creditor and recorded a reversal of gain on debt settlement of $18,250. The Company and the creditor agreed to settle the debt with 370,106 common shares and cash of $27,500 instead.

On December 11, 2020, the Company issued 15,000,000 common shares with a fair value of $450,000 to settle debt of $792,303 for past services rendered to the Company. The Company recorded a gain on debt settlement of $342,303.

During the year ended December 31, 2019, the former CEO and president resigned from the Company. The Company issued 3,750,000 common shares pursuant to an option exercise for $630,000 as departing compensation for past services, which was recorded as consulting fees.

On March 22, 2019, the Company closed a $20,000,000 third tranche of the $40,000,000 Equity Participation and Earn-In Agreement with DOCC and issued 44,582,040 common shares of the Company at a price of $0.45 per share.

On April 25, 2019 the Company issued 20,588,235 common shares with a fair value of $6,000,000 for the acquisition of 10% of PSC (Note 11).

On April 25, 2019, the Company issued 10,000,000 common shares with a fair value of $5,200,000 to key personnel, including former related parties, who assisted with securing investment in PSC.

On April 25, 2019 the Company issued 281,690 common shares with a fair value of $146,479 pursuant to a supply agreement entered into with Vendure Genetics Labs Inc. dated December 26, 2018 for the supply of certain cannabis plants and intellectual property rights.

On April 25, 2019 and June 26, 2019, the Company issued two tranches of 1,250,000 common shares each as the first and second allotment to a consultant with fair values of $650,000 and $525,000 respectively pursuant to a letter of intent.

19. SHARE CAPITAL (CONTINUED)

Issued (continued):

On May 28, 2019, the Company issued 2,000,000 common shares at a fair value of $780,000 to a non-related party as transaction costs in connection with the commercial rights and offtake agreement entered into with Transnational (Note 4).

On July 11, 2019, the Company issued 348,109,251 common shares with a fair value of $39,164,369 and 13,054,097 common shares with a fair value of $4,503,663 for the acquisition certain assets from OFIG (Note 12).

On August 12, 2019, the Company issued 319,551 common shares with a fair value of $94,268 to settle $111,805 of debt for past consulting and other services provided, resulting in a gain on settlement of $17,537.

On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of $4,050,000 and 1,500,000 finder's shares with a fair value of $405,000 for the common shares of Eurasia (Note 10).

On October 15, 2019, the Company issued 1,250,000 common shares as the third allotment to a consultant with fair value of $318,750 pursuant to a letter of intent.

On November 4, 2019, the Company issued 47,916,667 common shares (which were held in escrow until completion) with a fair value of $10,302,083 for the acquisition of The Good Company (Note 13). In consideration for facilitating the execution of the transaction, the Company issued 5,000,000 finder shares to arm's length parties with a fair value of $1,075,000.

On November 15, 2019, the Company issued 2,000,000 common shares with a fair value of $380,000 for consulting services provided.

On December 2, 2019, Company issued 4,250,000 common shares with a fair value of $680,000 for consulting services provided.

During the year ended December 31, 2019, the Company issued 23,125,000 common shares on the exercise of options for proceeds of $2,931,750. An amount of $1,994,930 was transferred from option reserve to share capital on exercise.

During the year ended December 31, 2019, 13,147,700 common shares on the exercise of warrants for proceeds of $1,051,816. An amount of $7,955 was transferred from warrant reserve to share capital on exercise.

Obligation to issue shares

During the period ended December 31, 2020, the Company became obligated to issue common shares with a fair value of $1,500,000 to a consultant of the Company upon issuance of the standard processing Health Canada License for Edibles.

(Expressed in Canadian Dollars)

19. SHARE CAPITAL (CONTINUED)

b) Warrants outstanding

	Number of warrants	Weighted average exercise price $
At December 31, 2018	14,607,700	0.40
Warrants exercised	(13,147,700)	0.40
Special warrants granted (Note 19d)	6,666,667	0.50
Warrants granted	129,927,633	0.39
Warrants expired	(1,460,000)	0.40
At December 31, 2019	136,594,300	0.39
Warrants granted	305,687,334	0.11
Warrants expired	(65,613,675)	0.65
Special warrants exercised (Note 19d)	(6,666,667)	0.50
At December 31, 2020	370,001,292	0.11

On July 8, 2020, the Company completed a non-brokered private placement of 11,612,000 units of the Company at a price of $0.075 per unit for gross proceeds of $870,900. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share for a period of five years from closing at a price of $0.10 per common share. The fair value of the shares issued was $580,600 and a value of $290,300 was assigned to the warrants.

On May 25, 2020, the Company closed the second tranche of its non-brokered private placement offering of 20,700,000 units of the Company at a price of $0.075 per unit for gross proceeds of $1,552,500. Each unit consists of one common share and one transferable share purchase warrant. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share. The fair value of the shares issued was $1,449,000 and a value of $103,500 was assigned to the warrants.

On May 25, 2020, the Company granted 42,000 warrants for finder's fees in connection with a private placement with an exercise price of $0.10 per option expiring May 25, 2025. These options have a fair value of $2,589, calculated using the Black-Scholes Option Pricing Model assuming an expected life of 5 years, a risk-free interest rate of 0.36%, an expected dividend rate of 0.00%, and an expected annual volatility of 147%.

On April 30, 2020, the Company granted 266,666,667 warrants as part of a non-brokered private placement offering of units at a price of $0.075 per unit for gross proceeds of $20,000,000. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share. The fair value of the shares issued was $14,666,667 and a value of $6,788,306 was assigned to the warrants calculated using the Black-Scholes Option Pricing Model assuming an expected life of 2 years, a risk-free interest rate of 0.34%, an expected dividend rate of 0.00%, and an expected annual volatility of 116.06%.

On January 28, 2020, upon conversion of the Special Warrants, the Company granted 6,666,667 warrants and transferred a value of $616,666 to share capital, leaving a value of $1,383,333 in the warrant reserve, using the residual value method.

The weighted average remaining life of the warrants outstanding is 3.85 years (December 31, 2019 – 1.93 years).

(Expressed in Canadian Dollars)

19. SHARE CAPITAL (CONTINUED)

c) Stock options outstanding

Under Company's 2015 Stock Option Plan, the Company may grant options to directors, officers, employees, and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 20% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of ten years and vesting is determined by the Board of Directors.

Grant Date	Expiry date	Number of options	Exercise price $
October 31, 2018	October 31, 2023	1,250,000	0.142
May 21, 2019	May 21, 2024	2,200,000	0.460
May 30, 2019	May 30, 2024	1,000,000	0.390
August 1, 2019	August 1, 2024	2,850,000	0.310
July 11, 2019	May 17, 2024	4,090,000	0.330
January 6, 2020	January 6, 2022	100,000	0.150
January 30, 2020	January 30, 2022	15,000,000	0.150
January 31, 2020	January 31, 2022	1,000,000	0.100
April 30, 2020	April 30, 2025	95,000,000	0.075
Balance at December 31, 2020		122,490,000	0.110

	Number of options	Weighted average exercise price $
At December 31, 2018	33,812,500	0.138
Options cancelled and expired	(437,500)	0.128
Options exercised	(26,875,000)	0.133
Options granted	65,440,000	0.404
At December 31, 2019	71,940,000	0.380
Options cancelled and expired	(60,550,000)	0.410
Options granted	111,100,000	0.080
At December 31, 2020	122,490,000	0.110

The weighted average remaining life of the options outstanding is 3.82 years (December 31, 2019 – 2.98 years)

On March 15, 2019, the Company granted 20,400,000 stock options to consultants of the Company with an exercise price of $0.55 per option and a one-year term expiring March 15, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $4,333,476 assuming an expected life of 0.75 years, a risk-free interest rate of 1.62%, an expected dividend rate of 0.00%, and an expected annual volatility of 115%.

On May 21, 2019, the Company granted 6,000,000 incentive stock options to directors, officers and consultants with an exercise price of $0.46 and a five-year term expiring on May 21, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $1,688,545 assuming an expected life of 1.5 years, a risk-free interest rate of 1.66%, an expected dividend rate of 0.00%, and an expected annual volatility of 125%.

On May 30, 2019, the Company granted 3,000,000 incentive stock options to directors, officers and consultants with an exercise price of $0.39 and a five-year term expiring on May 30, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $594,888 assuming an expected life of 1.5 years, a risk-free interest rate of 1.47%, an expected dividend rate of 0.00%, and an expected annual volatility of 121%.

19. SHARE CAPITAL (CONTINUED)

c) Stock options outstanding (Continued)

On July 11, 2019, the Company granted 6,040,000 stock options as consideration for purchase of assets from OFIG with an exercise price of $0.325 per option expiring May 17, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $1,110,733 assuming an expected life of 1.5 years, a risk-free interest rate of 1.62%, an expected dividend rate of 0.00%, and an expected annual volatility of 113%.

On August 1, 2019, the Company granted 30,000,000 stock options to certain directors, officers and consultants with an exercise price of $0.31 per option expiring August 1, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $4,281,838 assuming an expected life of 1.5 years, a risk-free interest rate of 1.53%, an expected dividend rate of 0.00%, and an expected annual volatility of 111%.

During the year ended December 31, 2019, 23,125,000 options were exercised for gross proceeds of $2,932,250 and 3,750,000 options were exercised for $630,000 as departing compensation for past services for the former CEO and President.

On January 6, 2020, the Company granted 100,000 stock options to consultants of the Company with an exercise price of $0.15 per option expiring January 6, 2022. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $2,451 assuming an expected life of 2 years, a risk-free interest rate of 1.63%, an expected dividend rate of 0.00%, and an expected annual volatility of 108%.

On January 30, 2020, the Company granted 15,000,000 stock options to consultants of the Company with an exercise price of $0.15 per option expiring January 30, 2022.These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $617,598 assuming an expected life of 2 years, a risk-free interest rate of 1.47%, an expected dividend rate of 0.00%, and an expected annual volatility of 110%. The options vest over a one year period. During the year ended December 31, 2020, the Company recognized $604,942 of share-based compensation expense on the vesting of the stock options.

On January 31, 2020, the Company granted 1,000,000 stock options to consultants of the Company with an exercise price of $0.10 per option expiring January 31, 2022. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $47,888 assuming an expected life of 2 years, a risk-free interest rate of 1.43%, an expected dividend rate of 0.00%, and an expected annual volatility of 109%.

On April 30, 2020, the Company granted 95,000,000 stock options to consultants of the Company with an exercise price of $0.075 per option expiring April 30, 2025. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $2,741,337 assuming an expected life of 2 years, a risk-free interest rate of 0.38%, an expected dividend rate of 0.00%, and an expected annual volatility of 116%.

During the year ended December 31, 2020, no options were exercised. During the year ended December 31, 2020, an amount of $10,435,952 (2019 - $51,381) was transferred from option reserve to accumulated deficit for options expired, cancelled or forfeited.

19. SHARE CAPITAL (CONTINUED)

d) Special Warrants

On September 27, 2019, the Company issued 6,666,667 special warrants of the Company at a price of $0.30 per special warrant for gross proceeds of $2,000,000. Each Special Warrant is convertible into units with each unit consisting of one common share of the Company and one transferable common share purchase warrant with each warrant entitling the holder thereof to purchase one additional share of the Company at a price of $0.50 per share for a period of 36 months from the date of issuance of the warrants. The Company recorded $2,000,000 warrant reserve for the issuance of special warrants. During the year ended December 31, 2020, all of the Special Warrants were exercised, resulting in transferring of $616,666 from warrant reserve to share capital and $1,383,333 assigned to the warrants upon exercise of the Special Warrants using the residual value method.

e) Share-Based Payments Reserve

The share-based payment reserve represents employee entitlements to share-based awards that have been charge to the loss and other comprehensive loss in the periods during which the entitlements were accrued and have not yet been exercised. When the stock options are exercised, the corresponding amount will be transferred to share capital. If the options expired unexercised, the amount recorded is transferred to deficit.

f) Warrants Reserve

The warrants reserve records fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to deficit.

g) Escrowed shares

As at December 31, 2020, 61,178,051 (December 31, 2019 - 47,917,000) shares were held in escrow.

(Expressed in Canadian Dollars)

20. RELATED PARTY TRANSACTIONS

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the years ended December 31, 2019 and 2020:

Year ended December 31, 2020	Consulting and Management Fees $	Share-based Compensation $
Legal fees paid/accrued to a private company controlled by a director	7,950	56,433
Consulting fees paid to current directors	-	112,866
Consulting fees paid/accrued to a former director	58,850	-
Consulting fees paid/accrued to a company controlled by the former Corporate Secretary	34,978	-
Consulting fees paid/accrued to a private company controlled by the CFO	102,000	-
Consulting fees paid/accrued to a private company controlled by the CEO	240,000	135,440
	443,778	304,739

Year ended December 31, 2019	Consulting and Management Fees $	Share-based compensation $
Consulting fees paid/accrued to a company controlled by the former CFO	57,171	70,350
Consulting fees paid/accrued to a private company controlled by the former CEO	3,595,483	-
Consulting fees paid/accrued to a director	120,000	160,976
Consulting fees paid/accrued to a private company controlled by a director	29,541	156,441
Directors	-	203,514
Former Corporate Secretary	103,538	65,851
Consulting fees paid/accrued to a private company controlled by the CFO	45,000	-
Consulting fees paid/accrued to a private company controlled by the CEO	590,000	995,616
	4,540,733	1,652,748

Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand. At December 31, 2020, $165,778 (December 31, 2019 - $123,341) is owing to related parties for unpaid fees which are included in accounts payable and accrued liabilities. Refer also to Note 15.

(Expressed in Canadian Dollars)

21. INVENTORY

The Company's inventory consists of raw materials and finished goods, the break-down is as follows:

	December 31, 2020 $	December 31, 2019 $
Raw materials	56,482	830
Finished goods	54,744	4,305
	111,226	**5,135**

22. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the year ended December 31, 2020 and 2019 are as follows:

	December 31, 2020 $	December 31, 2019 $
Fair value of transfer on exercise of stock options and warrants	-	2,054,266
Fair value of transfer on expiry of stock options and warrants	18,688,068	-
Shares issued for acquisitions and investments	6,168,221	75,466,452
Shares issued for debt settlement	19,978,654	94,268
Shares issued for transaction costs	5,882,353	10,813,663
Shares and options issued for services	1,568,000	8,530,229

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Classification of financial instruments

IFRS 13, *Fair Value Measurement,* establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and marketable securities are measured using level 1 inputs.

The following is an analysis of the Company's financial assets and liabilities measured at fair value as at and December 31, 2020 and December 31, 2019:

	As at December 31, 2020		
	Level 1	**Level 2**	**Level 3**
Cash	$ 274,390	-	-
Derivative liabilities	-	-	$ 10,138,800
Contingent consideration	-	-	$ 5,000,000

	As at December 31, 2019		
	Level 1	**Level 2**	**Level 3**
Cash	$ 4,076,295	-	-
Convertible debenture receivable	-	$ 24,636,507	-
Derivative liabilities	-	-	$ 1,465,129
Investments	-	-	$ 88,022

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash, convertible debentures receivable and loans receivable. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

The loans receivable and convertible debentures receivable expose the Company to credit risk and the Company has limited this exposure by securing one of the loans with collateral; the other loan is unsecured. The convertible debentures receivable is convertible into shares of the entity.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with the construction of its cannabis facilities in Ontario and British Columbia. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at December 31, 2020 and expected cash flows for the next 12 months are sufficient to fund the Company's ongoing operational needs. The Company will need additional funding through equity or debt financing, or a combination thereof, to complete its facilities.

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

(a) Interest rate risk
Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates. The Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is not exposed to interest rate risk as its agreements are all done with fixed interest rates.

Current financial assets and current financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

(b) Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. One of the Company's subsidiary's business is conducted in Euro. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, the Euro. Fluctuations in the exchange rate among the Canadian dollar and the Euro may have a adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

(Expressed in Canadian Dollars)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders. The availability of new capital will depend on many factors including positive stock market conditions, and the experience of management. The Company is not subject to any external covenants on its capital.

24. COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2019, the Company entered into Supply Agreement with Vendure Genetics Labs Inc. ("Vendure") to purchase from Vendure certain plants, plant matter, related plant-based products and Vendure's right, title and interest, including the intellectual property rights in the products for a purchase price of $200,000 (paid) and 281,690 common shares (issued with a fair value of $146,478). Under the agreement, the Company is committed to issue a further $200,000 worth of common shares at the time of awarding Cannabis Cultivation license, and a further number of shares equal to $150,000 per year on each of March 31, 2020, March 31, 2021, March 31, 2022, and March 31, 2023. During the year ended December 31, 2020, the Company terminated the agreement with Vendure and settled $220,000 of debt with the issuance of 4,000,000 common shares and recorded a gain on debt settlement of $10,000 (Note 19).

During the year ended December 31, 2019, the Company entered into a Lease Agreement for a leased facility in Manitoba. The lease expires on May 31, 2029 and has the following estimated annual payments:

2021 – May 2024	$309,510 per annum
June 2024 – May 2029	$340,461 per annum

During the year ended December 31, 2020, the Company acquired from Sanna a right-of-use asset for a leased manufacturing facility in Ontario. The lease expires on October 31, 2029 with option to extend the lease term of two additional terms of five years each and has the following estimated annual payments:

January 2021 – December 2022	$225,000 per annum
January 2023 – December 2024	$240,000 per annum
January 2025 – December 2026	$255,000 per annum
January 2027 – December 2029	$270,000 per annum

Legal Claims

The Company has legal claims related to Sanna Health Corp.'s past termination of its former President and CEO before Sanna was acqured by the Company . The former President and CEO is claiming accrued and unpaid amounts of $137,976, total damages of $1,300,000, and entitlement to 6,000,000 restricted share units and 6,800,000 fully-vested shares (with strike price of $0.16) in Sanna Health Corp., as well as punitive damages of $250,000. The Company believes these claims are without merit and will vigourously defend itself.

(Expressed in Canadian Dollars)

25. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2020 $	December 31, 2019 $
Net loss	(103,203,264)	(101,691,169)
Statutory tax rate	27%	27%
Expected income tax recovery	(27,864,881)	(27,456,616)
Change in statutory rate, foreign tax, foreign exchange, and other	121,136	-
Items not recognized for tax purposes	18,545,702	16,296,850
Non-controlling interest	93,705	191,728
Prior year deferred income tax liability unrecognized	1,650,889	(445,089)
Other items including effects of consolidation	373,436	(1,023,855)
Change in valuation allowance	7,080,013	12,436,982
Deferred income tax recovery	-	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2020 $	December 31, 2019 $
Exploration and evaluation assets	754,115	793,924
Non-capital losses	18,201,212	11,194,956
Net capital losses available	1,434,830	888,584
Share issuance costs	399,087	9,396
Property and equipment	186,953	(545,837)
Transaction cost	3,021,538	2,335,751
Capital lease obligation	872,304	508,608
Intangible assets	(265,000)	1,072,821
Investments	(2,832,690)	775,800
Derivative liability	2,737,476	-
Debt with accretion	(395,809)	-
	24,114,016	17,034,003
Valuation allowance	(24,114,016)	(17,034,003)
Net deferred tax asset	-	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2020 $	Expiry date range	December 31, 2019 $	Expiry date range
Exploration and evaluation assets	2,793,017	No expiry date	2,940,459	No expiry date
Non-capital losses	68,784,153	No expiry date	41,495,435	No expiry date
Net capital losses	5,314,185	2017 to 2040	3,291,050	2017 to 2039

26. DEFERRED REVENUE

On March 31, 2021, the Company signed a definitive agreement to sell its wholly-owned subsidiary, AAA Heidelberg Inc. for cash consideration of approximately $1,000,000 (Note 27). As at December 31, 2020, the Company received a deposit of $25,000 non-refundable deposit towards the sale, which is included in deferred revenue. The sale transaction has not closed as at the date of the audit report.

On Nov 27, 2020, the Company signed a Share Purchase Agreement with an arm's length third party where the Company will sell 100% of its wholly-owned subsidiary, Sustainable Growth Strategic Capital Corp. for cash consideration of approximately $1,000,000. As at December 31, 2020, the Company received a deposit of $297,000 deposit towards the sale, which is included in deferred revenue. The sale transaction has not closed as at the date of this audit report.

As at December 31, 2020, the Company has deferred revenues of $1,891 related to European sales.

27. SUBSEQUENT EVENTS

On February 8, 2021, the Company issued 150,580,723 common shares pursuant to the third amending agreement with Mulberry Capital Corp. ("Mulberry") related to the acquisition of SUHM in the year ended December 31, 2019. Pursuant to the third amending agreement, the Company is obligated to pay the remaining unpaid portion of the purchase price on the Joint Venture Agreement being an aggregate amount of $27,500,000. This payment will be forgiven by Mulberry in consideration for the following:

- the Company transferred a 26.5% ownership interest in SUHM; and
- the Company issuing 10% of the issued and outstanding shares of the Company to Mulberry on the date that is the later of it issuing shares pursuant to the Joint Venture Agreement and the date it has satisfied its interest payment in common shares to holders of convertible debentures.

On February 11, 2021, the Company issued 1,120,422 common shares to consultants to settle debt for prior services and 49,667,785 common shares to 10026310 Manitoba Ltd. pursuant to a joint venture agreement entered into among SUHM, Quality Confections Canada Ltd., the Edibles and Infusions Corporation, and 10026310 Manitoba Ltd. All securities issued are subject to a statutory hold period which will expire on the date that is four months and one day from the date of issuance.

On February 11, 2021, the Company entered into an agreement (the "Term Sheet") with debenture holders of convertible debentures to amend the convertible debentures (the "Amended Debentures") (Note 17). The Amended Debentures extend the maturity date from March 12, 2021 to an additional twelve months to March 12, 2022, in consideration for the conversion price of the Amended Debentures being reduced to $0.05. The Amended Debentures pay interest at the rate of 20% per annum for the period commencing July 1, 2020 and ending as of December 31, 2020. For all periods subsequent to December 31, 2020, the Debentures pay interest at 10% per annum, calculated and payable semi-annually. The Company satisfied the aggregate interest of $2,700,000 owing on December 31, 2020 by the issuance of 54,000,000 common shares.

On February 11, 2021, the Company issued 20,000,000 common shares pursuant to a settlement agreement with Farmako GmbH to settle the floor protection derivative liability (Note 13).

On February 11, 2021, the Company issued 49,667,785 common shares to 10026310 Manitoba Ltd. pursuant to the terms of a joint venture agreement among SUHM, Quality Confections Canada Ltd., the Edibles and Infusions Corporation, and 10026310 Manitoba Ltd. dated October 16, 2018.

On February 11, 2021, SUHM has completed a non-brokered private placement (the "Offering") of 3,270,000 common shares of SUHM ("Common Shares") at a price of $0.50 per Common Share for gross proceeds of $1,635,000.

27. SUBSEQUENT EVENTS (CONTINUED)

On February 22, 2021, the Company issued 1,420,018 common shares to settle $71,001 of debt with certain creditors.

On March 2, 2021, the Company issued 44,756,164 common shares on a debenture conversion pursuant to the Term Sheet of the Amended Debentures.

On March 10, 2021, the Company acquired equipment through the issuance of 10,000,000 common shares with a fair value of $300,000.

On March 10, 2021, the Company issued 44,756,164 common shares on a debenture conversion pursuant to the Term Sheet of the Amended Debentures.

On March 17, 2021, an arm's length consultant (the "Consultant") acknowledges receipt and sufficiency of the payment of $27,500 ("settlement amount") from the Company and/or AAA, and the issuance of 370,106 common shares of the Company. The Consultant hereby irrevocably release the Company and AAA and their respective officers, directors, shareholders, agents from any and all claims, liens, demands, contracts, debts, actions, and causes of action that the Consultant has, shall, or may have in connection with:

i) the design and construction of a medical marijuana facility;
ii) the agreement for consulting, construction and design services and;
iii) the Claim for Lien registered by the Consultant against the Project Lands on April 16, 2020

On March 25, 2021, the Company issued 44,756,164 common shares on a debenture conversion pursuant to the Term Sheet of the Amended Debentures.

On March 29, 2021, the Company and Mulberry Capital Inc. ("Holder") entered into a Promissory Note whereby the Company promises to pay the Holder the principal sum of $2,500,000 with an interest rate of 15% per annum, calculated daily and compounded monthly.

On April 1, 2021, the Company signed a definitive agreement to sell its wholly-owned subsidiary, AAA Heidelberg Inc. for cash consideration of approximately $1,000,000.

On April 6, 2021, the Company and the other owners of Edibles closed a transaction to sell Edibles to Organigram Holdings Inc. ("OGI") for consideration of $22,000,00 in shares of OGI, plus up to $13,000,000 in shares of OGI, receivable upon Edibles achieving certain earn-out milestones. The milestones include:

- $3,500,000 to be received in common shares of OGI on first listing prior to December 31, 2021 in either the Ontario or Alberta recreational market of Edibles or Organigram branded product (which was manufactured at the Edibles facility);
- $7,000,000 to be received in common shares of OGI on the successful completion of $15,000,000 in net revenue during the 12 months ended December 31, 2022;
- $2,500,000 to be received in common shares of OGI on the generation of $7,000,000 in adjusted EBITDA for the 12 months ended December 31, 2022.

On April 19, 2021, the Company issued 12,272,000 common shares to settle debt of $1,045,260 pursuant to a mutual release agreement for past services performed. The Company settled $267,800 by payment of cash.

Subsequent to the year end, the lender of the Company's mortgage payable (Note 19) has called the mortgage by way of Power of Sale, in which the lender will sell the property, repay themselves and send any amounts in excess of the loan and fees to the Company. The lender may also Foreclose on the property, in which the Company would not receive any excess. The property is listed for sale by the lender, and the Company has filed a legal claim against the lender, the outcome of this claim is currently unknown.