AGRA VENTURES LTD.
(formerly AGRAFLORA ORGANICS INTERNATIONAL INC.)

Consolidated Financial Statements
Years Ended December 30, 2021 and 2020

(Expressed in Canadian Dollars)

Baker Tilly WM LLP
900 – 400 Burrard Street
Vancouver, British Columbia
Canada V6C 3B7
T: +1 604.684.6212
F: +1 604.688.3497

vancouver@bakertilly.ca
www.bakertilly.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Agra Ventures Ltd. (formerly Agraflora Organics International Inc.):

Opinion

We have audited the consolidated financial statements of Agra Ventures Ltd. (formerly Agraflora Organics International Inc.) and its subsidiaries (together the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year 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 Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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 consolidated financial statements, which describes events and conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 3, 2021.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. 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 in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Graeme L. Cocke.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

May 2, 2022
Vancouver, B.C.

AGRA VENTURES LTD. (formerly AGRAFLORA ORGANICS INTERNATIONAL INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		$ 3,093,357	$ 274,390
Amounts receivable	4	224,298	148,856
Convertible loan receivable	15	742,194	-
Derivative asset	15	203,157	-
Inventory	22	99,036	111,226
Marketable Securities	9	1,250,000	-
Prepaids and deposits	6	51,198	27,308
		5,663,240	561,780
Non-current assets			
Investments and joint venture	10, 11	23,438,656	30,003,716
Property and equipment	7	1,258,365	16,699,784
Loans receivable	5	14,950,797	13,300,936
Intangible assets and goodwill	8, 14	905,932	1,166,667
TOTAL ASSETS		**$ 46,216,990**	**$ 61,732,883**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	16, 21	$ 1,666,639	$ 8,489,438
Current portion of lease liabilities	17	97,093	206,048
Deposits	27	297,001	323,891
Deferred grant	19	15,891	26,294
Loans payable	19	759,343	896,725
Contingent consideration payable	14	-	5,000,000
Convertible loan payable	18	23,022,081	28,382,844
Derivative liabilities	14,18	28	10,138,800
		25,858,076	53,464,040
Non-current liabilities			
Deferred grant	19	7,854	45,018
Mortgage payable	19	-	1,443,000
Lease liabilities	17	1,302,440	3,052,262
TOTAL LIABILITIES		**27,168,370**	**58,004,320**
SHAREHOLDERS' EQUITY			
Share capital	20	199,883,816	178,875,214
Obligation to issue shares	20	-	1,500,000
Reserves	20	25,511,665	31,741,363
Accumulated other comprehensive income		67,126	8,187
Deficit		(206,243,336)	(207,377,315)
Attributable to shareholders		19,219,271	4,747,449
Non-controlling interest	13	(170,651)	(1,018,886)
TOTAL SHAREHOLDERS' EQUITY		**19,048,620**	**3,728,563**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 46,216,990**	**$ 61,732,883**

Nature and continuance of operations (Note 1)
Commitments (Note 26)
Sale of subsidiaries (Note 28)
Subsequent events (Note 31)

Approved on behalf of the Board of Directors:

"Elise Coppens"	*"Fiona Fitzmaurice"*
Director	Director

(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2021	December 31, 2020
Sales		$ 928,208	$ 1,491,678
Cost of goods sold		(522,985)	(965,739)
		405,223	525,939
Expenses			
Amortization	7,8	368,721	1,019,300
Consulting and management	21	1,360,433	7,677,008
Corporate development		236,811	976,193
Finance and other costs	18, 19	6,626,095	5,727,777
Foreign exchange loss (gain)		44,706	(13,806)
Development and compliance		36,401	159,007
Distribution expenses		1,695	(15,742)
Due diligence		-	7,000
Investor communications		-	23,184
Insurance		112,966	81,401
Office and sundry		191,648	454,426
Other general and operating costs		362,750	491,092
Production costs		28,193	292,117
Professional fees		2,020,510	2,100,637
Property taxes and fees		304,882	124,803
Regulatory and transfer agent fees		158,930	232,216
Rent expense (recoveries)		(17,535)	96,240
Repairs and maintenance		839	18,084
Research and development		-	394,945
Share-based compensation	20	-	3,396,618
Transaction costs	12,20	6,023,229	5,878,353
Wages and salary		579,470	1,292,195
		(18,440,744)	(30,413,048)
Loss before other items		(18,035,521)	(29,887,109)
Other items			
Fair value movement on investments	15	195,351	4,553,743
Change in derivative liability and contingent consideration	14,18	-	150,335
Gain (loss) on debt settlement	16,18,20	13,578,840	(639,784)
Gain (loss) on disposal of property and equipment	7	938,031	(129,181)
Gain on write-off of accounts payable	16	384,822	47,671
Gain on loan payable	19	-	32,540
Gain on sale of subsidiaries	28	4,110,527	-
Gain on extinguishment of debt	18	1,886,363	-
Loss on sale of marketable securities	9	(1,275,473)	-
Government grants	19, 27	70,147	273,124
Impairment of property and equipment, intangible asset and goodwill	7, 8	(550,098)	(33,685,650)
Impairment of investment	10, 11	-	(8,459,815)
Interest income	5, 15	649,789	101,671
Provision on loan receivable	5	-	(212,033)
Gain on sale of assets	7	-	308,672
Royalty revenues	23	155,025	-
Share of losses in investments and joint venture	10,11	(4,164,830)	(4,732,476)
Corporate tax refunds		10,825	-
Loss on sale of investments	10	(475,212)	-
Gain on lease forgiveness	17	126,875	-
Write-off of accounts receivable	4	(19,180)	(1,158,462)
Write-off of convertible loan receivable	15	-	(29,210,673)
Write-off of prepaid expenses	6	-	(553,668)
Write-off of inventory		-	(2,169)
Net loss for the year		**(2,413,719)**	**(103,203,264)**
Other Comprehensive Income			
Foreign Exchange gain on translating foreign operations		58,939	8,187
Net and comprehensive loss for the year		**$ (2,354,780)**	**$ (103,195,077)**
Net loss attributable to:			
Shareholders of Agra Ventures Ltd.		$ (5,095,719)	$ (102,856,208)
Non-controlling interests	13	2,682,000	(347,056)
		$ (2,413,719)	**$ (103,203,264)**
Net and comprehensive loss attributable to:			
Shareholders of Agra Ventures Ltd.		$ (5,036,780)	$ (102,848,021)
Non-controlling interests	13	2,682,000	(347,056)
		$ (2,354,780)	**$ (103,195,077)**
Net loss per share – basic and diluted		**$ (0.20)**	**$ (11.83)**
Weighted average number of common shares outstanding		**11,894,202**	**8,722,953**

(Expressed in Canadian Dollars)

	Share capital								
	Number of shares[1]	Amount	Share-based payments reserve	Warrants reserve	Non-controlling interest	Accumulated other comprehensive income	Obligation to issue shares	Deficit	Total
Balance at December 31, 2019	**6,228,818**	**149,515,772**	**12,531,446**	**27,933,339**	**(671,830)**	**-**	**-**	**(123,209,175)**	**66,099,552**
Net and comprehensive loss for the year	-	-	-	-	(347,056)	8,187	-	(102,856,208)	(103,195,077)
Fair value of options exercised / expired	-	-	(10,435,952)	-	-	-	-	10,435,952	-
Fair value of warrants expired	-	-	-	(8,252,116)	-	-	-	8,252,116	-
Fair value adjustment (Note 14)	-	(6,828,125)	-	-	-	-	-	-	(6,828,125)
Transaction cost	392,157	5,882,353	-	-	-	-	-	-	5,882,353
Consulting fees	-	-	-	-	-	-	1,500,000	-	1,500,000
Conversion of special warrants (Note 20)	44,444	616,667	-	(616,667)	-	-	-	-	-
Shares issued for services (Note 20)	157,353	1,568,000	-	-	-	-	-	-	1,568,000
Shares issued for acquisition (Note 20)	511,111	6,168,221	-	-	-	-	-	-	6,168,221
Shares for debt settlement (Note 20)	2,495,503	19,978,654	-	6,788,306	-	-	-	-	26,766,960
Private placements (Note 20)	215,413	2,029,600	-	393,800	-	-	-	-	2,423,400
Private placement – finders fee	-	(3,150)	-	-	-	-	-	-	(3,150)
Private placement – finders warrants	-	(2,589)	-	2,589	-	-	-	-	-
Shares returned to treasury	(3,616)	(50,189)	-	-	-	-	-	-	(50,189)
Share-based compensation (Notes 12 and 20)	-	-	3,396,618	-	-	-	-	-	3,396,618
Balance at December 31, 2020	10,041,183	$ 178,875,214	$ 5,492,112	$ 26,249,251	$ (1,018,886)	$ 8,187	$ 1,500,000	$ (207,377,315)	$ 3,728,563
Balance at December 31, 2020	**10,041,183**	**$ 178,875,214**	**$ 5,492,112**	**$ 26,249,251**	**$ (1,018,886)**	**$ 8,187**	**$ 1,500,000**	**$ (207,377,315)**	**$ 3,728,563**
Net and comprehensive loss for the year	-	-	-	-	2,682,000	58,939	-	(5,095,719)	(2,354,780)
Non-controlling interest derecognized on sale of subsidiary (Note 12 and 28)	-	-	-	-	(3,468,765)	-	-	-	(3,468,765)
Non-controlling interest on dilution of interest in subsidiary (Note 12)	-	-	-	-	1,635,000	-	-	-	1,635,000
Fair value of warrants expired	-	-	-	(6,229,698)	-	-	-	6,229,698	-
Transaction cost (Notes 12 and 20)	1,003,871	6,023,229	-	-	-	-	-	-	6,023,229
Shares issued to settle floor protection liability (Note 14 and 20)	133,333	1,500,000	-	-	-	-	-	-	1,500,000
Shares for services (Note 16 and 20)	17,211	116,540	-	-	-	-	-	-	116,540
Shares for acquisition (Note 20)	66,667	500,000	-	-	-	-	-	-	500,000
Shares for debt settlement (Note 16, 18 and 20)	539,997	1,052,970	-	-	-	-	-	-	1,052,970
Consulting fees (Note 19)	331,119	1,500,000	-	-	-	-	(1,500,000)	-	-
Shares for interest payment of amended convertible debentures (Notes 17 and 20)	360,000	4,050,000	-	-	-	-	-	-	4,050,000
Conversion of debentures (Note 18 and 20)	895,122	6,265,863	-	-	-	-	-	-	6,265,863
Balance at December 31, 2021	**13,388,503**	**$ 199,883,816**	**$ 5,492,112**	**$ 20,019,553**	**$ (170,651)**	**$ 67,126**	**$ -**	**$ (206,243,336)**	**$ 19,048,620**

On August 27, 2021, the Company consolidated its shares on a one hundred and fifty (150) pre-consolidated to one (1) post-consolidation share basis. These consolidated financial statements reflect the post-consolidated shares.

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

	Year ended December 31, 2021	December 31, 2020
Operating activities		
Net loss for the year	$ (2,413,719)	$ (103,203,264)
Adjustments for:		
Accrued interest	6,626,095	5,515,406
Amortization (notes 7 and 8)	368,721	1,019,300
Interest income (notes 5 and 15)	(649,789)	(101,671)
Non-cash consulting fees	116,540	3,068,000
Gain on forgiveness of lease (note 17)	(126,875)	-
Gain on loan payable (note 19)	-	(32,540)
Gain on sale of subsidiary (note 28)	(4,110,527)	-
Gain on debt settlement (notes 16, 18, 20)	(13,578,840)	-
Gain on extinguishment of debt (note 18)	(1,886,363)	-
Government grants	(47,567)	-
Deposits recognized	(26,890)	-
Share of losses in investments and joint venture (notes 10 and 11)	4,164,830	4,732,476
Fair value change in derivative liabilities (notes 14 and 18)	-	(150,335)
Fair value change on movement in investments (note 15)	(195,351)	(4,553,743)
Foreign exchange adjustments on property and equipment	51,293	-
Impairment of investment (notes 10 and 11)	-	8,459,815
Impairment of property and equipment, goodwill and intangible assets (notes 7 and 8)	550,098	33,685,649
Transaction cost (notes 12 and 20)	6,023,229	5,882,353
Loss on sale of property and equipment (note 7)	(938,031)	129,181
Loss on sale of marketable securities (note 9)	1,275,473	-
Loss (gain) on sale of assets (note 7)	-	(308,672)
Loss (gain) on debt settlement (notes 16, 18, 20)	-	639,333
Loss on sale of investments (note 10)	475,212	-
Provision on loan receivable	-	212,033
Share-based compensation (note 20)	-	3,396,618
Foreign exchange loss (gain)	37,374	5,938
Write-off of amounts receivable (note 4)	19,180	1,158,913
Write-off of convertible loan receivable (note 15)	-	29,210,673
Write-off of inventory	-	2,169
Write-off of prepaid expenses (note 6)	-	553,668
Changes in non-cash working capital items:		
Accounts receivable	(1,981,921)	(562,086)
Prepaids and deposits	(23,890)	521,874
Inventory	12,190	19,665
Accounts payable and accrued liabilities	40,201	6,009,359
Net cash flows used in operating activities	(6,219,327)	(4,689,888)
Financing activities		
Proceeds from convertible debt	-	9,770,000
Repayment of lease liability	(180,662)	(510,303)
Proceeds from loan received	308,000	639,020
Receipt of corporate tax refund	10,825	-
Proceeds from sale of subsidiaries	998,168	-
Proceeds on issuance of common shares, net of subscriptions received / receivable	-	2,420,250
Net cash flows provided by financing activities	1,136,331	12,318,967
Investing activities		
Acquisition of The Good Company GmbH	-	(1,763,119)
Cash obtained on acquisitions	-	246,915
Expenditures on equipment (note 7)	(8,393)	(5,616,827)
Deposits – property sale	-	322,000
Purchase of patents and licenses	(23,000)	(22,189)
Purchase of convertible notes (note 15)	(750,000)	-
Purchase of marketable securities (note 9)	(1,250,000)	-
Proceeds from sale of property and equipment	-	407,372
Proceeds from sale of investments (note 10)	650,000	-
Proceeds from sale of marketable securities	9,224,417	-
Investment in and advances to Propagation Services Canada (note 11)	-	(5,005,136)
Net cash flows provided by (used in) investing activities	7,843,024	(11,430,984)
Change in cash	2,760,028	(3,801,905)
Cash, beginning of year	274,390	4,076,295
Effect of change in foreign currency on cash	58,939	-
Cash, end of year	**$ 3,093,357**	**$ 274,390**

Supplemental cash flow information (Note 24)

1. NATURE OF OPERATIONS AND GOING CONCERN

Agra Ventures Ltd. (formerly AgraFlora Organics International Inc.) (the "Company" or "Agra Ventures") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). The diversified Company is focused exclusively on the cannabis industry. On July 26, 2021, the Company changed its name to Agra Ventures Ltd. from AgraFlora Organics International Inc. 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, Agra Ventures' wholly owned subsidiary AgraFlora Europe 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 25. At December 31, 2021, the Company has working capital deficit of $20,194,836 (December 31, 2020 – a working capital deficit of $52,902,260), and an accumulated deficit of $206,243,336 (December 31, 2020 - $207,377,315).

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. In addition, the Company faces uncertainty with respect to potential future business impacts resulting from the continuing COVID-19 global pandemic, further described in Note 2. These events and conditions create a material uncertainty, which 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 have been prepared on a going concern basis, and 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 2, 2022.

(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 subsidiaries:

	Ownership Interest 2021	Ownership Interest 2020	Jurisdiction
AAA Heidelberg Inc. (Note 28)	0%	100%	Canada
Potluck Potions and Edibles Inc.	80%	80%	Canada
Canutra Naturals Ltd.	100%	100%	Canada
SUHM Investments Inc. (Note 12 and 28)	0%	100%	Canada
The Edibles and Infusions Corp. (Note 12 and 28)	0%	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%	100%	Canada
AgraFlora Europe GmbH (formerly The Good Company)	100%	100%	Germany
11406426 Canada Corp. d/b/a Canada Formulations Corp	80%	80%	Canada
AgraFlora Holdings Corp. (Note 12)	100%	0%	Canada

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, have been 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 is the functional currency for AgraFlora Europe 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 profit or loss.

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.

2. BASIS OF PREPARATION (continued)

Presentation and functional currency (continued)

Exchange differences arising on translation of foreign operations are recognized in accumulated other comprehensive income as foreign exchange gain on translating foreign operations. These differences are recognized in the profit or loss in the period in which the foreign operation is disposed

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.

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

Income taxes
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 these consolidated financial statements.

Business combinations and asset acquisitions
Judgment is required to determine if the Company’s acquisitions represent business combinations or asset purchases. More specifically, management concluded that most of the Company’s acquisitions did not qualify as business combinations, as the assets acquired were not an integrated set of activities with inputs and processes capable of producing 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.

2. BASIS OF PREPARATION (continued)

Significant accounting judgments and estimates (continued)

Convertible loan receivable
Management is required to make a number of estimates when determining the valuation of its convertible loan receivable, which used option pricing models that involved estimates and assumptions around risk-free rate, volatility, discount rate and credit ratings.

Loan receivables
Determining an allowance for expected credit losses requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest. The specific judgments on a per loan basis are further described in notes 5 and 25.

Investment in joint ventures
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 joint venture can have a significant impact on the entries made on and after acquisition.

The Company's investment in Propagation Services Canada Inc. ("PSC") is classified as an investment in a joint venture. The Company owns 50% of the voting rights and 70% of the non-voting rights of PSC, both directly and indirectly. Membership on the board of directors allows the Company to have participation in the policy-making processes. The Shareholders Agreement of PSC requires unanimous consent of all the parties that collectively control PSC, for decisions about relevant activities of PSC. Thus, PSC is a jointly controlled arrangement. The Company applies the equity method of accounting for the investment.

Impairment of non-financial assets
Non-financial asset impairment tests require the estimation of the recoverable amount of the asset or Cash Generating Unit ("CGU"), which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions conducted at arm's length for similar assets, valuation appraisals, or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Company's approved budget for the first year and the Company's forecast for the next four years and do not include restructuring activities that the Company is not yet committed to, or significant future investments that will enhance the performance of the asset or CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, property and equipment and intangible assets.

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, 2021. The production and sale of cannabis have been recognized as essential services across Canada and Europe. As at December 31, 2021, 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.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

COVID-19 Estimation Uncertainty (Continued)

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. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position is comprised of cash at banks and on hand, amounts held in trust with the Company's lawyers and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company did not hold any cash equivalents as at December 31, 2021 or 2020.

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.

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, 2021 and December 31, 2020, the Company accounts for the following entities using the equity method as the Company does not have control over these entities:

	Ownership Interest 2021	Ownership Interest 2020	Jurisdiction
Propagation Services Canada Inc. (Note 11)	70%	70%	Canada
Eurasia Infused Cosmetics Inc.	50%	50%	Canada
JJ Wolf Investment Ltd.	0%	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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (Continued)

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.

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 finite useful 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

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 useful 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 in profit or loss as incurred.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profit or 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 profit or 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 profit or 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of 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 CGU 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 CGU 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 profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized in profit or loss.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares 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 value of the shares is used to measure the transaction. The fair value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the measurement date.

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 in profit or loss 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 and recognized in profit or loss, unless the Company cannot estimate reliably the fair value of the good or services received, in which case 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. Amounts related to the issuance of shares are recorded as a reduction of share capital.

Share-based payments reserve

The share-based payment reserve represents employee entitlements to share-based awards that have been recognized in profit or 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 expire unexercised, the amount recognized is transferred to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Warrants reserve

The warrants reserve represents the 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 recognized is transferred to deficit.

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.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Diluted loss per share is equivalent to basic loss per share, as the effects of all dilutive potential common shares would be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

Revenue from the sale of hemp health products and cannabis to medical and recreational customers are recognized when the Company transfers control of the goods to the customer. In some cases, judgment 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.

Royalty revenue

Royalty revenue is recognized pursuant to the terms of the applicable royalty agreement, when the specific performance obligation has been satisfied, and when collection is reasonably assured.

Financial instruments

(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. Financial assets are classified at amortized cost where the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(i) Classification (Continued)

The following table shows the classification of financial instruments:

Financial assets/liabilities	Classification
Cash	FVTPL
Amounts receivable (excluding government sales tax recoverable)	Amortized cost
Convertible loan receivable	FVTPL
Marketable securities	FVTPL
Loans receivable	Amortized cost
Derivative asset	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Contingent consideration payable	FVTPL
Derivative liabilities	FVTPL
Convertible loan payable	Amortized cost
Mortgage payable	Amortized cost

(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, using the effective interest rate method. The ‘effective interest rate’ is the rate that discounts estimated future cash flows over the expected life of the financial instrument, or where appropriate, a shorter period.

Financial assets and liabilities at FVTPL
Financial assets and liabilities 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 profit or 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 recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(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 profit or 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.

(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 recognized in profit or loss.

Derivative asset
The Derivative asset is recorded on the consolidated statement of financial position at fair value. The asset relates to derivative conversion feature of the Valo Therapeutics Oy convertible notes purchased by the Company (Note 15). The fair value of the option is determined by using a Binomial Tree model using inputs such as stock price, volatility, risk-free rate, life, strike price and number of options. The Company will revalue the conversion feature each reporting period and will recognize any changes in the fair value through profit and 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 profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

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 profit or loss. 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 recognized as an expense in profit or loss.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial 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.

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 recognized 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 over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

Future accounting standards

Amendments to IAS 1 Presentation of Financial Statements: 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.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The amendments specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments apply retrospectively for annual reporting period beginning on or after January 1, 2022. Early application is permitted. The Company is currently evaluating the potential impact of these amendments on the consolidated financial statements.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future accounting standards (Continued)

Amendment to IFRS 3 Business Combinations
An amendment to IFRS 3 updates certain references to the conceptual framework. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references at the same time or earlier. The Company does not expect this amendment to have a material impact on the consolidated financial statements.

Amendments to IFRS 9 Financial Instruments
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Company applies the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier adoption permitted. The Company is currently evaluating the potential impact of these amendments on the consolidated financial statements.

The Company continues to review changes to IFRS standards. There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's consolidated financial statements.

4. AMOUNTS RECEIVABLE

	December 31, 2021 $	December 31, 2020 $
Government sales tax recoverable	13,372	133,666
Other receivable	210,926	15,190
	224,298	148,856

During the year ended December 31, 2021, the Company wrote off $19,180 (December 31, 2020 - $Nil) of government sales tax recoverable on the basis that the amounts were denied by the Canada Revenue Agency.

5. LOANS RECEIVABLE

	$
Loans receivable, December 31, 2019	**205,721**
Loan to Propagation Services Canada	12,708,230
Accrued interest	324,018
Promissory note for sale of land	275,000
Provision on loan receivable	(212,033)
Loans receivable, December 31, 2020	**13,300,936**
Receipt of repayment for promissory note	(275,000)
Accrued interest	1,924,861
Total loans receivable, December 31, 2021	**14,950,797**

On July 10, 2019, the Company advanced $200,000 by way of a loan to an arm's length party which was due on July 10, 2020. During the year ended December 31, 2020, the Company recorded accrued interest of $6,312 on the loan and recorded a provision of $212,033 against the loan and impaired the loan receivable to $Nil.

(Expressed in Canadian Dollars)

5. LOANS RECEIVABLE (CONTINUED)

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 7). The promissory note matured on June 4, 2022, accrued interest at 9% per annum payable to the Company in monthly instalments starting from January 4, 2021. During the year ended December 31, 2021, the arm's length party repaid the promissory note, the balance of the loan is $Nil as at December 31, 2021 ($275,000 as at December 31, 2020).

On November 6, 2020, the Company entered into a definitive loan agreement with Propagation Services Canada. The loan agreement has a maximum facility amount of $50,000,000, and includes previous advances made to Propagation Services Canada 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. The loan is secured by a General Security Agreement. The loan has no stated maturity date and is repayable monthly out of 50% of Propagation Services Canada's EBITDA until Propagation Services Canada's loan outstanding with Houweling Nurseries Property Ltd. ("HNL") is settled, after which the loan becomes repayable monthly out of 100% of Propagation Services Canada's EBITDA until the outstanding balance is settled.

As a result of executing the definitive loan agreement, the previous advances were considered extinguished and replaced with the new loan, which has been advanced to Propagation Services Canada 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 interest rate of 15% is determined based on market rates of interest for similar loan instruments. 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 Propagation Services Canada (Note 11). The loan receivable is considered a performing loan, with no external credit rating. Management does not expect any credit losses to occur within the next 12-month period due to the fact that the loan is not expected to be repaid within the next 12-month period and Propagation Services Canada has begun growing biological assets under its Health Canada License, bringing that entity closer to production.

Subsequent to initial recognition, the loan will be measured at amortized cost using the effective interest rate 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 to $95,312 and reducing the investment in Propagation Services Canada by $222,394.

During the year ended December 31, 2021, the Company recorded $1,924,861 in interest income relating to the loan. The Company eliminated $1,275,018 of inter-company interest income, reducing the interest income by to $649,843 and reducing the investment in Propagation Services Canada by $1,275,018.

6. PREPAIDS AND DEPOSITS

	December 31, 2021 $	December 31, 2020 $
Advances to third-party suppliers	42,273	27,308
Prepaid deposits	8,925	-
Total	51,198	27,308

On August 27, 2019, the Company signed a 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. The Company paid $150,000 during the year ended December 31, 2019, and $50,000 during the year ended December 31, 2020. The amount included in prepaids of $200,000 was impaired during the year ended December 31, 2020 as the acquisition became inactive. The amount was included in profit or loss as a write-off of prepaid expenses.

During the year ended December 31, 2019, the Company advanced $150,000 towards the potential acquisition of Farma Swiss S.A.S. The amount included in prepaids of $150,000 was impaired during the year ended December 31, 2020 as the acquisition became inactive. The amount was included in profit or loss as a write-off of prepaid expenses.

(Expressed in Canadian Dollars)

6. PREPAIDS AND DEPOSITS (CONTINUED)

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

7. PROPERTY AND EQUIPMENT

Property and equipment are held by the Company and its subsidiaries.

	Furniture & equipment $	Buildings $	Computers $	Right of use assets $	Leasehold improvements $	Land $	Total $
Cost:							
December 31, 2019	2,032,608	4,211,473	78,474	1,931,548	387,563	373,700	9,015,366
Additions	3,772,442	3,323,458	-	-	395,630	-	7,491,530
Impairment	(101,980)	(1,037,164)	-	-	(2,127,714)	-	(3,266,858)
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	5,477,737	7,511,767	78,474	3,500,959	981,385	-	17,550,322
Additions	7,529	-	-	-	864	-	8,393
Effect of movements in exchange rates	-	(51,543)	-	-	-	-	(51,543)
Sale or disposal of assets	-	(1,014,000)	-	-	(3,168)	-	(1,017,168)
Acquired from business combinations / asset acquisitions	500,000	-	-	-	-	-	500,000
Derecognized on sale of subsidiary (Note 28)	(5,423,332)	(6,446,224)	(78,474)	(1,931,548)	(780,889)	-	(14,660,467)
December 31, 2021	**561,934**	**-**	**-**	**1,569,411**	**198,192**	**-**	**2,329,537**
Amortization:							
At December 31, 2019	(31,903)	-	(32,841)	(112,674)	-	-	(177,418)
Charge for the year	(58,223)	(50,024)	(16,818)	(323,961)	(198,192)	-	(647,218)
Acquired from business combinations	-	-	-	(25,902)	-	-	(25,902)
At December 31, 2020	(90,126)	(50,024)	(49,659)	(462,537)	(198,192)	-	(850,538)
Charge for the year	(6,477)	(28,919)	(2,225)	(208,475)	-	-	(246,096)
Effect of movements in exchange rates	588	-	-	-	-	-	588
Sale, disposal or impairment of assets	(500,000)	78,943	-	-	-	-	(421,057)
Derecognized on sale of subsidiary (Note 28)	36,710	-	51,884	357,337	-	-	445,931
December 31, 2021	**(559,305)**	**-**	**-**	**(313,675)**	**(198,192)**	**-**	**(1,071,172)**
Net book value:							
December 31, 2020	5,387,611	7,461,743	28,815	3,038,422	783,193	-	16,699,784
December 31, 2021	**2,629**	**-**	**-**	**1,255,736**	**-**	**-**	**1,258,365**

The right-of-use assets 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 a leased manufacturing facility in Ontario acquired 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 17). The discount rates applied to the leases are 11.34% and 9.85%, respectively.

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.

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT (CONTINUED)

The Company sold land with a cost of $373,700 for total proceeds of $682,372 and recorded a gain on sale of $308,672. The Company entered into a promissory note for $275,000 with the purchaser relating to the sale (Note 5).

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.

Year-ended December 31, 2021
The Company acquired AgraFlora Holdings Corp. and as a result of the acquisition obtained equipment of $500,000 (Note 12). During the year-ended December 31, 2021, the Company recorded an impairment loss of $500,000 to write-off the equipment as a result of damage.

The Company sold its subsidiary AAA Heidelberg Inc. and derecognized property and equipment of $1,002,997 as a result (Note 28).

The Company sold its subsidiary SUHM Investments Inc. ("SUHM") and derecognized property and equipment of $13,211,539 as a result (Note 28).

SUHM wrote-off certain equipment with a book value of $3,168 and recorded a gain of $6,309.

The Company sold its property in Ontario for a discharge of its mortgage to the lender of the mortgage for $1,871,242 (Note 19). On completion of the sale, the Company derecognized the property with a net book value of $935,057, and recognized a loss on settlement of mortgage of $4,463, resulting in a net gain on sale of property of $931,722.

8. INTANGIBLE ASSETS AND GOODWILL

	Licenses $	Customer Relationships $	Non-Compete Agreement $	Goodwill $	Total $
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**
Additions	46,000	-	-	-	46,000
Amortization	(117,068)	-	(5,556)	-	(122,624)
Derecognized on sale of subsidiary (Note 28)	(23,000)		(161,111)		(184,111)
Balance, December 31, 2021	**905,932**	**-**	**-**	**-**	**905,932**

The Company did not acquire any intangibles and goodwill during the year ended December 31, 2021. During the year ended December 31, 2020, the Company acquired intangibles and goodwill as disclosed in Notes 10, 12 and 14.

The Health Canada licenses arose as a result of acquisition of AAA Heidelberg Inc. and Sanna (Note 12). The distribution licenses arose as a result of acquisition of The Good Company (Note 14).

8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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. During the year ended December 31, 2021, the Company recorded amortization of $117,068 on the licenses.

The non-compete agreement arose as a result of the acquisition of SUHM (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. During 2021, the Company recorded amortization of $5,556 on the non-compete agreement prior to the sale of SUHM. On April 6, 2021, the Company sold SUHM to a third party and thus derecognized the non-compete agreement of $161,111 as a result (Note 28).

The goodwill and customer relationships arose as a result of the acquisition of Canutra Naturals Ltd. ("Canutra") and AgraFlora Europe GmbH (formerly The Good Company) (Note 14). 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. During the year ended December 31, 2020, the Company recognized an impairment loss on the customer relationships of $706,784. As at December 31, 2020 and December 31, 2021, the balance of the customer relationships is $Nil.

The Company determined the fair value of goodwill acquired from the acquisition of Canutra to be $3,759,646 and recognized an impairment loss on goodwill of $3,759,646 due to indicators of impairment being present as at December 31, 2020. The Company noted the indicators of impairment were the subsidiary's limited capital resources for marketing and further product development, and lower sales than expected. Additionally, the Company sold the farm which carried the research and hemp license (Note 7).

The Company determined the fair value of goodwill acquired from acquisition of AgraFlora Europe GmbH to be $13,393,384 and recognized an impairment loss on goodwill of $13,393,384 due to indicators of impairment being present as at December 31, 2020. The Company noted the indicators of impairment were related to COVID-19, the supply agreements and distribution channels did not perform as expected, which negatively impacted the cashflows of the subsidiary.

The balance of the goodwill is $Nil as at December 31, 2020 and December 31, 2021.

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 the Company noted indicators of impairment as at December 31, 2020 based on the amount recovered on the sale of the subsidiary. The Company recorded impairment of the license based on the anticipated sale of the subsidiary for $1,000,000, which completed during the year ended December 31, 2021 where the Company received gross proceeds of $998,168 (Note 28).

During the year ended December 31, 2020, an impairment of $5,263,537 on the Sanna Health Canada license. The Company noted indicators of impairment being present as at December 31, 2020 as a result of determining the recoverable value of the license to be $1,000,000. The Company received a deposit of $297,001 towards the sale of the subsidiary on November 27, 2020 (Note 27).

During the year ended December 31, 2020, an impairment loss of $5,951,770 on the licenses acquired from AgraFlora Europe GmbH. The Company noted indicators of impairment being present as at December 31, 2020 relating to COVID-19, the supply agreements and distribution channels for the subsidiary did not perform as expected, which negatively impacted the cashflows of the subsidiary.

During the year ended December 31, 2021, the Company paid license fees for 2 Health Canada licenses for its subsidiaries for a total cost of $46,000. On May 20, 2021, the Company sold its subsidiary AAA Heidelberg Inc. and has derecognized the related Health Canada license of $23,000 (Note 28).

As at December 31, 2021, the Sanna Health Canada license has a value of $905,932 (December 31, 2020 - $1,000,000), and the AgraFlora Europe GmbH license has a value of $Nil (December 31, 2020 - $Nil).

(Expressed in Canadian Dollars)

9. MARKETABLE SECURITIES

At December 31, 2021, the Company held the following marketable securities:

Investee	Number of Shares/Warrants	Cost $	Fair Value $
Private Companies			
Cult Food Science Corp. – Shares	2,757,575	750,000	750,000
Cult Food Science Corp. – Warrants	2,757,575	-	-
Pounce Technologies – Shares	4,500,000	500,000	500,000
		1,250,000	1,250,000

At December 31, 2020, the Company did not hold any marketable securities.

Cult Food Science Corp.
On September 15, 2021, the Company subscribed to a private placement of 2,000,000 units ("Cult Unit") of Cult Food Science Corp. ("Cult") for total cash of $500,000. Each Cult Unit consists of one common share of Cult and one transferable common share purchase warrant of Cult. Each warrant will entitle the holder to acquire one Cult share at a price of $0.75 for a period of two years following the closing date of the private placement.

On November 1, 2021, the Company subscribed to a private placement of 757,575 units ("November Cult Unit") of Cult for total cash of $250,000. Each November Cult Unit consists of one common share of Cult and one transferable common share purchase warrant of Cult. Each warrant will entitle the holder to acquire one Cult share at a price of $0.75 for a period of two years following the closing date of the private placement.

The Company assigned $Nil value to the warrants as Cult was a private investment as of December 31, 2021. Cult commenced trading on the CSE on January 17, 2022. At December 31, 2021, the fair value of the Cult investment is $750,000.

Organigram Holdings Inc.
During the year ended December 31, 2021, the Company received 2,637,384 common shares of Organigram Holdings Inc. ("OGI") with a fair value of $10,499,890 pursuant to the terms of the sale of SUHM (Note 28). The Company sold all shares of OGI for proceeds of $9,224,417 and recorded a loss on sale of $1,275,473. The balance of the investment at December 31, 2021 is $Nil.

Pounce Technologies Inc.
On November 23, 2021, the Company purchased 4,500,000 common shares of Pounce Technologies Inc., a private company, for total cash of $500,000. The fair value of this investment at December 31, 2021 is $500,000.

10. INVESTMENTS

Investment in JJ Wolf Investments Ltd.
JJ Wolf Investments Ltd. ("JJ Wolf") During the year ended December 31, 2019, the Company entered into a share exchange agreement with JJ Wolf Investments Ltd. ("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.

On October 1, 2021, the Company entered into a Share Buyback Agreement (the "Share Buyback") with JJ Wolf to sell the Company's 50% ownership (10,000,000 common shares) of JJ Wolf back to JJ Wolf for $650,000. Immediately prior to the Share Buyback, the balance of the investment was $1,125,212. The Company recorded a loss on sale of equity accounted investments of $475,212 as a result of the Share Buyback.

(Expressed in Canadian Dollars)

10. INVESTMENTS (CONTINUED)

The Company accounted for its investment in JJ Wolf under the equity method and recorded a loss on investment of $77,884 for the year ended December 31, 2021, up to the date of the Share Buyback (December 31, 2020 - $486,781). The investment balance as at December 31, 2021 is $Nil (December 31, 2020 - $1,203,096).

At December 31, 2021, the Company owned 0% (December 31, 2020 - 50%) of the common shares of JJ Wolf.

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

Summary statements of financial position as at	October 1, 2021 $	December 31, 2020 $
Current assets	2,242,574	4,149,739
Total assets	2,242,574	4,149,739
Current liabilities	151	241,000
Shareholders' equity	2,242,423	3,908,739
Total liabilities and shareholders' equity	2,242,574	4,149,739

Summary statements of comprehensive income (loss) for,	Nine months ended October 1, 2021 $	Year ended December 31, 2020 $
Revenues	34,710	88,095
Operating general and administration expenses	(558,074)	(681,347)
Other income (expenses)	367,595	(380,310)
Net and comprehensive income (loss)	(155,769)	(973,562)

Material amounts from above summary financial position and comprehensive income (loss) for,	Nine months ended October 1, 2021 $	Year ended December 31, 2020 $
Cash and cash equivalents	1,549,781	1,037,513
Interest income	34,710	-
Interest expense	261	-

Eurasia Infused Cosmetics Inc.

In 2019, the Company purchased 50% of the outstanding common and preferred shares of Eurasia Infused Cosmetics Inc. ("Eurasia"), a private company in British Columbia. During the year ended December 31, 2019, the Company advanced $67,599 (US$50,000) to Eurasia as a shareholder loan. The loan was non-interest bearing and was to be repaid out of proceeds from the sale of products before the distribution of any dividends. The balance of the loan was impaired to $Nil during the year ended December 31, 2020 resulting in an impairment of investment of $67,599.

11. PROPAGATION SERVICES CANADA INC.

In 2018, the Company acquired a 40% interest in PSC, a joint venture which has ownership of the Houweling Nurseries Ltd.'s Delta Propagation Facility (the "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 could 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 granted 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 594,427 of the common shares of the Company for proceeds of $40,000,000 and received 20% of class B non-voting shares in PSC.

In 2019, the Company acquired 100% of all the issued and outstanding common shares of DOCC, which gave the Company an additional 20% equity interest in PSC. The Company now has a 70% equity interest in PSC. 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 went from significant influence to joint control. The interest in PSC continues to be accounted for under the equity method.

On November 6, 2020, the Company entered into a definitive Loan Agreement with PSC (Note 5). Prior to the definitive Loan Agreement, the Company made advances of $38,604,344 to PSC. As the terms to this Loan Agreement were substantially different than those for previous advances made to PSC, the Company accounted for the modification as an extinguishment of the original advances made to PSC and the recognition of a new loan receivable. The difference between the fair value of the new loan receivable and the original advances was recognized as a contribution to PSC in the amount of $25,896,081, leaving $12,708,230 in loan receivable as of December 31, 2020 (Note 5).

At December 31, 2021 and 2020, the Company considered certain indications to determine whether its investment in PSC was impaired. At December 31, 2020, the Company identified impairment indicators, and 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. In 2021, no indicators of impairment were noted. In 2020, due to the significant loss position of PSC, the Company believed the VIU to be higher than its FVLCD. Therefore, the Company used VIU as the recoverable amount. As a result, an impairment loss of $8,042,217 on the investment in PSC was recognized for the year ended December 31, 2020. The impairment loss was recognized based on management's assessment of PSC's present value of expected future cash flows discounted at 15%.

(Expressed in Canadian Dollars)

11. PROPAGATION SERVICES CANADA INC. (CONTINUED)

Under equity accounting, the Company's share of PSC's losses for the year ended December 31, 2021 totaled $4,086,946 (December 31, 2020 - $4,245,695).

The table below provides a continuity of the PSC investment:

	December 31, 2021 $	December 31, 2020 $
Opening balance	28,800,620	49,014,021
Adjustment of intercompany interest	(1,275,018)	(222,362)
Advances	-	5,005,136
Extinguishment of original advances (Note 5)	-	(38,604,344)
Contribution to joint venture (Note 5)	-	25,896,081
Loss on equity investment	(4,086,946)	(4,245,695)
Impairment on investment in joint venture	-	(8,042,217)
Ending balance	**23,438,656**	**28,800,620**

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

Summary statements of financial position as at	December 31, 2021 $	December 31, 2020 $
Current assets	2,963,892	3,832,479
Non-current assets	33,965,279	36,324,920
Total assets	36,929,171	40,157,399
Current liabilities	5,121,524	2,875,571
Non-current liabilities	27,299,981	27,024,847
Shareholders' equity	4,507,666	10,256,981
Total liabilities and shareholders' equity	36,929,171	40,157,399

Summary statements of comprehensive loss for the year ended	December 31, 2021 $	December 31, 2020 $
Revenues	138,155	-
Cost of goods sold	(108,847)	-
Operating general and administration expenses	(8,228,891)	(3,312,489)
Other income (expenses)	2,361,089	(5,951,027)
Income tax recovery	-	3,198,237
Net and comprehensive loss	(5,838,494)	(6,065,279)

Material amounts from above summary financial position and comprehensive income (loss)	December 31, 2021 $	December 31, 2020 $
Cash and cash equivalents	1,816,138	3,683,921
Current financial liabilities (excluding trade and other payables and provisions)	2,775,041	281,179
Non-current financial liabilities	27,299,981	27,024,847
Depreciation and amortization	1,703,834	1,270,880
Income tax expense (recovery)	(2,173,721)	(3,198,237)
Interest expense	3,175,824	1,250,530

(Expressed in Canadian Dollars)

12. ACQUISITIONS

SUHM Investments Inc.

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 controlled the joint venture. Edibles is developing an edibles manufacturing facility in Winnipeg, Manitoba. This acquisition was accounted for as an asset acquisition as SUHM did not meet the definition of a business under IFRS 3, Business Combinations. On April 6, 2021, the Company sold its ownership of SUHM to a third party, thereby disposing of the SUHM ownership and Edibles ownership interests (Note 28).

On February 12, 2021, SUHM completed a private placement for gross proceeds of $1,635,000 and the Company's interest in SUHM was diluted from 100% to 54.18%, and as a result the Company's interest in Edibles was diluted from 80% to 43.34%. As a result, the Company recognized NCI of $1,635,000 relating to the dilution of interest in Edibles.

The Company recorded NCI on the dilution of interest on February 12, 2021 of $3,045,244. On April 6, 2021, the Company lost all of its interest in SUHM, and as a result ceased consolidation of SUHM (and by extension Edibles). As at December 31, 2021, the Company has Nil% ownership in Edibles and thus total non-controlling interest is $Nil.

	$
Total non-controlling interest, December 31, 2019	(502,435)
Non-controlling interest in loss of SUHM to December 31, 2020 at 20%	(345,873)
Total non-controlling interest, December 31, 2020	(848,308)
Non-controlling interest in loss of SUHM to February 12, 2021 at 20%	(50,090)
Non-controlling interest recognized on SUHM's private placement	1,635,000
Total non-controlling interest, on February 12, 2021 before dilution	736,602
Non-controlling interest recognized on dilution of interest on February 12, 2021	3,045,244
Non-controlling interest in loss of SUHM from February 13, 2021 to April 5, 2021 at 54.18%	(351,353)
Total non-controlling interest at April 5, 2021	3,430,493
Elimination of non-controlling interest on April 6, 2021	(3,430,493)
Total non-controlling interest, December 31, 2021	-

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

The Edibles and Infusions Corp. (Continued)

The tables below provide a summary of Edibles' financial position and profit and loss before intergroup eliminations, prior to deconsolidation on April 6, 2021:

Summary statements of financial position as at	April 6, 2021 $	December 31, 2020 $
Current assets	201,458	94,545
Non-current assets	13,211,539	13,309,364
Total assets	13,412,997	13,403,909
Current liabilities	13,202,976	13,975,678
Non-current liabilities	1,621,178	1,669,770
Equity attributable to Agra Ventures	-	(1,393,231)
Equity	(1,411,157)	-
Non-controlling interests	-	(848,308)
Total liabilities and shareholders' equity	13,412,997	13,403,909

Summary statements of comprehensive loss for the period ended	April 6, 2021 $	December 31, 2020 $
Revenues	-	-
Operating general and administration expenses	(879,119)	(1,866,231)
Other items	74,516	136,864
Net and comprehensive loss	(804,603)	(1,729,367)

Summary statements of cash flows for the period ended	April 6, 2021 $	December 31, 2020 $
Cash received (used in) from operating activities	(1,959,380)	60,734
Cash received from financing activities	2,134,025	6,894,925
Cash used in investing activities	(178,744)	(6,958,597)
Net decrease in cash	(4,099)	(2,938)
Cash, beginning of period	5,012	7,950
Cash, end of period	913	5,012

On February 8, 2021, the Company issued 1,003,871 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 was forgiven by Mulberry in consideration for the following:

- the Company transferred a 26.3% ownership interest in SUHM (transferred); 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 (issued) (Note 20).

On February 12, 2021, the Company transferred 7,420,875 shares of SUHM to Mulberry pursuant to the third amending agreement.

On March 26, 2021, the Company transferred 2,263,190 shares of SUHM to Mulberry pursuant to the third amending agreement.

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

The Edibles and Infusions Corp. (Continued)

Immediately prior to the transfer of shares, the net assets of SUHM were as follows:

	$
Total assets	13,574,108
Total liabilities	(14,823,954)
Intercompany amounts with Agra	11,096,096
Total net assets of SUHM	**9,846,250**

Upon transfer of the SUHM shares, the Company recognized disposal of NCI of $3,468,765, and a gain on sale of Edibles of $4,122,405 (Note 28).

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

As consideration, on March 10, 2020, the Company issued 511,111 common shares of the Company 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 and equipment	5,005,467
Intangible asset – license (Note 8)	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 transaction costs of $30,000 related to the acquisition of Sanna.

AgraFlora Holdings Corp.

On March 1, 2021, the Company closed the acquisition of 100% of the issued and outstanding common shares of 1274418 B.C. Ltd. ("1274418") by way of a "three-cornered" amalgamation where 1274418 amalgamated with 1274744 B.C. Ltd. ("1274744") resulting in AgraFlora Holdings Corp. as the amalgamated corporation pursuant to the acquisition agreement dated November 17, 2020. This acquisition has been accounted for as an asset acquisition as AgraFlora Holdings Corp. did not meet the definition of a business under IFRS 3, Business Combinations.

(Expressed in Canadian Dollars)

12. ACQUISITIONS (CONTINUED)

AgraFlora Holdings Corp. (Continued)

As consideration, on March 1, 2021, the Company issued 66,667 common shares of the Company with a fair value of $500,000.

Consideration paid	**$**
Shares issued	500,000
Net assets acquired	
Property and equipment	500,000
Total net assets acquired	**500,000**

13. NON-CONTROLLING INTEREST

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

	Edibles $	11122347 $	Potluck $	Total $
As at December 31, 2019	(502,435)	(40,295)	(129,100)	(671,830)
Net and comprehensive loss attributable to NCI	(345,873)	-	(1,183)	(347,056)
As at December 31, 2020	(848,308)	(40,295)	(130,283)	(1,018,886)
Net and comprehensive loss attributable to NCI	2,682,073	-	(73)	2,682,000
NCI recognized on private placement of subsidiary	1,635,000	-	-	1,635,000
Derecognition of NCI on sale of subsidiary (Notes 12 and 28)	(3,468,765)	-	-	(3,468,765)
As at December 31, 2021	-	(40,295)	(130,356)	(170,651)

14. BUSINESS COMBINATIONS

Canutra Naturals Ltd.

On July 11, 2019, the Company acquired 100% of the issued and outstanding shares of Canutra. As consideration, the Company issued 187,911 common shares with a fair value of $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. The remaining goodwill of $3,759,646 was impaired during the year ended December 31, 2020 (Note 8).

AgraFlora Europe GmbH (formerly The Good Company)

On February 13, 2020, the Company acquired 100% of the issued and outstanding shares of AgraFlora Europe GmbH. Total consideration paid includes cash of $1,000,000 (paid), issuance of 319,444 common shares of the Company (issued) 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 319,444 shares issued were initially measured at $10,302,083 in 2019, then revalued again on the acquisition date at $3,473,958, resulting in an adjustment in fair value of $6,828,126.

(Expressed in Canadian Dollars)

14. BUSINESS COMBINATION (CONTINUED)

AgraFlora Europe GmbH (formerly The Good Company) (Continued)

Under the terms of the Share Purchase Agreement, the sellers were entitled to receive additional shares of the Company corresponding to an aggregate deemed value of $5,000,000 if certain milestones were achieved or triggered within 18 months from the closing date of the Share Purchase Agreement or in the event that the sellers exercised an Earn-Out Shifting Option. The Share Purchase Agreement also included a floor protection clause. The floor protection clause was in place to protect the vendors from significant declines in the value of the initial shares during the 18 month lock up period. The floor protection clause would 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 interest rate of 1.6031% and a dividend rate of 0%. The derivative liability was subsequently measured at FVTPL. As at December 31, 2020, the estimated fair value of the contingent consideration relating to the Earn-Outs was determined to be $5,000,000 and the estimated fair value of the floor protection derivative liability was determined to be $10,138,772 resulting in a change in fair value of $1,314,766. On February 11, 2021, the Company issued 20,000,000 common shares fair valued at $1,500,000 to settle the contingent consideration and the floor protection derivative liability, resulting in a gain on settlement of debt of $13,638,772 (Note 20). The Company also agreed to make cash contributions to AgraFlora Europe GmbH totaling $1,200,000.

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 8)	5,929,581
Customer Relationships (Note 8)	795,132
Accounts payable	(6,837)
Goodwill (Note 8)	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 8). The balance of goodwill is $Nil as at December 31, 2020 and December 31, 2021.

15. CONVERTIBLE LOAN RECEIVABLE

Transnational Cannabis Ltd.

On December 30, 2019, the Company purchased 20,000 units of senior unsecured convertible units ("Units") of Transnational Cannabis Ltd. ("Transnational") from three arm's length parties for $23,682,600 (US$18,000,000). 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 bear interest at 10% per annum and expire on March 12, 2021. The convertible debentures are convertible into the number of common shares equal to the principal amount divided by US$0.38 per common share. Upon conversion, the holder shall receive a cash payment equal to the accrued and unpaid interest due on the convertible debenture.

The initial fair value of the convertible debentures 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 and the value of the warrants was also $Nil. 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.

Valo Therapeutics Oy

On November 3, 2021, the Company purchased $750,000 of Convertible Notes ("C Notes") from Valo Therapeutics Oy ("Valo"), a company incorporated in Helsinki, Finland. The C Notes will automatically convert to shares of Valo between the issuance date of the C Note and August 31, 2022. If the C Notes are not automatically converted, the repayment date is December 31, 2022. The convertible loan receivable consists of a loan receivable component and a separate embedded derivative conversion feature, being the derivative asset. The convertible loan receivable is considered by management to be a performing loan with no external credit rating. No loss allowance has been recorded, as the Company does not expect any credit losses on this loan over the next 12 months.

During the year ended December 31, 2021, the fair value of the convertible debentures was determined to be $742,194 and the fair value of the derivative asset was determined to be $203,157. The convertible debenture receivable was fair valued using the present-value of future cash flows. The derivative asset was fair valued using the binomial tree model, using a risk-free rate of 0.09%, volatility of 60.8%, and a 30% discount to reflect the inherent uncertainly. As a result, the Company recorded a gain on fair value movement of convertible debentures of $195,351.

(Expressed in Canadian Dollars)

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021 $	December 31, 2020 $
Accounts payable	962,695	8,072,382
Amount due to related parties (Note 22)	74,641	165,778
Accrued liabilities	629,303	251,278
	1,666,639	**8,489,438**

During the year ended December 31, 2020, the Company settled certain debts with creditors and recorded a loss on debt settlement of $639,333 and wrote off statute-barred accounts payable of $47,671.

During the year ended December 31, 2021, the Company settled debts with certain creditors by issuance of shares and recorded a gain on debt settlement of $14,481,278 (Note 20) and wrote off statute-barred accounts payable of $384,822.

17. LEASE LIABILITIES

Manitoba Lease

The Company recorded a right-of-use asset for the leased facility in Manitoba during the year ended December 31, 2019 (Note 7). The Company recognized a right-of-use asset of $1,931,548 and a 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 were discounted using the Company's incremental borrowing rate of 11.34%.

On April 6, 2021, the Company sold SUHM to a third party and has derecognized the lease liability as at April 6, 2021 (Note 28).

The following is a continuity schedule of the lease liability:

	$
Balance, December 31, 2019	**1,883,732**
Lease payments	(335,303)
Interest expense on lease liability	221,962
Balance, December 31, 2020	**1,770,391**
Lease payments	(82,537)
Interest expense on lease liability	52,422
Derecognition of lease liability on sale of subsidiary (Note 28)	(1,740,276)
Balance, December 31, 2021	**-**

Ontario Lease

The Company acquired from Sanna a right-of-use asset for a leased manufacturing facility in Ontario. The Company recorded a right-of-use asset of $1,569,411 and a lease liability of $1,543,510 on acquisition date (Notes 7 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 were discounted using the Company's incremental borrowing rate of 9.85%.

(Expressed in Canadian Dollars)

17. LEASE LIABILITIES (CONTINUED)

Ontario Lease (Continued)

During the year ended December 31, 2021, as a result of COVID-19, the lessor temporarily reduced the rent amounts and the Company recorded a gain on lease forgiveness of $126,875.

The following is a continuity schedule of the lease liability:

	$
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**
Interest expense on lease liabilities	136,615
Gain on lease forgiveness	(126,875)
Lease payments	(98,126)
Balance, December 31, 2021	**1,399,533**
Current portion	(97,093)
Non-current portion	**1,302,440**

The lease liability is payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
	$	$	$
Less than 1 year	225,000	127,907	97,093
Between 1 and 5 years	1,260,000	447,925	812,075
More than 5 years	540,000	49,635	490,365
Balance, end of period	2,025,000	625,467	1,399,533
Non-current lease liabilities	1,800,000	497,560	1,302,440

18. CONVERTIBLE LOAN PAYABLE

	$
Convertible loan payable, December 31, 2019	**28,191,802**
Accretion	4,691,042
Repayments	(4,500,000)
Convertible loan payable, December 31, 2020	**28,382,844**
Accretion	5,939,025
Repayments	(2,700,000)
Gain on debt modification	(1,886,363)
Loan payable conversions (Note 20)	(6,713,425)
Convertible loan payable, December 31, 2021	**23,022,081**

During the year ended December 31, 2019, the Company closed a non-brokered private placement offering of 30,000 unsecured convertible loans for gross proceeds of $30,000,000 from three arm’s length parties. The loans 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 loans matured on December 31, 2020 and on February 11, 2021 were extended to be due on March 12, 2022. Subsequent to year-end, the debentures were extended to March 12, 2023.

18. CONVERTIBLE LOAN PAYABLE (CONTINUED)

The loans are 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 common 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 loan 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 loans 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 is being accreted to the face value over the term to maturity of the convertible loan at an effective interest rate of 15%.

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 loans and aggregate interest of $1,500,000 owing as at June 30, 2020 by the issuance of 365,484 common shares and 182,742 common shares respectively and recorded a gain on debt settlement of $182,715 (Note 20).

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 balance of the derivative liability remains $28 as at December 31, 2021.

On February 11, 2021, the Company entered into an agreement (the "Term Sheet") with the loan holders to amend the convertible loans (the "Amended Loans"). The Amended Loans 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 Loans being reduced to $0.05. The Amended Loans pay interest at the rate of 20% per annum for the period from July 1, 2020 to December 31, 2020. For all periods subsequent to December 31, 2020, the Amended Loans 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 360,000 common shares with a fair value of $4,050,000 and recorded a loss on debt settlement of $1,350,000 (Note 20).

The fair value of the convertible loans under the terms of the Company's convertible debt agreement prior to amendment was $28,382,843. Upon recognition of the Amended Loans, the Company determined the fair value to be $26,496,481. This resulted in a gain on the extinguishment of the convertible loans of $1,886,363. which was recognized in profit or loss. Upon extinguishment of the liability for the pre-amendment convertible loan agreement and recognition of a new liability under the terms of the amended convertible loan agreement, the Company extinguished the pre-amendment convertible loans with a carrying value of $28,382,843.

During the year ended December 31, 2021, the Company issued 895,122 common shares with a fair value of $6,265,862 pursuant to the Term Sheet of the Amended Loans (Note 20).

During the year ended December 31, 2021, the Company recorded accretion of $5,939,025 on the convertible loans. At December 31, 2021, the liability component was $23,022,081 (December 31, 2020 - $28,382,844).

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 did not meet the fixed for fixed criteria, the entire loan was classified as a liability and measured at fair value. On April 30, 2020, the entire loan balance of $17,666,208 was settled with units of the Company with a total fair value of $18,951,402, resulting in a loss on debt settlement of $1,285,194 (Note 20).

19. LOANS PAYABLE

Promissory Note – Sanna

The Company acquired a $350,000 promissory note payable upon acquisition of Sanna. The promissory note is non-interest bearing and is due on demand. On completion of the sale of the Ontario property, the balance of the promissory note was settled. At December 31, 2021, the balance of the promissory note is $Nil (December 31, 2020 - $350,000).

CEBA Loans

The Canada Emergency Business Account ("CEBA") loan originally launched on April 9, 2020 and was intended to support businesses during the COVID-19 pandemic. The value of the government loan received at below market rates 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 provided under the CEBA program. Only two subsidiaries received the additional $20,000 amounts in the year ended December 31, 2020. The loans are interest free if fully repaid on or before December 31, 2023. If 75% of the loans are repaid on or before December 31, 2023, 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 a discount 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 had accretion of $9,875 during the year ended December 31, 2021 (December 31, 2020 - $5,930) and the Company recognized grants of $38,502 (December 31, 2020 - $11,957). During the year ended December 31, 2021, one of the Company's subsidiaries repaid the $40,000 and $20,000 CEBA loans by a cash payment of $40,000 and loan forgiveness of $20,000, respectively. The balance of the loans at December 31, 2021 is $61,601 (December 31, 2020 - $82,662). The current portion of the deferred grant at December 31, 2021 is $15,891 (December 31, 2020 - $26,294) and the non-current portion is $7,854 (December 31, 2020 - $45,018).

JJ Wolf Loans

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 discount of $32,540 to be amortized over the term of the loan. During the year ended December 31, 2021, the Company recorded accretion on the loan of $17,500 (December 31, 2020 - $17,584) and amortization on the gain of $23,953 (December 31, 2020 - $Nil). At December 31, 2021 the balance of the loan is $367,663 (December 31, 2020 - $335,044) and the gain on loan is $8,587 (December 31, 2020 - $Nil).

During the year ended December 31, 2021, the Company received an additional loan of $308,000. The loan has the same terms as the June 2, 2020 loan. The Company discounted the loan at 10% and recorded an initial fair value of $288,454 and recorded a discount on the loan of $19,546 to be amortized over the term of the loan. During the year ended December 31, 2021, the Company recorded accretion on the loan of $13,492 and amortization on the gain of $12,377. At December 31, 2021 the balance of the loans is $314,323 and the balance of the gain on loan is $7,169.

As at December 31, 2021, the Company has total loans payable to JJ Wolf of $681,986 (December 31, 2020 - $335,044), of which $15,756 (December 31, 2020 - $Nil) is the deferred gain on the loans.

19. LOANS PAYABLE (CONTINUED)

Mortgages Payable

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 matured on October 1, 2021 and the Second Mortgage matured on October 23, 2021. During the year ended December 31, 2021, the Company recorded interest of $73,779 on the mortgages (December 31, 2020 - interest and penalties of $143,000).

On June 4, 2021, the Company sold its property in Ontario for a discharge of its mortgage to the lender of the mortgage for $1,871,242 paid by the purchaser and recorded a gain on sale of assets of $931,722 (Note 7). Additionally, pursuant to the sale, the Company's promissory note of $350,000 was cancelled on closing of the sale of the property (Note 18). During the year ended December 31, 2021, the lender of the Company's mortgages payable has called the mortgages by way of Power of Sale, the Company's legal action against the lender was discontinued on July 15, 2021 upon the sale of the property and discharge of the mortgage (Note 26). As at December 31, 2021, the total amount of mortgages payable outstanding including accrued interest is $Nil (December 31, 2020 - $1,443,000).

Promissory Note – Mulberry

On March 29, 2021, the Company and Mulberry entered into a Promissory Note whereby the Company agreed to pay Mulberry the principal sum of $2,500,000 with an interest rate of 15% per annum, calculated daily and compounded monthly. The entire balance of the Promissory Note was repaid during the year ended December 31, 2021.

Other Loans

On June 15, 2020, the Company received a loan of $80,000 from an arm's length party bearing interest at 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 was non-interest bearing and due on demand. During the year ended December 31, 2021, the entire balance of $15,000 was repaid. As at December 31, 2021, the loan has a balance of $Nil (December 31, 2020 - $15,000).

On October 30, 2020, the Company received a loan of $75,000 from an arm's length party. The loan was non-interest bearing and due on demand. During the year ended December 31, 2021, the entire balance of $75,000 was repaid. As at December 31, 2021, the loan has a balance of $Nil (December 31, 2020 - $75,000).

On December 9, 2020, the Company received a loan of 25,000 Euros from a management member pursuant to a secured drawdown facility agreement. The loan bears interest at 20% per annum, with interest being payable on a monthly basis. During the year ended December 31, 2021, the Company recorded interest of 1,587 Euros on the loan. During the year ended December 31, 2021, the entire balance of $39,239 (26,587 Euros) was repaid. As at December 31, 2021, the loan has a balance of $Nil (December 31, 2020 - $39,020 (25,000 Euros)).

On February 8, 2021, the Company received a loan of $385,000 from an arm's length party. The loan was non-interest bearing and due on demand. During the year ended December 31, 2021, the entire balance of $385,000 was repaid.

20. SHARE CAPITAL

a) Common shares

On August 27, 2021, the Company completed a share consolidation on the basis of 150 existing common shares for 1 new common share. The effect of this share consolidation has been applied to all share and per share amounts in these consolidated financial statements, on a retrospective basis.

Authorized:
Unlimited number of common shares without par value.

Issued:

On February 8, 2021, the Company issued 1,003,871 common shares with a fair value of $6,023,229 pursuant to the third amending agreement with Mulberry and recorded this as a transaction cost (Note 12).

On February 11, 2021, the Company issued 7,469 common shares with a fair value of $84,032 to consultants for prior services valued at $56,021 and recorded a loss on debt settlement of $28,011 (Note 15).

On February 11, 2021, the Company issued 133,333 common shares with a fair value of $1,500,000 pursuant to a settlement agreement with Farmako GmbH to settle the floor protection derivative liability of $10,138,772 and contingent consideration of $5,000,000 resulting in a gain on settlement of $13,638,772 (Note 14).

On February 11, 2021, the Company issued 331,119 common shares with a fair value of $1,500,000 to 10026310 Manitoba Ltd. as consulting fees pursuant to the terms of a joint venture agreement among SUHM, Quality Confections Canada Ltd., Edibles, and 10026310 Manitoba Ltd. dated October 16, 2018 to settle the obligation to issue shares from prior year.

On February 11, 2021, the company issued 360,000 common shares with a fair value of $4,050,000 pursuant to the Term Sheet of the Amended Debentures to satisfy the aggregate interest of $2,700,000 owing on December 31, 2020 (Note 17). The Company recorded a loss on debt settlement of $1,350,000.

On February 22, 2021, the Company issued 9,467 common shares with a fair value of $92,301 to settle $71,001 of debt with certain creditors, resulting in a loss on debt settlement of $21,300.

On March 1, 2021, the Company issued 66,667 common shares with a fair value of $500,000 to acquire the net assets of 1274418 (Note 12).

On March 2, March 10, and March 25, 2021, the Company issued a total of 895,122 common shares with a fair value of $6,265,862 pursuant to the Term Sheet of the Amended Debentures (Note 18). The conversions settled a total of $6,000,000 of the face value of the debenture and interest of $713,424 on the Amended Debentures, resulting in a gain on debt settlement of $447,562.

On April 19, 2021, the Company issued 81,813 common shares with a fair value of $368,160 to settle debt of $1,525,500 pursuant to a mutual release agreement for past services performed. The Company settled $200,000 by payment of cash, and recorded a gain on debt settlement of $957,340.

On May 28, 2021, the Company settled debts to certain creditors of $262,500 for consulting fees and other liabilities incurred by the Company for 35,000 common shares of the Company with a fair value of $131,250. The Company recorded a gain on debt settlement of $131,250.

On May 28, 2021, the Company issued 4,383 common shares of the Company with a fair value of $16,437 for services of $32,874 owed to a consultant. The Company recorded a gain on debt settlement of $16,437.

20. SHARE CAPITAL (CONTINUED)

a) Common shares (continued)

Issued (continued):

On May 28, 2021, the Company settled debts of $146,900 for amounts owing for services to a consultant with respect to arranging the sale of AAA Heidelberg Inc. (Note 28) through the issuance of 11,587 common shares of the Company with a fair value of $43,450 to pay for $86,900 of the debt. The remaining amount of $60,000 was paid in cash. The Company recorded a gain on debt settlement of $43,450.

On July 20, 2021, the Company issued 5,359 common shares of the Company with a fair value of $16,072 for services of $40,190 owed o a consultant. The Company recorded a gain on debt settlement of $24,118.

On October 15, 2021, the Company issued 203,636 common shares with a fair value of $203,636 and cash of $22,144 to settle a debt repayment short-fall that occurred in relation to the May 28, 2021 issuance of 35,000 common shares, due to the Company's subsequent share consolidation on August 27, 2021. The Company recorded a loss on debt settlement of $225,780.

On October 21, 2021, the Company issued 189,750 common shares with a fair value of $206,828 to settle debt of $151,800 with a consultant of the Company and recorded a loss on debt settlement of $55,028.

On November 22, 2021, the Company issued 8,744 common shares with a fair value of $7,345 to settle interest payments of $7,345 with a creditor of the Company.

During the year ended December 31, 2021, the Company issued a total of 17,211 common shares with a fair value of $116,540 for services owed to consultants and a total of 539,997 common shares with a fair value of $1,052,970 to settle debts.

On January 6, 2020, the Company issued 5,333 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 392,157 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 44,444 units, consisting of a common share and a common share purchase warrant, upon conversion of the Special Warrants issued on September 27, 2019 (Note 20d). $616,666 of the value of the Special Warrants was transferred to share capital, leaving a value of $1,383,333 in the warrant reserve, using the residual value method.

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, the Company issued 511,111 common shares of the Company with a fair value of $6,168,221.

On April 7, 2020, the Company issued 24,879 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.

20. SHARE CAPITAL (CONTINUED)

a) Common shares (continued)

Issued (continued):

On April 30, 2020, the Company closed a debt settlement of 1,777,778 for $20,000,209 of debt. Each unit consists of one common share and one common 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 $15.00 per share. The $20,000,209 consisted of the settlement of convertible loans and debt owed to arm's length parties of $17,666,209 (Note 18) and $2,334,000, respectively. The fair value of the units issued at the date of debt settlement was $21,454,974, of which $14,666,667 was allocated to the shares and a value of $6,788,307 was assigned to the 1,777,778 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 17,953 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 138,000 units at a price of $11.25 per unit for gross proceeds of $1,552,500. Each unit consists of one common share and one common 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 $15.00 per share. The fair value of the shares issued was $1,449,000 and a value of $103,500 was assigned to the warrants under the residual fair value method. In connection with the private placement, the Company paid a cash finder's fee of $3,150 and 280 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%.

On June 5, 2020, the Company issued 152,020 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 77,413 units at a price of $11.25 per unit for gross proceeds of $870,900. Each unit consists of one common share and one 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 $15.00 per share. The fair value of the shares issued was $580,600 and a value of $290,300 was assigned to the warrants using the residual value method.

On August 7, 2020, the Company issued 548,226 common shares pursuant to the exchange agreements with holders of the Company's 10% convertible debentures (Note 18) 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 365,484 common shares at a fair value of $2,878,190. Further, the Company issued 182,742 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 convertible 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 26,667 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.

On August 20, 2020, the Company returned 3,616 common shares to treasury out of 6,084 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 2,467 common shares and cash of $27,500 instead.

(Expressed in Canadian Dollars)

20. SHARE CAPITAL (CONTINUED)

a) Common shares (continued)

Issued (continued):

On December 11, 2020, the Company issued 100,000 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.

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. The shares were issued on February 11, 2021.

b) Warrants outstanding

	Number of warrants	Weighted average exercise price $
At December 31, 2019	910,628	58.50
Warrants granted	2,037,916	16.50
Warrants expired	(437,425)	97.50
Special warrants exercised (Note 20d)	(44,444)	75.00
At December 31, 2020	2,466,675	16.55
Warrants expired	(137,521)	7.50
At December 31, 2021	2,329,154	17.08

During the year ended December 31, 2021, $6,229,698 was transferred from warrant reserve to accumulated deficit for warrants expired, cancelled or forfeited.

The weighted average remaining life of the warrants outstanding is 3.07 years (December 31, 2020 – 3.85 years).

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 shares 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	8,333	21.30
May 21, 2019	May 21, 2024	14,667	69.00
May 30, 2019	May 30, 2024	6,667	58.50
August 1, 2019	August 1, 2024	19,000	46.50
July 11, 2019	May 17, 2024	27,267	48.75
January 6, 2020	January 6, 2022*	667	22.50
January 30, 2020	January 30, 2022*	100,000	22.50
January 31, 2020	January 31, 2022*	6,667	15.00
April 30, 2020	April 30, 2025	633,333	11.25
Balance at December 31, 2020 and December 31, 2021		816,601	16.27

*Subsequent to the year end, 107,334 stock options expired without being exercised (Note 31).

(Expressed in Canadian Dollars)

20. SHARE CAPITAL (CONTINUED)

c) Stock options outstanding (Continued)

	Number of options	Weighted average exercise price $
At December 31, 2019	479,600	57.00
Options cancelled or expired	(403,666)	61.50
Options granted	740,667	12.00
At December 31, 2020 and December 31, 2021	816,601	16.27

The weighted average remaining life of the options outstanding is 2.82 years (December 31, 2020 - 3.82 years). All of the options granted were exercisable as at December 31, 2021 and 2020.

On January 6, 2020, the Company granted 667 stock options to consultants of the Company with an exercise price of $22.50 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, an exercise price of $22.50, a stock price of a $9.86 on the grant date, 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 100,000 stock options to consultants of the Company with an exercise price of $22.50 per option expiring January 30, 2022.These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $416,888 assuming an expected life of 2 years, an exercise price of $22.50, a stock price of $10.65 on the grant date, 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.

On January 31, 2020, the Company granted 6,667 stock options to consultants of the Company with an exercise price of $15.00 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, an exercise price of $15.00, a stock price of $13.32 on the grant date, 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 633,333 stock options to consultants of the Company with an exercise price of $11.25 per option expiring April 30, 2025. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $2,144,456 assuming an expected life of 2 years, an exercise price of $11.25, a stock price of $8.25 on the grant date, 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, an amount of $10,435,952 was transferred from option reserve to accumulated deficit for options cancelled or expired.

(Expressed in Canadian Dollars)

20. SHARE CAPITAL (CONTINUED)

d) Special Warrants

On September 27, 2019, the Company issued 44,444 special warrants of the Company at a price of $45.00 per special warrant for gross proceeds of $2,000,000. Each special warrant was convertible into units with each unit consisting of one common share of the Company and one common share purchase warrant with each warrant entitling the holder thereof to purchase one additional share of the Company at a price of $75.00 per share for a period of 36 months from the date of issuance of the warrants. The Company recorded $2,000,000 in warrant reserve for the issuance of special warrants. During the year ended December 31, 2020, all of the special warrants were exercised, resulting in the transfer 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) Escrowed shares

As at December 31, 2021, Nil (December 31, 2020 - 407,854) shares were held in escrow.

21. RELATED PARTY TRANSACTIONS

Related parties include key management personnel and others considered to have significant influence or control over the Company's operations. The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly to, or to companies controlled by, key management personnel for the years ended December 31, 2021 and 2020:

Year ended December 31, 2021	Consulting and Management Fees $	Share-based Compensation $
Consulting fees paid/accrued to a private company controlled by the former CFO	42,500	-
Consulting fees paid/accrued to a private company controlled by the CFO	36,160	-
Consulting fees paid/accrued to a private company controlled by the CEO	226,000	-
	304,660	-

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

Amounts due to and from related parties are unsecured, non-interest bearing and due on demand. At December 31, 2021, $74,641 (December 31, 2020 - $165,778) is owing to related parties for unpaid fees which are included in accounts payable and accrued liabilities. Refer also to Note 16.

(Expressed in Canadian Dollars)

22. INVENTORY

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

	December 31, 2021 $	December 31, 2020 $
Raw materials	79,891	56,482
Finished goods	19,145	54,744
	99,036	**111,226**

23. ROYALTY REVENUES

On November 27, 2020, the Company signed a Share Purchase Agreement ("SGSCC Agreement") with an arm's length third party (the "Purchaser") where the Company will sell 100% of its wholly-owned subsidiary, Sustainable Growth Strategic Capital Corp. ("SGSCC") for cash consideration of approximately $1,000,000. Pursuant to the SGSCC Agreement, the Company also entered into a Royalty Agreement with the Purchaser (the "Royalty Agreement") (see Note 27).

The Royalty Agreement states that, commencing on the date when the Purchaser acquires all of the outstanding shares of SGSCC (the "Effective Date"), the Company will receive 5% of net sales from applicable operations, including all cannabis related products. The term of the Royalty Agreement is 10 years from the Effective Date.

The Purchaser shall make royalty payments each month throughout the term of the Royalty Agreement, including a minimum non-refundable royalty of $10,000 to be paid to the Company.

During the year ended December 31, 2021, the Company received royalty revenues of $145,025 from the Purchaser.

On November 27, 2020, SGSCC signed a Contract Manufacture and Supply Agreement (the "Supply Agreement") with Farma C Group Inc. ("Farma C"). Under the Supply Agreement, Farma C intends to pay 10% of net sales earned to SGSCC for products manufactured in the facility and will have a minimum payment of $10,000 per month commencing December 1, 2021.

(Expressed in Canadian Dollars)

24. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the years ended December 31, 2021 and 2020 are as follows:

	December 31, 2021 $	December 31, 2020 $
Fair value of transfer on exercise of stock options and warrants	-	18,688,068
Shares issued for acquisitions and investments	500,000	6,168,221
Shares issued for debt settlement	1,052,970	19,978,654
Shares issued to settle floor protection liability (Note 14 and 20)	1,500,000	-
Shares issued for consulting fees (Note 20)	1,500,000	-
Shares issued for amendment of convertible debentures (Note 20)	4,050,000	-
Shares issued for conversion of debentures (Note 20)	6,265,863	-
Shares issued for transaction costs (Note 20)	6,023,229	5,882,353
Shares and options issued for services	116,540	1,568,000
Interest paid on mortgages payable	73,779	156,917
Interest paid on loans	6,204,559	5,041,217
Taxes paid	-	-

25. 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 is measured using level 1 inputs and marketable securities are measured using level 2 inputs.

For the Company’s derivative liabilities at level 3, the fair value was determined on a binomial lattice methodology considering both expected values with and without the conversion features of the derivative liabilities. The inputs used were the stock price on the valuation date, the risk-free rate, and a risk-adjusted discount rate, dividend yield, stock volatility and trading restrictions.

(Expressed in Canadian Dollars)

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

a) Classification of financial instruments (Continued)

For the Company's convertible loan receivable at level 3, the fair value of the debt component of the convertible loan receivable was calculated using the present-value of future cash flows, using the coupon interest of 10% per annum and a discount rate of 12.42%. The convertibility feature was valued using a Binomial Tree model, using the stock price of the issuer of $1.00 AUD, stock volatility of 60.8%, a risk-free-rate of 0.09%, remaining life estimated between 0.667 and 1.0 years of the convertible loan receivable, a strike price between $0.75 and $1.00, and the number of options for the convertible loan receivable of 814,500.

The Company's contingent consideration payable was valued based on the Share Purchase Agreement with AgraFlora Europe GmbH in the year ended December 31, 2020. Refer to note 14 for a discussion of the valuation.

The Company's loans receivable and mortgages payable have carrying values that approximate their fair values due to the market rates of interest attached to those financial instruments, with the exception of the Company's loan receivable from PSC (notes 5 and 11). The loan receivable from PSC approximates its fair value, as the interest free loan has been discounted at a market rate of interest for a similar loan of 15%, and is being accreted over the term using the effective interest rate method.

The following is an analysis of the Company's financial assets and liabilities measured at fair value as at December 31, 2021 and December 31, 2020:

	As at December 31, 2021		
	Level 1	**Level 2**	**Level 3**
Cash	$ 3,093,357	-	-
Marketable securities	-	$ 1,250,000	-
Convertible loan receivable (Note 15)	-	-	$ 742,194
Derivative asset (Note 15)	-	-	$ 203,157
Derivative liabilities (Note 18)	-	-	$ 28
Contingent consideration payable	-	-	-

	As at December 31, 2020		
	Level 1	**Level 2**	**Level 3**
Cash	$ 274,390	-	-
Derivative liabilities (Notes 14 and 18)	-	-	$ 10,138,800
Contingent consideration payable (Note 14)	-	-	$ 5,000,000

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 loan receivable and loans receivable. The Company's maximum exposure to credit risk associated with those financial instruments is $18,997,274, being the face value of those instruments at December 31, 2021. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Financial risk management (Continued)

Credit risk (Continued)

The Company actively manages its exposure to credit risk, reducing the amount and duration of credit exposures, through close monitoring of relevant accounts.

The loans receivable and convertible loan receivable expose the Company to credit risk and the Company has limited this exposure by securing the PSC loan with collateral; the other loan is unsecured. The PSC loan, up to $50,000,000, is secured by a General Security Agreement which PSC grants to the Company a security interest in, and assigns, mortgages, pledges and charges to and in favor of the Company, all its present and after-acquired personal property, and all proceeds thereof and therefrom, including all right, title and interest of the Company, whether now held or hereafter acquired. The convertible loan receivable is convertible into shares of the entity that issued it.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company must raise 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, 2021 and expected cash flows for the next 12 months are sufficient to fund the Company's ongoing operational needs for the coming year. 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 that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Company, 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 exposed to a change in fair value of the financial instruments. Assuming all other variables remain constant, a 1% (December 31, 2020 – 1%) change in the interest rate would result in approximately increase of $50,855 (December 31, 2020 – decrease of $148,644) in interest expense in the consolidated statement of comprehensive loss.

(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 currencies. One of the Company's subsidiary's business is primarily conducted in Euros. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar and the Euro. Assuming all other variables remain constant, a 15% (December 31, 2020 – 15%) weakening or strengthening of the Euro against the Canadian dollar would result in approximately $15,350 (December 31, 2020 - $17,682) foreign exchange loss or gain in the consolidated statement of comprehensive loss. The Company has not hedged its exposure to currency fluctuations.

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

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Financial risk management (Continued)

Market risk (Continued)

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market prices (other than those arising from interest rate or foreign currency risk). The Company's investments in marketable securities were with entities that did not have their shares listed on a stock exchange at December 31, 2021. The Company is exposed to risk of loss of those investments in the amount recorded on the consolidated statement of financial position, should those investments become listed on a stock exchange and suffer a decline in fair value, and or fail to have a market develop where those investments can be sold.

(d) 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 shareholders' equity, which totaled $19,048,620 at December 31, 2021 (December 31, 2020 - $3,728,563). 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.

26. COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2019, the Company's subsidiary entered into a lease agreement for a leased facility in Manitoba. On April 6, 2021, the Company sold its subsidiary and no longer has commitments for lease amounts subsequent to the sale (Note 28).

<u>Legal Claims</u>

The Company had legal claims related to Sanna's past termination of its former President and CEO before Sanna was acquired by the Company . The former President and CEO was 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 a strike price of $0.16) in Sanna, as well as punitive damages of $250,000. The Company believed these claims were without merit and intended to vigorously defend itself. Subsequent to the year ended December 31, 2021, the Company resolved outstanding legal claims with the former President and CEO (Note 31).

<u>Release of Claims</u>

On March 17, 2021, an arm's length consultant (the "Consultant") acknowledged receipt and sufficiency of the payment of $27,500 ("settlement amount") from the Company and/or AAA Heidelberg Inc., and the issuance of 2,467 common shares of the Company (issued in the prior year). The Consultant released the Company and AAA Heidelberg Inc. 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

(Expressed in Canadian Dollars)

27. DEPOSITS

As at December 31, 2020, the Company received a non-refundable deposit of $25,000 towards the sale of AAA Heidelberg Inc., which was included in deposits. The sale transaction closed on May 20, 2021 (Note 28) and the deposit is $Nil as at December 31, 2021.

On November 27, 2020, the Company signed the SGSCC Agreement (Note 23). As at December 31, 2020, the Company received a deposit of $297,001 deposit towards the sale. The sale transaction has not closed as at December 31, 2021.

As at December 31, 2021, the Company has deferred revenues of $Nil (December 31, 2020 - $1,890) related to European sales.

28. SALE OF SUBSIDIARIES

AAA Heidelberg Inc.

On May 20, 2021, the Company completed the transaction to sell 100% of the issued and outstanding shares of AAA Heidelberg Inc. to 2752260 Ontario Inc. ("2752260"). The Company received gross proceeds of $998,168, of which $25,000 was received in the prior year (Note 27) and recognized a loss on sale of the subsidiary of $11,878.

Upon completion of the sale on May 20, 2021, the Company derecognized AAA Heidelberg Inc. and recorded a loss on sale of subsidiary as follows:

	For the year ended December 31, 2021 $
Proceeds received	998,168
Less net assets as at May 20 2021:	
Assets	1,032,658
Liabilities	(22,612)
Total net assets	1,010,046
Loss on sale of subsidiary	**(11,878)**

SUHM Investments Inc.

On April 6, 2021, the Company and the other owners of Edibles closed the transaction to sell Edibles to OGI for consideration of $22,000,000 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 OGI branded product (which was manufactured at the Edibles facility) (received on September 9, 2021);
- $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; and
- $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.

Pursuant to the terms of the transaction, the Company received 2,186,976 shares of OGI on April 6, 2021 with a fair value of $9,054,081.

Pursuant to the terms of the transaction, the Company received 450,408 shares of OGI on September 9, 2021 with a fair value of $1,445,810 for the first earn-out milestone.

(Expressed in Canadian Dollars)

28. SALE OF SUBSIDIARIES (CONTINUED)

SUHM Investments Inc. (Continued)

During the year ended December 31, 2021, the Company sold all 2,637,384 shares of OGI for gross proceeds of $9,224,417 and recorded a loss on sale of marketable securities of $1,275,473 (Note 9).

Upon completion of the sale on April 6, 2021, the Company derecognized SUHM and recorded a gain on sale of subsidiary as follows:

	For the year ended December 31, 2021 $
Proceeds received	10,499,891
Less net assets as at April 6, 2021:	
Assets	13,574,108
Liabilities	(3,728,858)
Total net assets	9,846,250
Non-controlling interest disposed of (Note 12)	(3,468,765)
Gain on sale of subsidiary	**4,122,405**

29. SEGMENTED INFORMATION

The Company has one reportable segment, being the sale of cannabis-related products, in two geographic locations being Canada and Germany.

Selected segmented financial information is as follows:

Year ended December 31,	**2021 $**	**2020 $**
Sales		
Germany	923,844	1,463,499
Canada	4,364	28,179
Total	928,208	1,491,678

Sales are attributed to the country in which they are made. As at December 31, 2021, $299 (December 31, 2020 - $2,280) of the Company's long-term assets are located in Germany and the remaining long-term assets are located in Canada.

(Expressed in Canadian Dollars)

30. INCOME TAXES

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

	December 31, 2021 $	December 31, 2020 $
Net loss for the year	(2,413,719)	(103,203,264)
Statutory tax rate	27%	27%
Expected income tax recovery	(651,704)	(27,864,881)
Change in statutory rate, foreign tax, foreign exchange, and other	(8,508)	121,136
Items not recognized for tax purposes	(1,856,912)	18,545,702
Non-controlling interest	93,705	93,705
Prior year deferred income tax liability unrecognized	203,140	1,650,889
Other items including effects of consolidation	1,650,061	373,436
Change in unrecognized temporary differences	570,218	7,080,013
Deferred income tax recovery	-	-

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

	December 31, 2021 $	December 31, 2020 $
Exploration and evaluation assets	754,115	754,115
Non-capital losses	22,274,397	18,201,212
Net capital losses available	1,907,515	1,434,830
Share issuance costs	267,905	399,087
Property and equipment	747,097	186,953
Transaction cost	3,421,186	3,021,538
Capital lease obligation	370,876	872,304
Intangible assets	(1,445,045)	(265,000)
Investments	(3,099,133)	(2,832,690)
Derivative liability	8	2,737,476
Debt with accretion	(514,687)	(395,809)
	24,684,233	24,114,016
Deferred tax assets not recognized	(24,684,233)	(24,114,016)
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, 2021 $	Expiry date range	December 31, 2020 $	Expiry date range
Exploration and evaluation assets	2,793,017	No expiry date	2,793,017	No expiry date
Non-capital losses	67,149,701	2027 to 2041	68,784,153	2027 to 2040
Net capital losses	5,314,185	No expiry date	5,314,185	No expiry date

31. SUBSEQUENT EVENTS

Subsequent to the year end, 107,334 stock options of the Company with exercise prices ranging from $15 to $22.50 expired without being exercised.

On February 8, 2022, the Company entered into a definitive share purchase agreement (the "Purchase Agreement") with Twenty One Investment Holdings, Inc. ("Twenty One"), a privately held Delaware company, and all shareholders of Twenty One (the "Selling Shareholders") to acquire up to 34% of the issued and outstanding shares of Twenty One (the "Twenty One Acquisition"). On closing of the Twenty One Acquisition, the Company purchased 500,000 common shares of Twenty One directly from Twenty One for $1.00 per share and 500,000 common shares from the Selling Shareholders for $1.00 per Share. At closing of the transaction, the Company holds 15.38% of the outstanding common shares of Twenty One.

Pursuant to the Purchase Agreement, within six months of the initial closing, the Company will purchase additional common shares of Twenty One (the "Additional Shares") for an aggregate investment of at least $1,000,000 and up to $1,500,000 (the "Second Closing") at a price of $1.00 per share. One-half of the Additional shares will be purchased from Twenty One and the other half will be purchased from the Selling Shareholders. Immediately following to the Second Closing, the Company will hold between approximately 28.57% and 34.48% of the outstanding common shares of Twenty One.

On February 9, 2022, the Company issued 552,609 common shares with a fair value of $262,489 and paid cash of $200,000 to resolve outstanding legal claims with a former related party (Note 26).

On March 17, 2022, the Company issued 26,698 common shares with a fair value of $10,946 to settle interest payments of $27,766.

On April 5, 2022, the Company amended the convertible debentures to extend the maturity date for an additional twelve months to March 12, 2023 (Note 18). The Company satisfied the aggregate accrued interest on the convertible debentures of $2,100,000 by the issuance of 1,200,000 common shares with a fair value of $468,000.

On April 22, 2022, the Company issued 3,116,324 common shares on a debenture conversion pursuant to the Term Sheet of the Amended Debentures.