High Fusion Inc.
Business Acquisition Report

December 1, 2021

Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

High Fusion Inc. (the "**Company**")
Suite 2905, 77 King St West Toronto
M5K 1H1

1.2 Executive Officer

Robert Wilson CFO
rwilson@nutritionslhigh.com
416-666-4005

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On August 31, 2021 the Company acquired the business of OutCo Labs Inc. ("**Outco**"). Prior to the Acquisition, OutCo Labs Inc. controlled and managed cannabis cultivation, manufacturing and retailing operations in San Diego and Mendocino California. OutCo products include; extract products, vape cartridges, tinctures, topicals, capsules and flower products.

OutCo operates two licensed dispensaries located in unincorporated San Diego County California as well as a 15,000 sq. ft. vertically-integrated cultivation, extraction and product manufacturing facility situated in El Cajon, California. OutCo also owns and operates an outdoor cultivation operation and nursery in Mendocino County.

2.2 Acquisition Date

August 31, 2021

2.3 Consideration

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a "Multiple Voting Share") of the Company. Each Multiple Voting Share carries 10 votes and may,

at the option of the holder, be exchanged, for no additional consideration, for ten (10) Common Shares in the capital of the Company.

2. 2,033,333 Class A Common Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24 month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will be the date that is 60 days following the Class A VWAP Date.
3. 1,220,000 Class B Common Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will be the date that is 60 days following the Class B VWAP Date.
4. Assumption of debt of approximately US$3.25 million including:
    a. Assumption US$2.65 million mortgage over the land acquired in Mendocino California,
    b. Assumption of US$375,500 in obligations due to creditors of OutCo.(ii)
    c. Settlement of OutCo debt through the issuance of a US$220,000 convertible debenture(i) of the Company.
5. Up to US$3 million earnout based on both of OutCo's retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, Multiple Voting Shares or Common Shares at a price on when such securities become issuable.

In accordance with the terms of the acquisition of the business of OutCo, with the receipt of recreational licenses for both of OutCo's retail facilities within 18 months of closing, OutCo will receive a US$3 million earnout satisfied through the issuance of Multiple Voting Shares ("Earnout"). Based on the terms of the asset acquisition agreement, the Earnout calculation will result in the Company issuing 2,684,318 Multiple Voting Shares.

i) The convertible debenture has a term of 2 years and has an interest rate of 10% per annum. The debenture is convertible into Common Shares at any time at the option of the holder at a conversion price equal to $0.36 .
ii) With the acquisition from OutCo various Management Services Agreements with licenced entities, from OutCo, the Company also assumes other current liabilities of the licenced entities which are included in working capital.

2.4 Effect on Financial Position

There are currently no plans or proposals for material changes in the Company affairs or the affairs of the acquired business which may have a significant effect on the financial performance and financial position of the Company.

2.5 Prior Valuations

Nil

2.6 Parties to Transaction

The Acquisition is considered arms-length.

2.7 Date of Report

December 1. 2021

Item 3 Financial Statements and Other Information

Schedule A OutCo Labs Inc. Audited Financial Statements for the year ended December 31, 2020 with comparative qualified statements for the year ended December 31, 2019

Schedule B OutCo Labs Inc. Unaudited interim Financial Statements for the six-month period ended June 30, 2021 and June 30, 2020

Schedule A

OutCo Labs Inc. Audited Financial Statements for the year ended December 31, 2020 with comparative qualified statements for the year ended December 31, 2019

OUTCO LABS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended
December 31, 2020 and 2019

(Expressed in United States Dollars)

Independent Auditors' Report

To Shareholders
Outco Labs, Inc
El Cajon, California

We have audited the accompanying consolidated financial statements of Outco Labs Inc. which comprise the consolidated financial positions as of December 31, 2020 and 2019 and the related consolidated statements of loss, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a consolidated basis for our audit opinions on the consolidated financial positions as of December 31, 2020 and 2019, and the statement of loss, changes in stockholders' equity (deficit) and cash flows for the year ended December 31, 2020.

Basis for Qualified Opinion on 2019 Operations and Cash Flows
We did not observe the taking of the physical inventory on December 31, 2018 since that date was prior to our engagement as auditors for the Company, and we were unable to obtain sufficient appropriate audit evidence about inventory quantities by means of other auditing procedures. Inventory amounts as of December 31, 2018, enter into the determination of net loss and cash flows for the year ended December 31, 2019.

Disclaimer of Opinion on 2019 Operations and Cash Flows
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 2019. Accordingly, we do not express an opinion on the results of operations and cash flows for the year ended December 31, 2019.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Out Labs Inc. as of December 31, 2020 and 2019 and the results of its consolidated operations, changes in stockholders' equity (deficit), and its cash flows for the year ended December 31, 2020 in accordance with International Financial Reporting Standards.

Emphasis of a Matter – Cannabis Laws
As discussed in Note 1 to the consolidated financial statements, the Organization operates in the medical cannabis industry which is legal in the State of California but illegal under United States federal law. Our opinion is not modified with respect to this matter.

Material Uncertainty Related to Going Concern
The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 15 to the financial statements, the entity has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our Qualified Audit opinion is not modified with respect to that matter.

Bridge West LLC

Bridge West LLC

St. Paul, Minnesota
November 29, 2021

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2020 and 2019
(Expressed in United States Dollars)

	Note	December 31, 2020	December 31, 2019
ASSETS			
Current Assets			
Cash		$ 773,397	$ 268,101
Accounts Receivables - net of allowance for doubtfull accounts	*4*	218,569	659,865
Inventories	*5*	3,833,485	4,031,831
Biological Assets	*6*	250,032	218,084
		$ 5,075,483	$ 5,177,881
Long Term Assets			
Property and Equipment	*8*	$ 4,536,567	$ 4,961,999
Right of Use Assets	*9*	1,128,732	1,583,338
Deposits	*7*	27,500	31,433
		$ 5,692,799	$ 6,576,770
Total Assets		$ 10,768,282	$ 11,754,651
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term Debt	*9*	$ 580,000	$ 580,000
Accounts Payable		455,986	156,070
Accured Payroll		263,159	195,452
Payroll Taxes Payable		1,074,182	375,804
Accured Expenses		106,187	13,737
Accured Excise and sales tax		379,226	360,801
Liability for Unrecognized tax expense	*11*	2,285,000	1,615,000
Current Portion of Lease Obligations	*9*	292,543	367,106
Current Portion of Long-Term Debt	*9*	2,650,000	-
Current Portion of Convertible Debt	*9*	2,360,149	500,000
		$ 10,446,432	$ 4,163,970
Long-Term Liabilities			
Lease Obligations - net of current portion	*9*	$ 863,411	$ 1,244,910
Long-Term Debt - net of current portion	*9*	-	2,650,000
Convetible Debt	*9*	-	1,633,000
Deferred Income Tax Liability	*11*	1,605,000	1,730,000
		$ 2,468,411	$ 7,257,910
Shareholders' Equity (Deficit)			
Common Stock	*10*	$ 12,746,958	$ 12,746,958
Share Option Reserve	*10*	1,100,593	871,316
Warrants Reserve	*10*	885,881	885,881
Accumulated (Deficit)	*10*	(16,879,993)	(14,171,384)
		$ (2,146,561)	$ 332,771
Total Liabilities and Shareholders' Equity (Deficit)		$ 10,768,282	$ 11,754,651

Nature of operations (Note 1)
Assessment of contingent liabilities (Note 14)
Going concern (Note 15)
Subsequent events (Note 16)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF LOSS
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	Note	December 31, 2020	December 31, 2019
REVENUE - NET		$ 8,168,868	$ 8,608,854
Cost of goods sold		5,720,640	5,787,561
Gross Profit Before Fair Value Adjustments		$ 2,448,228	$ 2,821,293
Realized Fair Value Amounts Included in Inventory Sold	5	(1,568,394)	(1,947,298)
Unrealized Fair Value Gain on Growth of Biological Assets	6	1,554,678	1,386,778
Gross Profit		$ 2,434,512	$ 2,260,773
EXPENSES			
Selling, general and administrative expenses		3,717,535	4,790,247
Share Based Compensation	9	229,277	369,599
Total Expenses		$ 3,946,812	$ 5,159,846
OTHER INCOME (EXPENSE)			
Loss on Lease Termination		$ (3,827)	$ -
Loss on Sale of Equipment		-	(40,000)
Vendor Settlement		-	(635,000)
Interest Expense		(647,482)	(682,574)
Total Other Income (Expense)		$ (651,309)	$ (1,357,574)
LOSS BEFORE INCOME TAXES		$ (2,163,609)	$ (4,256,647)
PROVISION FOR INCOME TAXES EXPNESE (BENEFIT)	11	$ 545,000	$ 435,000
NET LOSS		$ (2,708,609)	$ (4,691,647)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	Note	Number of Common Stock Shares	Amount	Share Options Reserve	Warrants Reserve	Accumulated (Deficit)	Total Stockholders' Equity (Deficit)
Balance, December 31, 2018		138,782,330	$ 9,398,056	$ 501,717	$ 885,881	$ (9,479,737)	$ 1,305,917
Issurance of common stock	10	2,818,995	890,550	-	-	-	890,550
Issuance of common stock on conversion of debt	10	147,059	50,000	-	-	-	50,000
Isurance of common stock for payment of liabilities	10	5,772,383	1,823,352	-	-	-	1,823,352
Isurance of common stock for vendor settlement	10	1,720,588	585,000	-	-	-	585,000
Stock base compensation	10	-	-	369,599	-	-	369,599
Net Loss		-	-	-	-	(4,691,647)	(4,691,647)
Balance, December 31, 2019		149,241,355	$ 12,746,958	$ 871,316	$ 885,881	$(14,171,384)	$ 332,771
Stock base compensation		-	-	229,277	-	-	229,277
Net Loss		-	-	-	-	(2,708,609)	(2,708,609)
Balance,December 31, 2020		149,241,355	$ 12,746,958	$ 1,100,593	$ 885,881	$(16,879,993)	$ (2,146,561)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	Note	December 31, 2020	December 31, 2019
Cash Flows from Operating Activities:			
Net Loss		$ (2,708,609)	$ (4,691,647)
Items Not Affecting Cash:			
Depreciation		995,998	1,007,174
Share Based Compensation	9	229,277	369,599
Gain on Sale of Equipment		-	40,000
Loss on Lease Termination		3,827	-
Amortization of Discount		227,149	217,684
Issuacne of Common Stock for Services		-	252,444
Issuacne of Common Stock for Settlement with Vendor		-	635,000
Bad debt reserve		(30,000)	20,000
Realized Fair Value Amounts Included in Inventory Sold	5	1,568,394	1,947,298
Unrealized Fair Value Gain on Growth of Biological Assets	6	(1,554,678)	(1,386,778)
Changes in Non-cash Working Capital:			
Accounts Receivables		471,296	(576,945)
Receivable		-	-
Inventory and Biological Assets	5,6	152,682	(108,809)
Deposits		-	16,067
Accounts Payable		299,916	19,104
Accured Payroll		67,707	14,062
Liability for Unrecognized tax expense		670,000	595,000
Deferred Income Tax Liability		(125,000)	(160,000)
Payroll Tax Payable		698,378	(578,090)
Accured Expenses		92,450	(1,016,262)
Accured Excise and sales tax		18,425	8,789
Cash Flows Provided (Used) in Operating Activities		$ 1,077,212	$ (3,376,310)
Cash Flows from Investing Activities:			
Purchase of Property and Equipment	7	$ (68,057)	$ (884,934)
Proceeds on Sale of Equipment		-	393,653
Receivable Collected related to prior year Sale of Joint Venture	7	-	3,459,944
Cash Flows Provided (Used) by Investing Activities		$ (68,057)	$ 2,968,663
Cash Flows from Financing Activities:			
Net Payment on Short-Term Debt	10	$ -	$ (650,000)
Proceeds from Issuance of Convertible Debt	9	-	500,000
Payment for Lease Termination	10	(5,000)	-
Principal Payments of Lease Obligation	10	(498,859)	(492,188)
Proceeds from Issuance of Common Stock	10	-	890,550
Cash Flows Provided (Used) in Financing Activities		$ (503,859)	$ 248,362
Net Change in Cash		505,296	(159,285)
Cash, Beginning of the Year		268,101	427,386
Cash, End of the Year		$ 773,397	$ 268,101

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

NOTE 1: NATURE OF OPERATIONS

Outco Labs, Inc. (the "Company") headquarters is based out of El Cajon, California and manages its wholly owned subsidiaries. The Company was organized on February 4, 2015 as a limited liability company. Outco Labs, Inc. with all it subsidiaries operates a medical cannabis cultivation, production, and dispensary facilities in the State of California.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), the United States Federal Controlled Substances Act classifies all "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Recently some federal officials have attempted to distinguish between medical cannabis use as necessary, but recreational use as "still a violation of federal law." At the present time, the distinction between "medical marijuana" and "recreational marijuana" does not exist under U.S. federal law, if one is illegal, both are illegal.

NOTE 2: BASIS OF PRESENTATION

Statement of compliance
These consolidated financial statements 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").

Basis of measurement
These consolidated financial statements have been prepared in U.S. dollars on a historical cost basis except biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Functional and presentation currency
These consolidated financial statements are presented in United States dollars. The functional currency of the Company is the United States dollar.

Basis of consolidation

The consolidated financial statements include the financial results of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. These consolidated financial statements include the accounts of the Company and its direct subsidiaries over which the Company has direct control. All intercompany balances and transactions are eliminated upon consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling ("NCI") interests are measured initially at their proportionate share of the acquired entity's identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in the profit and loss statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

NOTE 2: BASIS OF PRESENTATION (Continued)

Basis of consolidation

The following are the Company's significant consolidated entities and the ownership interest in each that are included in these consolidated financial statements:

Name of Subsidiary	State, Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
OutCo Labs, Inc.	California, USA	100%	USD	Holding Company and Payroll Processor
Wings MSC-1	California, USA	100%	USD	Management and Real Estate Services
Outco Mendocino-CD LLC	California, USA	100%	USD	License Transfer Agreement
SC Botanicals LLC	California, USA	100%	USD	CBD production
East Hills Properties LLC	California, USA	100%	USD	Real Estate
Downwind 27 Inc. (1)	California, USA	0%	USD	Cannabis cultivation, production and dispensary
SD Natural Inc. (2)	California, USA	0%	USD	Cannabis dispensary

(1) Downwind 27 Inc. is a non-profit entity that is controlled by the Company through a management services agreement between the two entities.
(2) SD Natural Inc. is a non-profit entity that is controlled by the Company through a management services agreement between the two entities.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented.

Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Estimated useful lives, impairment considerations and amortization of intangible assets

Impairment of definite-lived assets is influenced by judgement in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value. See “Note 6 – Biological Assets” for further information on estimates used in determining the fair value of biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Leases
The classification of a lease as an operating lease or a finance lease depends on certain estimates and judgments to determine whether substantially all the risk and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. The Corporation uses its best estimates and judgments, based on historical experience and the terms of the agreement, when estimating the economic life and residual value of a leased asset and determining the implicit interest rate when calculating minimum lease payments. An asset is recorded together with the related capital lease obligation. The assets under finance leases are amortized over their estimated useful lives at the same rate as other similar assets.

Impairment of long-lived assets
Long-lived assets, including property and equipment, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Income taxes
The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management’s assessment of the Company’s ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of stock options
Determining the fair value of stock options requires judgments related to the choice of a pricing model, the estimation of volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized in the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

Classification
The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) fair value through profit or loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVOCI"); and (iii) amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. Financial assets and financial liabilities with embedded derivatives are considered in their entirety and classified at FVTPL. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For financial assets and financial liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income.
The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement
All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost subsequent to initial recognition. All other financial assets including equity investments are measured at their fair values subsequent to initial recognition, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment
The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. Evidence of increased credit risk may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macroeconomic factors in the measurement of the expected credit losses associated with its financial assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

The following table provides the financial instrument classifications for the Company's financial assets and liabilities:

Financial Instrument	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	Amortized Costs	Amortized Costs
Accounts Receivable	Amortized Costs	Amortized Costs
Accounts payable and accrued liabilities	Amortized Costs	Amortized Costs
Debt payable	Amortized Costs	Amortized Costs

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets may be 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. The 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 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 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 for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue

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

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

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

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

Cash and Cash Equivalents

Cash and cash equivalents included cash held at dispensaries and cash deposits in financial institutions. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, cash and cash equivalents may be in excess of FDIC insurance limits. As at December 31, 2020 and 2019, the Company held no cash equivalents.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and if the Company has the right to direct the use of the asset.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a lessee, the Company recognizes a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term,
or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise of: fixed payments; variable lease payments that depend on an index or a rate; amounts expected to be payable under any residual value guarantee, and the exercise price under any purchase option that the Company would be reasonably certain to exercise; lease payments in any optional renewal period if we are reasonably certain to exercise an extension option; and penalties for any early termination of a lease unless we are reasonably certain not to terminate early.

Inventories

Inventories of harvested finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

Biological assets

Expenditures incurred on biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell in accordance with IAS 41 – Agriculture. The unrealized gain or loss arising on initial recognition of such biological assets at fair value less costs to sell and the change in fair value less costs to sell of biological assets are included in the consolidated statement of profits and losses for the period in which it arises. While the Company’s biological assets are within the scope of IAS 41, the direct and indirect costs of production are determined using an approach similar to the recognition criteria within the scope of IAS 2 – Inventories. These production costs incurred during the growing process are capitalized and included in the fair value of biological assets. These direct and indirect costs include but are not limited to material, labor, supplies, depreciation expense on production equipment, utilities, and facilities costs associated with cultivation. Capitalized costs are subsequently recorded within the line item “cost of goods sold” in the consolidated statement of profits and losses in the period that the related product is sold.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following terms and methods:

Leasehold Improvements	Straight-line	7-9 years
Furniture & Equipment	Straight-line	7-10 years
Land	Not depreciated	

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

The assets residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate. Leasehold and land improvements are amortized over term of the lease. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss in the year the asset is derecognized.

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset's fair values less costs of disposal and its value in use. Fair Value is determined in accordance with IFRS 13, "Fair Value Measurement". Costs of disposal are the direct added costs only. Value in use is assessed based on the estimated future cash flows, 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. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of loss

All other costs, such as repairs and maintenance, are charged to the consolidated statements of loss during the period in which they are incurred.

Income taxes

Current Tax
Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax
Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As at December 31, 2019, the Company assessed for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measure at the fair value of goods received. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to capital stock.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options and warrants 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 number of stock options that are expected to vest.

New or amended standards adopted effective January 1, 2019

The Company has adopted the following new IFRS standard for period beginning on January 1, 2019.

IFRS 16 Leases ("IFRS 16")

On January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which replaces IAS 17, Leases (“IAS 17”) and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding 12 months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17. The Company adopted the standard on July 1, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, and no restatement of prior comparative periods.
The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- i) recognition exemption of short-term leases.
- ii) recognition exemption of low value leases;
- iii) application of a single discount rate to a portfolio of leases with similar characteristics on transition.
- iv) exclusion of initial direct costs from the measurement of the right-of-use assets upon transition.
- v) application of hindsight in determining the applicable lease term at the date of transition; and
- vi) election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

IFRIC 23, Uncertainty over income tax treatments (“IFRIC 23”)

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of.

(Expressed in United States Dollars)

NOTE 4: RECEIVABLES

	December 31, 2020	December 31, 2019
Trade accounts receivable	$ 248,569	$ 709,865
Allowance for doubtful accounts	(30,000)	(50,000)
Accounts Receivables - net of allowance for doubtful accounts	$ 218,569	$ 659,865

An allowance for doubtful accounts is recorded for any amounts deemed uncollectible and amounts are based on the expected credit loss. Management has determined the allowance as of December 31, 2020 and 2019.

NOTE 5: INVENTORY

Inventory is comprised of:

	December 31, 2020	December 31, 2019
Work in process - yield and oil	3,151,404	2,924,889
Finished goods	682,081	1,106,942
Inventories	$ 3,833,485	$ 4,031,831

Cost of inventory is recognized as an expense and included in cost of goods sold. Included in costs of goods sold for the year ended December 31, 2020, is $1,568,394 (2019 - $1,947,298) from changes in fair value of biological assets.

NOTE 6: BIOLOGICAL ASSETS

Biological assets are comprised of:

Balance as at December 31, 2018	$ 197,709
Fair value adjustment on growth of biological assets	1,386,778
Production costs capitalized	1,267,483
Transferred to inventory upon harvest	(2,633,886)
Balance as at December 31, 2019	$ 218,084
Fair value adjustment on growth of biological assets	1,554,678
Production costs capitalized	1,139,934
Transferred to inventory upon harvest	(2,662,664)
Balance at December 31, 20120	$ 250,032

As at December 31, 2020, the carrying value of biological assets consisted entirely of live cannabis plants.

(Expressed in United States Dollars)

NOTE 6: BIOLOGICAL ASSETS (*Continued)*

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram less any additional costs to be incurred to transform the yield into a sellable product. Percentage of cost completion is applied to biological assets growing as of the measurement date.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price – calculated as the annual historical selling price for flower yield in all finished goods sold by the Company, which is expected to approximate future selling prices
- Percentage of completion – represents the percentage of total expected costs incurred from growing biological assets as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested
- Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labor related to lab extraction and packaging
-

The following table quantifies each significant unobservable input, and also provides the impact of a 10% increase/decrease in each input would have on the fair value of biological assets.

	December 31, 2020	December 31, 2019	December 31, 2020 Effect of a 10% Change	December 31, 2019 Effect of a 10% Change
Selling price	$ 3.47	$ 3.53	$ 83,000	$ 37,000
Stage of Growth	43%	46%	$ 24,000	$ 23,000
Yield by plant (grams)	78	81	$ 22,000	$ 24,000
Wastage	4%	3%	$ 5,000	$ 3,000
Post-harvest costs	$ 0.32	$ 0.33	$ 9,000	$ 4,000

Biological assets were on average at a less advanced stage of growth as at December 31, 2020 (43% complete) compared to December 31, 2019 (46% complete). As a plant matures the likelihood of wastage declines. As a result, wastage estimates were lower in 2019. The Company's estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assts in future periods. As of December 31, 2020, and 2019, it is expected that the Company's biological assets will yield approximately 166,438 grams and 148,775 grams, respectively.

NOTE 7: DEPOSITS

Non-Current deposits consist of security deposits of $27,500 as at December 31, 2020 ($31,433 as at December 31, 2019).

(Expressed in United States Dollars)

NOTE 8: PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

	Land	Equipment	Leasehold Improvements	Furniture & Fixtures	Total
Gross carrying amount					
Balance December 31, 2018	$ 2,695,000	$ 1,387,769	$ 1,752,324	$ 12,447	$ 5,847,540
Additions	40,000	640,471	195,506	8,957	884,934
Disposals	-	(433,653)	-	-	(433,653)
Balance December 31, 2019	$ 2,735,000	$ 1,594,587	$ 1,947,830	$ 21,404	$ 6,298,821
Additions	-	68,057	-	-	68,057
Disposals	-	-	-	-	-
Balance December 31, 2020	$ 2,735,000	$ 1,662,644	$ 1,947,830	$ 21,404	$ 6,366,878
Depreciation					
Balance December 31, 2018	$ -	$ 199,260	$ 648,050	$ 3,204	$ 850,514
Additions	-	225,862	257,708	2,738	486,308
Disposals	-	-	-	-	-
Balance December 31, 2019	$ -	$ 425,122	$ 905,758	$ 5,942	$ 1,336,822
Additions	-	232,723	257,708	3,058	493,489
Disposals	-	-	-	-	-
Balance December 31, 2020	$ -	$ 657,845	$ 1,163,466	$ 9,000	$ 1,830,311
Carrying Amount December 31, 2019	$ 2,735,000	$ 1,169,465	$ 1,042,072	$ 15,462	$ 4,961,999
Carrying Amount December 31, 2020	$ 2,735,000	$ 1,004,799	$ 784,364	$ 12,404	$ 4,536,567

There were no impairments recorded against property and equipment during the years ended December 31, 2020 and 2019.

(Expressed in United States Dollars)

NOTE 8: PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS (Continued)

The Company initially adopted IFRS 16 effective January 1, 2019, whereby the amount recognized as a right-of-use asset was equal to the present value of the future lease payments due under outstanding leases at January 1, 2019. The right- of-use assets are being depreciated on a straight-line basis over the remaining term of the underlying lease as there are no options to acquire or otherwise transfer ownership of the underlying asset to the Company at the end of the lease term. Right of use assets consist of the following:

	December 31, 2020	December 31, 2019
Beginning Balance	$ 1,583,338	$ -
Adoption of IFRS 16	-	1,777,526
Additions	-	135,387
Termination of Lease	(105,230)	-
Depreciation	(349,376)	(329,575)
Ending balance	$ 1,128,732	$ 1,583,338

During the years ended December 31, 2020, $449,382 (2019 - $424,915) in depreciation was included in the statement of loss and $393,483 (2019 - $390,968) was capitalized to biological assets relating to property and equipment and right of use assets.

NOTE 9: DEBT AND LEASE OBLICATIONS

The details of the Company's loans, leases and notes payable are as follows:

Short-term debt

	December 31, 2020	December 31, 2019
Beginning Balance	$ 580,000	$ 1,180,000
Additions	-	50,000
Payments	-	(650,000)
Ending balance	$ 580,000	$ 580,000

Loan

On June 14, 2017, the Company entered in a loan for total proceeds of $250,000 ("Loan"). The Loan is unsecured, bears interest at a rate of 14.00% per annum and required monthly payments. The note was due and payable as of October 1, 2019. The balance due was $250,000 as of December 31, 2020 and 2019, respectively.

Subsequent to the year end and as part of the sale of substantially all of the Company's assets the Loan was assigned to a related person and subsequently settled with a portion of the special warrant consideration described in Note 16 1.

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Promissory Note
During the year ended December 31, 2017, the Company signed a promissory note payable in the amount of $1,500,000 (“Promissory Note”). The Promissory Note required interest payments of $30,000 if the principle balance on the note was greater than $750,000 or $15,000 if the principle balance on the Promissory Note was less than $750,000. The Promissory Note is secured by a Deed of Trust against real property located in El Cajon, CA, subordinated only to an existing mortgage in the amount of $1 million. The land and promissory note was sold but still remaining secured by the Company’s personal property, furniture, fixtures equipment, inventory, and accounts receivable.

On March 7, 2019 the Company entered into a settlement agreement with the lender whereby the Company repaid $650,000 of the Promissory Note on March 19, 2019 with the remaining $280,000 repayable by way of specific principal and interest payments until March 2020 with the remaining balance due in full 12 months with interest at 12% per annum. The Company failed to make the principal and interest payments and was in default under the settlement agreement with a balance due of $280,000 as of December 31, 2020 and 2019, respectively.

Subsequent to the year end and as part of the sale of substantially all of the Company’s assets (see Note 16 Subsequent Event) all the obligations under the Promissory Note and settlement agreement were settled by way of a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release, the lender has agreed to release of security upon the full repayment on or before March 1, 2022 and with the payment of $2,800 per month.

Promissory Note - Vendor
During the year ended December 31, 2019, the Company issued a promissory note payable in the amount of $50,000. The promissory note bears interest at 0% and has a maturity date of March 31, 2020. In the event of default, the Company shall pay a monthly late fee of $1,500 a month. The balance due was $50,000 as of December 31, 2020 and 2019, respectively.

On September 1, 2021, the obligations under the Convertible Note were assumed by the purchaser as part of the sale of substantially all of the Company’s assets all. (see Note 16 Subsequent Event 4.b)

Long-term debt

	December 31, 2020	December 31, 2019
Beginning Balance	$ 2,650,000	$ 2,650,000
Additions	-	-
Payments	-	-
Ending balance	$ 2,650,000	$ 2,650,000
Less: Current portion	(2,650,000)	-
Long-term debt	$ -	$ 2,650,000

Installment Note
During the year ended December 31, 2018, the Company entered into an assignment agreement and assumed an Installment Note for real estate located in Willits, CA (“Installment Note”). The Installment Note is in the amount of $2,650,000. The Installment Note bears interest at a rate of 4.53% per annum during 2019 and 6.8% per annum during 2019 required monthly payments until January 1, 2021 when the principal balance is due in full. The Installment Note is secured by a Deed of Trust located in Willits, CA. The balance due was 2,650,000 as of December 31, 2020 and 2019.

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

On January 1, 2021, the Company and lender entered into an extension agreement for the Installment Note. The extension agreement requires monthly interest payments at 6.8% per annum until January 1, 2022 when the Installment Note becomes due in full. Also, the Company has a right to exercise a one-year option to extend the Installment Note and all agreements until January 1, 2023 in exchange for $100,000. The amount of this extension option will be applied to the principal balance.

Subsequent to the year end and as part of the sale of substantially all of the Company's assets all the obligations under the Installment Note were settled with the Company and assumed by the purchaser. (see Note 16 Subsequent Event 4.a)

Convertible Debt

	December 31, 2020	December 31, 2019
Beginning Balance	$ 2,369,614	$ 50,000
Additions	-	2,369,614
Note converted into Common Stock	-	(50,000)
Ending balance	$ 2,369,614	$ 2,369,614
Unamortized debt discount	(9,465)	(236,614)
Ending balance	$ 2,360,149	$ 2,133,000
Less: Current portion	(2,360,149)	(500,000)
Long-term debt	$ -	$ 1,633,000

Convertible Note

During the year ended December 31, 2018, the Company issued a convertible promissory note payable in the total amount of $50,000 ("Convertible Note"). The Convertible Note bears interest at 0% per annum. The Convertible Note was exchanged for 147,059 shares of common stock during the year ended December 31, 2019.

Convertible Promissory Note

During the year ended December 31, 2019, the Company signed a convertible promissory note payable in the amount $500,000 ("Convertible Promissory Note"). The Convertible Promissory Note bears interest at 12% per annum with interest payments required monthly. The note was due and payable on October 8, 2020. The note is secured by specific piece of equipment and inventory. All the unpaid principal balance of this note maybe converted at the note holders' option or will automatically convert if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions, of all or substantially all of the company's assets. The balance due was $500,000 as of December 31, 2020 and 2019, respectively.

Subsequent to the year end and as part of the sale of substantially all of the Company's assets all the obligations under the Convertible Promissory Note were settled under a General Release dated August 31, 2021 whereby the holder of the Convertible Promissory Note was issued a) with a portion of the special warrant consideration described in Note 16 Subsequent Event with the issuance of a $220,000 convertible debenture of the purchaser. (see Note 16 Subsequent Event 4.c)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Convertible Promissory Notes – Related Party

During the year ended December 31, 2019, the Company signed a convertible promissory note payable in the amount $600,000 to a company that is owned by two of the Company's major shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2018. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $600,000 as of December 31, 2020 and 2019, respectively.

During the year ended December 31, 2019, the Company signed a convertible promissory note payable in the amount $634,807 to one of the Company's major shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2018. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $634,807 as of December 31, 2020 and 2019, respectively.

During the year ended December 31, 2019, the Company signed a convertible promissory note payable in the amount $634,807 to one of the Company's offices and major shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2018. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $634,807 as of December 31, 2020 and 2019, respectively.

On March 5, 2021 the Company converted all the aforementioned Convertible Promissory Notes related party into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Lease obligations

	December 31, 2020	December 31, 2019
Beginning Balance	$ 1,612,016	$ -
Adoption of IFRS 16	-	1,777,526
Additions	-	135,387
Termination of Lease	(110,336)	-
Interest	153,133	191,291
Interest Payments	(153,133)	(191,291)
Principal Payments	(345,726)	(300,897)
Ending balance	$ 1,155,954	$ 1,612,016
Less: Current portion	(292,543)	(367,106)
Long-term lease obligations	$ 863,411	$ 1,244,910

Future minimum lease payments (principal and interest) on the leases is as follows:

	December 31, 2020
2021	$ 408,138
2022	416,301
2023	424,627
2024	178,385
2025	-
Thereafter	-
Minimum payments under lease	$ 1,427,451
Effect of discounting	(271,497)
Present value of minimum lease payments	$ 1,155,954
Less: Current portion	(292,543)
Lease obligations	$ 863,411

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Components of lease expense are listed below for the year ended December 31:

	Statement of Operations		December 31, 2020		December 31, 2020
Operating leases	Cost of sales and SG&A	$	502,509	$	520,866
Variable lease costs	Cost of sales and SG&A		21,824		18,740
		$	524,333	$	539,606

Other information related to the Company's leases as follows:	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	424296
Lease assets obtained in exchange for new lease liabilities	
Operating Leases	135387
Weighted average remaining lease term (in years):	
Operating Leases	3.4
Weighted average discount rate:	
Operating Leases	0.1

NOTE 10: SHAREHOLDERS' EQUITY (DEFICIT)

Common Stock
As of December 31, 2020, the Company had authorized 170,000,000 shares with no par value. At December 31, 2020 and 2019 the Company has 149,241,355 and 138,782,330, respectively, shares issued and outstanding. The holders of common stock are entitled to one vote per share at all stockholder meetings.

Transactions during the year ended December 31, 2019:
The Company issued 2,818,995 of common stock for $890,550.

The note holder of a convertible note converted the note with a face value of $50,000 into 147,059 shares of common stock.

The Company paid certain liabilities in the amount of $1,823,352 by issuing 5,772,383 shares of common stock.

The Company entered into a settlement agreement with a vendor. The Company agreed to terminate its contract with the vendor for total settlement consideration of $585,000 by issuing 1,720,588 shares of common stock valued and issued a Promissory Note with a face value $50,000. Therefore, the Company recognized a vendor settlement expense of $635,000.

(Expressed in United States Dollars)

NOTE 10: SHAREHOLDERS' EQUITY (DEFICIT) (Continued)

Stock Options

The 2015 Equity Inventive Plan provided for the grant of incentive stock options, non-statutory stock, stock appreciation rights, restricted stock awards, restricted stock unit awards and other stock awards. Under the terms of the plan, a total of 13,200,000 common shares are reserved for issue. The exercise price for incentive stock options issued under the plan will be set by the board of directors but will not be less 100% of the fair market value of the Company's shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board. A ten percent stockholder will not be granted an incentive stock option unless the exercise price of such option is at least 110% of the fair market value on the date of grant and the option is not exercisable after the expiration of five years from the grant.

Reconciliation of Outstanding Stock Options

	Number of Options 2020		Weighted average exercise price 2020	Number of Options 2019		Weighted average exercise price 2019
Outstanding at January 1	3,720,000	$	0.25	6,775,000	$	0.25
Forfeited during the year	(2,530,000)		0.28	(3,055,000)		0.23
Exercised during the year	-		-	-		-
Granted during the year	-		-	-		-
Outstanding at December 31	1,190,000	$	0.25	3,720,000	$	0.27
Options exercisable at December 31	994,687	$	0.25	1,855,104	$	0.27

During the year ended December 31, 2020 and 2019, the Company recognized $229,277 and $369,599, respectively, in share-based compensation. There were no options issued during the years ended December 31, 2020 and 2019.

Warrants

Each warrant entitles the holder to purchase one common stock share. A summary of the status of the warrants outstanding is as follows:

	Number of warrants 2020		Weighted average exercise price 2020	Number of warrants 2019		Weighted average exercise price 2019
Outstanding at January 1	3,000,000	$	0.01	3,000,000	$	0.01
Forfeited during the year	-		-	-		-
Exercised during the year	-		-	-		-
Granted during the year	-		-	-		-
Outstanding at December 31	3,000,000	$	0.01	3,000,000	$	0.01
Options exercisable at December 31	3,000,000	$	0.01	3,000,000	$	0.01

In June 2021, the warrant holder exercised the warrants for a $30,000 payment in exchange for 3 million shares of common stock of the Company.

(Expressed in United States Dollars)

NOTE 11: INCOME TAXES

The tax provision amounts recognized in the consolidated statements of loss were as follows:

		December 31, 2020		December 31, 2019
Current				
Federal	$	-	$	-
State		-		-
Total Current	$	-	$	-
Deferred				
Federal	$	(90,000)	$	(110,000)
State		(170,000)		(350,000)
Valuation Allowance Increase		135,000		300,000
Total Deferred	$	(125,000)	$	(160,000)
Net Tax Expense related to an increase (decrease) in Unrecognized Tax Expense				
Current Year Uncertain Tax Expense	$	845,000	$	745,000
Prior Year Uncertain Tax Expense that Expired		(175,000)		(150,000)
Net Tax Expense related to an increase (decrease) Unrecognized Tax Expense	$	670,000	$	595,000
Provision of Income Tax Expense (Benefit)	$	545,000	$	435,000

The Company operates in the legal cannabis industry in the State of California but is subject to Section 280E of the Internal Revenue Code ("IRC"). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service ("IRS") has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

The IRS has invoked Section 280E in tax audits against various state-legal cannabis businesses in the U.S. Although the IRS has issued a clarification allowing the deduction of certain expenses, the scope of this allowance is interpreted very narrowly, resulting in the non-deductibility of certain operating and general administrative costs. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to the cannabis industry. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry.

(Expressed in United States Dollars)

NOTE 11: INCOME TAXES (Continued)

The following table summarizes the components of provision of income tax expense (benefit):

	December 31, 2020	Decemebr 31, 2019
Deferred Tax Assets		
Allowance for doubtful accounts	$ 2,000	$ 4,000
Right of Use Leases	2,000	3,000
Net Operating Loss Carryforward	450,000	300,000
Deferred Tax Liabilities		
Biological Assets	(545,000)	(549,000)
Propety Plant and Equipment	(1,064,000)	(1,188,000)
Valuation Allowance	(450,000)	(300,000)
Net Deferred Tax (Liabilities) Assets	$ (1,605,000)	$ (1,730,000)

The following table summarizes the Company's Liability for Unrecognized Expense:

	December 31, 2020	December 31, 2019
Beginning Balance	$ 1,615,000	$ 1,020,000
Net Tax Expense related to an increase (decrease) in Unrecognized Tax Expense		
Current Year Uncertain Tax Expense	$ 845,000	$ 745,000
Prior Year Uncertain Tax Expense that Expired	(175,000)	(150,000)
Ending balance	$ 2,285,000	$ 1,615,000

The Company records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions, especially considering the complex tax laws and regulations for federal purposes The Company has recorded tax benefits for those tax positions where it is more likely than not that a tax benefit will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will result, no tax benefit has been recognized in the consolidated financial statements. The Company files tax returns as prescribed by the tax laws. In the normal course of business, the Company is subject to examination by federal, and the State of California. As of December 31, 2020, the Company has not accrued interest and penalties for its uncertain tax positions. The Company records interest and penalties related to income tax amounts as a component of income tax expense when incurred.

(Expressed in United States Dollars)

NOTE 12: RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Company entered a convertible note with one of the Company's major shareholder/officer in the amount of $634,807. See Note 10 Debt and Lease Obligations – Convertible Debt for additional information.

During the year ended December 31, 2019, the Company entered a convertible note with one of the Company's major shareholder in the amount of $634,807. See Note 10 Debt and Lease Obligations – Convertible Debt for additional information.

During the year the Company entered a convertible promissory note payable in the amount $600,000 to a company that is owned by two of the Company's major shareholders. See Note 10 Debt and Lease Obligations – Convertible Debt for additional information.

On March 5, 2021 the Company converted all the aforementioned convertible promissory notes into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

NOTE 13: SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash activities were as follows for during the years ended December 31:

	December 31, 2020	December 31, 2019
Biological assets transferred to inventory	$ 1,502,667	$ 1,401,658
Equipment acquired through a lease	-	135,387
Issuance of note for vendor settlement	-	50,000
Issuance of common stock for convertiable note	-	50,000
Issuance of common stock for payment of liablitlies	-	1,688,352
Issuance of common stock for vendor settlement	-	720,000

Cash paid for interest and income taxes were as follows for the years ended:

	December 31, 2020	December 31, 2019
Interest	$ 420,333	$ 464,890
Income Taxes	$ -	$ -

NOTE 14: ASSESSMENT OF CONTINGENT LIABILITIES

(a) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

NOTE 14: ASSESSMENT OF CONTINGENT LIABILITIES (Continued)

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulation as of December 31, 2020, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

NOTE 15: GOING CONCERN

The financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and, or member and shareholder capital contributions to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 16: SUBSEQUENT EVENTS

Sale of Substantially All Assets

On August 31, 2021 the Company sold substantially all the assets including control and management of all licensed entities, intellectual property, property, and equipment.

Total consideration was as follows (the number of securities and share prices set forth below reflect the 20 for 1 share consolidation which became effective on September 2, 2021. As part of the share consolidation, the Common Shares referenced below, will become Subordinated Voting Shares):

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a "Multiple Voting Share") of the Company. Each Multiple Voting Share carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Common Shares in the capital of the Company.
2. 2,033,333 Class A Common Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will bet the date that is 60 days following the Class A VWAP Date.

NOTE 16: SUBSEQUENT EVENTS (Continued)

Sale of Substantially All Assets (continued)

3. 1,220,000 Class B Common Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will bet the date that is 60 days following the Class B VWAP Date.
4. Assumption of debt of $3.25 million including:
    a. Assumption $2.65 million mortgage over the land acquired in Mendocino California,
    b. Assumption of $375,500 in obligations due to creditors of the Company. The buyer assumed other current liabilities of its licensed entities which are included in working capital.
    c. Settlement of certain debt through the issuance of a $220,000 convertible debenture of the buyer. The convertible debenture has a term of two years and has an interest rate of 10%
5. Up to $3 million earnout based on both retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, Multiple Voting Shares or Common Shares at a price on when such securities become issuable.

Conversion of Convertible Debt

On March 5, 2021 the Company converted three convertible notes into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

Exercise of Warrants

In June 2021, the warrant holder exercised the warrants for a $30,000 payment in exchange for 3 million shares of common stock of the Company.

Earnout Satisfied

On November 24, 2021 the Company satisfied the Earnout condition under the sale of assets with receipt of recreational licenses. In accordance with the terms of the Acquisition, with the receipt of recreational licenses for both of the Company's retail facilities within 18 months of closing, the Company will receive a $3 million earnout satisfied through the issuance of Multiple Voting Shares. Based on the terms of the asset acquisition agreement, the Earnout calculation will result in the buyer issuing to the Company 2,684,183 Multiple Voting Shares.

Schedule B

OutCo Labs Inc. Unaudited interim Financial Statements for the six-month period ended June 30, 2021 and June 30, 2020

OUTCO LABS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended
June 30, 2021 and 2020

(Expressed in United States Dollars)

Independent Accountants' Review Report

To Shareholders
Outco Labs, Inc
El Cajon, California

We have reviewed the accompanying consolidated financial statements of Outco Labs, Inc., which comprised of the consolidated financial positions as of June 30, 2021 and 2020, and the related consolidated statements of loss and changes in stockholders' equity (deficit), and cash flows for the six months then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's consolidated financial data and making inquiries of management. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility
Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with International Financial Reporting Standards. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion
Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with International Financial Reporting Standards.

Emphasis of a Matter – Cannabis Laws

As discussed in Note 1 to the consolidated financial statements, the Organization operates in the medical cannabis industry which is legal in the State of California but illegal under United States federal law. Our opinion is not modified with respect to this matter.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 15 to the consolidated financial statements, the entity has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Bridge West LLC

Bridge West LLC

St. Paul, Minnesota
November 29, 2021

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2021 and 2020
(Expressed in United States Dollars)

	Note	June 30, 2021	June 30, 2020
ASSETS			
Current Assets			
Cash		$ 300,351	$ 867,157
Accounts Receivables - net of allowance for doubtful accounts	*4*	107,875	230,364
Prepaid Expense		133,844	151,953
Inventories	*5*	3,535,692	3,885,996
Biological Assets	*6*	270,430	172,333
		$ 4,348,192	$ 5,307,803
Long Term Assets			
Property and Equipment	*8*	4,329,402	$ 4,732,674
Right of Use Assets	*8*	1,207,639	1,303,420
Deposits	*7*	27,500	27,500
		$ 5,564,541	$ 6,063,594
Total Assets		$ 9,912,733	$ 11,371,397
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term Debt	*9*	$ 3,230,000	$ 3,230,000
Convertible Debt	*9*	500,000	2,246,575
Accounts Payable		438,222	304,265
Accrued Payroll		263,159	255,452
Payroll Taxes Payable		1,177,210	769,838
Accrued Expenses		183,138	55,230
Accrued Excise and sales tax		329,149	409,869
Liability for Unrecognized tax expense	*11*	2,655,000	1,955,000
Current Portion of Lease Obligations	*9*	361,874	329,826
		$ 9,137,752	$ 9,556,055
Long-Term Liabilities			
Lease Obligations - net of current portion	*9*	$ 879,830	$ 998,991
Deferred Income Tax Liability	*11*	1,520,000	1,715,000
		$ 2,399,830	$ 2,713,991
Shareholders' Equity (Deficit)			
Common Stock	*10*	$ 14,646,572	$ 12,746,958
Share-Based Reserves	*10*	1,119,018	1,020,346
Warrant Reserves	*10*	885,881	885,881
Accumulated (Deficit)	*10*	(18,276,320)	(15,551,834)
		$ (1,624,849)	$ (898,649)
Total Liabilities and Shareholders' Equity (Deficit)		$ 9,912,733	$ 11,371,397

Nature of operations (Note 1)
Assessment of Contingent Liabilities (Note 14)
Going concern (Note 15)
Subsequent events (Note 16)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF LOSS
For the Six Months Ended June 30, 2021 and 2020
(Expressed in United States Dollars)

	Note	June 30, 2021	June 30, 2020
REVENUE - NET		$ 3,496,004	4,122,666
Cost of goods sold		2,390,093	2,889,902
Gross Profit Before Fair Value Adjustments		1,105,911	1,232,764
Realized Fair Value Amounts Included in Inventory Sold	5	(659,006)	(824,060)
Unrealized Fair Value Gain on Growth of Biological Assets	6	506,292	902,593
Gross Profit		953,197	1,311,297
EXPENSES			
Selling, general and administrative expenses		1,817,128	1,907,322
Share Based Compensation	10	18,425	149,030
Total Expenses		1,835,553	2,056,352
OTHER INCOME (EXPENSE)			
Loss on Lease Termination		-	(3,827)
Interest Expense		(228,971)	(306,568)
Total Other Income (Expense)		(228,971)	(310,395)
LOSS BEFORE INCOME TAXES		(1,111,327)	(1,055,450)
PROVISION FOR INCOME TAXES EXPNESE (BENEFIT)	11	285,000	325,000
NET LOSS		$ (1,396,327)	(1,380,450)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2021 and 2020
(Expressed in United States Dollars)

	Note	Number of Common Stock Shares	Amount	Warrants Reserve	Share Options Reserve	Accumulated (Deficit)	Total Stockholders Equity (Deficit)
Balance, December 31, 2019		149,241,355	$ 12,746,958	$ 885,881	$ 871,316	$(14,171,384)	$ 332,771
Stock base compensation	10	-	-	-	149,030	-	149,030
Net Loss		-	-	-	-	(1,380,450)	(1,380,450)
Balance, June 30, 2020		149,241,355	$ 12,746,958	$ 885,881	$ 1,020,346	$(15,551,834)	$ (898,649)

	Note	Number of Common Stock Shares	Amount	Warrants Reserve	Share Options Reserve	Accumulated (Deficit)	Total Stockholders Equity (Deficit)
Balance, December 31, 2020		149,241,355	$ 12,746,958	$ 885,881	$ 1,100,593	$(16,879,993)	$ (2,146,561)
Stock base compensation		-	-	-	18,425	-	18,425
Issuance of common stock for conversion of debt	10	2,842,018	1,869,614	-	-	-	1,869,614
Exercise of warrants	10	3,000,000	30,000	-	-	-	30,000
Net Loss		-	-	-	-	(1,396,327)	(1,396,327)
Balance, June 30, 2021		155,083,373	$ 14,646,572	$ 885,881	$ 1,119,018	$(18,276,320)	$ (1,624,849)

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

OUTCO LABS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2021 and 2020
(Expressed in United States Dollars)

	Note	June 30, 2021	June 30, 2020
Cash Flows from Operating Activities:			
Net Loss		$ (1,396,327)	$ (1,380,450)
Items Not Affecting Cash:		-	-
Depreciation		512,657	498,000
Share Based Compensation	10	18,425	149,030
Loss on Lease Termination		-	3,827
Amortization of Discount		9,465	113,575
Bad debt reserve		30,000	25,000
Fair Value Adjustment on Sale of Inventory	5	659,006	824,060
Fair Value Adjustment on Growth of Biological Assets	6	(506,292)	(902,593)
Changes in Non-cash Working Capital:			
Accounts Receivables		80,694	404,501
Inventory and Biological Assets	5,6	124,681	270,119
Prepaid Expense		(133,844)	(151,953)
Accounts Payable		(17,764)	148,195
Accrued Payroll		-	60,000
Liability for Unrecognized tax expense		370,000	340,000
Deferred Income Tax Liability		(85,000)	(15,000)
Payroll Tax Payable		103,028	394,034
Accrued Expenses		76,951	41,493
Accrued excise and sales tax		(50,077)	49,068
Cash Flows Provided (Used) in Operating Activities		$ (204,397)	$ 870,906
Cash Flows from Investing Activities:			
Purchase of Property and Equipment	8	$ (46,580)	$ (17,420)
Cash Flows from Investing Activities		$ (46,580)	$ (17,420)
Cash Flows from Financing Activities:			
Principal Payments of Lease Obligation		$ (252,069)	$ (249,430)
Payment for Lease Termination		-	(5,000)
Proceeds from Issuance of Common Stock	10	30,000	-
Cash Flows Provided (Used) in Financing Activities		$ (222,069)	$ (254,430)
Net Change in Cash		$ (473,046)	$ 599,056
Cash, Beginning of the Period		773,397	268,101
Cash, End of the Period		$ 300,351	$ 867,157

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

NOTE 1: NATURE OF OPERATIONS

Outco Labs, Inc. (the "Company") headquarters is based out of El Cajon, California and manages its wholly owned subsidiaries. The Company was organized on February 4, 2015 as a limited liability company. Outco Labs, Inc. with all it subsidiaries operates a medical cannabis cultivation, production, and dispensary facilities in the State of California.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), the United States Federal Controlled Substances Act classifies all "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Recently some federal officials have attempted to distinguish between medical cannabis use as necessary, but recreational use as "still a violation of federal law." At the present time, the distinction between "medical marijuana" and "recreational marijuana" does not exist under U.S. federal law, if one is illegal, both are illegal.

NOTE 2: BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements 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").

Basis of measurement

These consolidated financial statements have been prepared in U.S. dollars on a historical cost basis except biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Functional and presentation currency

These consolidated financial statements are presented in United States dollars. The functional currency of the Company is the United States dollar.

Basis of consolidation

The consolidated financial statements include the financial results of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. These consolidated financial statements include the accounts of the Company and its direct subsidiaries over which the Company has direct control. All intercompany balances and transactions are eliminated upon consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling ("NCI") interests are measured initially at their proportionate share of the acquired entity's identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in the profit and loss statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

NOTE 2: BASIS OF PRESENTATION (Continued)

Basis of consolidation

The following are the Company's significant consolidated entities and the ownership interest in each that are included in these consolidated financial statements:

Name of Subsidiary	State, Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
OutCo Labs, Inc.	California, USA	100%	USD	Managed Services to
Wings MSC-1	California, USA	100%	USD	Cannabis cultivation and production
Outco Mendocino-CD LLC	California, USA	100%	USD	Real Estate
SC Botanicals LLC	California, USA	100%	USD	CBD production
Green Out Development LLC	California, USA	100%	USD	Inactive
East Hills Properties LLC	California, USA	100%	USD	Real Estate
D27 Inc (1)	California, USA	0%	USD	dispensary
SD Natural Inc. (2)	California, USA	0%	USD	Cannabis dispensary

(1) Downwind 27 Inc. is a non-profit entity that is controlled by the Company through a management services agreement between the two entities.
(2) SD Natural Inc. is a non-profit entity that is controlled by the Company through a management services agreement between the two entities.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented.

Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

Estimated useful lives and depreciation of property and equipment
Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Estimated useful lives, impairment considerations and amortization of intangible assets
Impairment of definite-lived assets is influenced by judgement in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets and inventory
In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value. See "Note 6 – Biological Assets" for further information on estimates used in determining the fair value of biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Leases
The classification of a lease as an operating lease or a finance lease depends on certain estimates and judgments to determine whether substantially all the risk and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. The Corporation uses its best estimates and judgments, based on historical experience and the terms of the agreement, when estimating the economic life and residual value of a leased asset and determining the implicit interest rate when calculating minimum lease payments. An asset is recorded together with the related capital lease obligation. The assets under finance leases are amortized over their estimated useful lives at the same rate as other similar assets.

Impairment of long-lived assets
Long-lived assets, including property and equipment, are reviewed for impairment at each consolidated statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Income taxes
The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of stock options
Determining the fair value of stock options requires judgments related to the choice of a pricing model, the estimation of volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized in the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.
IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

Classification
The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) fair value through profit or loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVOCI"); and (iii) amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. Financial assets and financial liabilities with embedded derivatives are considered in their entirety and classified at FVTPL. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For financial assets and financial liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income.
The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement
All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost subsequent to initial recognition. All other financial assets including equity investments are measured at their fair values subsequent to initial recognition, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. Evidence of increased credit risk may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macroeconomic factors in the measurement of the expected credit losses associated with its financial assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

The following table provides the financial instrument classifications for the Company's financial assets and liabilities:

	IFRS 9	
Financial Instrument	**Classification**	**Measurement**
Cash and cash equivalents	Amortized Costs	Amortized Costs
Accounts Receivable	Amortized Costs	Amortized Costs
Accounts payable and accrued liabilities	Amortized Costs	Amortized Costs
Debt payable	Amortized Costs	Amortized Costs

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets may be 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. The 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 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 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 for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue

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

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

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

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

Cash and Cash Equivalents

Cash and cash equivalents included cash held at dispensaries and cash deposits in financial institutions. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, cash and cash equivalents may be in excess of FDIC insurance limits. As at June 30, 2021 and 2020, the Company held no cash equivalents.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and if the Company has the right to direct the use of the asset.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a lessee, the Company recognizes a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term,
or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise of: fixed payments; variable lease payments that depend on an index or a rate; amounts expected to be payable under any residual value guarantee, and the exercise price under any purchase option that the Company would be reasonably certain to exercise; lease payments in any optional renewal period if we are reasonably certain to exercise an extension option; and penalties for any early termination of a lease unless we are reasonably certain not to terminate early.

Inventories

Inventories of harvested finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

Biological assets

Expenditures incurred on biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell in accordance with IAS 41 – Agriculture. The unrealized gain or loss arising on initial recognition of such biological assets at fair value less costs to sell and the change in fair value less costs to sell of biological assets are included in the consolidated statement of profits and losses for the period in which it arises. While the Company’s biological assets are within the scope of IAS 41, the direct and indirect costs of production are determined using an approach similar to the recognition criteria within the scope of IAS 2 – Inventories. These production costs incurred during the growing process are capitalized and included in the fair value of biological assets. These direct and indirect costs include but are not limited to material, labor, supplies, depreciation expense on production equipment, utilities, and facilities costs associated with cultivation. Capitalized costs are subsequently recorded within the line item “cost of goods sold” in the consolidated statement of profits and losses in the period that the related product is sold.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is calculated using the following terms and methods:

Leasehold Improvements	Straight-line
Furniture & Equipment	Straight-line
Land	Not depreciated

The assets residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate. Leasehold and land improvements are amortized over term of the lease. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss in the year the asset is derecognized.

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset's fair values less costs of disposal and its value in use. Fair Value is determined in accordance with IFRS 13, "Fair Value Measurement". Costs of disposal are the direct added costs only. Value in use is assessed based on the estimated future cash flows, 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. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of loss

All other costs, such as repairs and maintenance, are charged to the consolidated statements of loss during the period in which they are incurred.

Income taxes

Current Tax
Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax
Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As at June 30, 2021, the Company assessed for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measure at the fair value of goods received. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to capital stock.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options and warrants 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 number of stock options that are expected to vest.

New or amended standards adopted effective January 1, 2019

The Company has adopted the following new IFRS standard for period beginning on January 1, 2019.

IFRS 16 Leases ("IFRS 16")

On January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which replaces IAS 17, Leases (“IAS 17”) and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding 12 months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17. The Company adopted the standard on July 1, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, and no restatement of prior comparative periods.

(Expressed in United States Dollars)

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

i) recognition exemption of short-term leases;
ii) recognition exemption of low-value leases;
iii) application of a single discount rate to a portfolio of leases with similar characteristics on transition;
iv) exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
v) application of hindsight in determining the applicable lease term at the date of transition; and
vi) election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

IFRIC 23, Uncertainty over income tax treatments (“IFRIC 23”)

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of.

NOTE 4: RECEIVABLES

	June 30, 2021	June 30, 2020
Trade accounts receivable	$ 137,875	$ 280,364
Allowance for doubtful accounts	(30,000)	(50,000)
Accounts Receivables - net of allowance for doubtful accounts	$ 107,875	$ 230,364

An allowance for doubtful accounts is recorded for any amounts deemed uncollectible and amounts are based on the expected credit loss. Management has determined the allowance as of June 30, 2021 and 2020.

NOTE 5: INVENTORY

Inventory is comprised of:

	June 30, 2021	June 30, 2020
Work in process -yield and oil	$ 3,131,919	$ 2,428,733
Finished goods	403,773	1,457,263
Inventories	$ 3,535,692	$ 3,885,996

Cost of inventory is recognized as an expense and included in cost of goods sold. Included in costs of goods sold for the six months ended June 30, 2021, is $506,292 (2020 - $902,593) from changes in fair value of biological assets.

(Expressed in United States Dollars)

NOTE 6: BIOLOGICAL ASSETS

Biological assets are comprised of:

Balance as at December 31, 2019	$ 218,084
Fair value adjustment on growth of biological assets	902,593
Production costs capitalized	501,127
Transferred to inventory upon harvest	(1,449,471)
Balance as at June 30, 2020	$ 172,333
Balance at December 31, 2020	$ 250,032
Fair value adjustment on growth of biological assets	506,292
Production costs capitalized	539,580
Transferred to inventory upon harvest	(1,025,474)
Balance at June 30, 2021	$ 270,430

As at June 30, 2021 and 2020, the carrying value of biological assets consisted entirely of live cannabis plants.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram less any additional costs to be incurred to transform the yield into a sellable product. Percentage of cost completion is applied to biological assets growing as of the measurement date.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price – calculated as the annual historical selling price for flower yield in all finished goods sold by the Company, which is expected to approximate future selling prices
- Percentage of completion – represents the percentage of total expected costs incurred from growing biological assets as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested
- Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labor related to lab extraction and packaging

The following table quantifies each significant unobservable input, and also provides the impact of a 10% increase/decrease in each input would have on the fair value of biological assets.

(Expressed in United States Dollars)

NOTE 6: BIOLOGICAL ASSETS (Continued)

Biological assets were on average at a more advanced stage of growth as at June 30, 2021 (64% complete) compared to June 30, 2020 (61% complete). As a plant matures the likelihood of wastage declines. As a result, wastage estimates were the same. The Company's estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reelected in the gain or loss on biological assts in future periods. As of June 30, 2021, and 2020, it is expected that the Company's biological assets will yield approximately 169,144 grams and 157,396 grams, respectively.

NOTE 7: DEPOSITS

Non-Current deposits consist of security deposits of $27,500 as at June 30, 2021and 2020.

NOTE 8: PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

	Land	Equipment	Leasehold Improvements	Furniture & Fixtures	Total
Gross carrying amount					
Balance December 31, 2019	$2,735,000	$ 1,594,587	$ 1,947,830	$ 21,404	$ 6,298,821
Additions	-	17,420	-	-	17,420
Disposals	-	-	-	-	-
Balance June 30, 2020	$2,735,000	$ 1,612,007	$ -	$ 21,404	$ 6,316,241
Balance December 31, 2020	$2,735,000	$ 1,662,644	$ 1,947,830	$ 21,404	$ 6,366,878
Additions	-	-	46,580	-	46,580
Disposals	-	-	-	-	-
Balance June 30, 2021	$2,735,000	$ 1,662,644	$ 1,994,410	$ 21,404	$ 6,413,458
Depreciation					
Balance December 31, 2019	$ -	$ 425,122	$ 905,758	$ 5,942	$ 1,336,822
Additions	-	116,362	128,854	1,529	246,745
Disposals	-	-	-	-	-
Balance June 30, 2020	$ -	$ 541,484	$ 1,034,612	$ 7,471	$ 1,583,567
Balance December 31, 2020	$ -	$ 657,845	$ 1,163,466	$ 9,000	$ 1,830,311
Additions	-	120,862	131,354	1,529	253,745
Disposals	-	-	-	-	-
Balance June 30, 2020	$ -	$ 778,707	$ 1,294,820	$ 10,529	$ 2,084,056
Carrying Amount June 30, 2020	$2,735,000	$ 1,070,523	$ (1,034,612)	$ 13,933	$ 4,732,674
Carrying Amount June 30, 2021	$2,735,000	$ 883,937	$ 699,590	$ 10,875	$ 4,329,402

(Expressed in United States Dollars)

NOTE 8: PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS (Continued)

There were no impairments recorded against property and equipment during the six months ended June 30, 2021 and 2020.

The Company initially adopted IFRS 16 effective January 1, 2019, whereby the amount recognized as a right-of-use asset was equal to the present value of the future lease payments due under outstanding leases at January 1, 2019. The right- of-use assets are being depreciated on a straight-line basis over the remaining term of the underlying lease as there are no options to acquire or otherwise transfer ownership of the underlying asset to the Company at the end of the lease term. Right of use assets consist of the following:

	June 30, 2021	June 30, 2020
Beginning Balance	$ 1,128,732	$ 1,583,338
Additions	266,687	-
Termination of Lease	-	(105,230)
Depreciation	(187,780)	(174,688)
Ending balance	$ 1,207,639	$ 1,303,420

During the six months ended June 30, 2021, $168,489 (2020 - $162,240) in depreciation was included in the statement of loss and $147,530 (2019 - $149,279) was capitalized to biological assets relating to property and equipment and right of use assets.

NOTE 9: DEBT AND LEASE OBLICATIONS

The details of the Company’s loans, leases and notes payable are as follows:

Short-term debt

	June 30, 2021	June 30, 2020
Beginning Balance	$3,230,000	$3,230,000
Additions	-	-
Payments	-	-
Ending balance	$3,230,000	$3,230,000

Loan
On June 14, 2017, the Company entered in a loan for total proceeds of $250,000 (“Loan”). The Loan is unsecured, bears interest at a rate of 14.00% per annum and required monthly payments. The note was due and payable as of October 1, 2019. The balance due was $250,000 as of June 30, 2021 and 2020.

Subsequent to June 30, 2021, and as part of the sale of substantially all of the Company’s assets the Loan was assigned to a related person and subsequently settled with a portion of the special warrant consideration described in Note 16 1.

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Promissory Note

During 2017, the Company signed a promissory note payable in the amount of $1,500,000 ("Promissory Note"). The Promissory Note required interest payments of $30,000 if the principle balance on the note was greater than $750,000 or $15,000 if the principle balance on the Promissory Note was less than $750,000. The Promissory Note is secured by a Deed of Trust against real property located in El Cajon, CA, subordinated only to an existing mortgage in the amount of $1 million. The associated land and promissory note payable was sold but still remains secured by the Company's personal property, furniture, fixtures equipment, inventory, and accounts receivable.

On March 7, 2019 the Company entered into a settlement agreement with the lender whereby the Company repaid $650,000 of the Promissory Note on March 19, 2019 with the remaining $280,000 repayable by way of specific principal and interest payments until March 2020 with the remaining balance due in full 12 months with interest at 12% per annum. The Company failed to make the principal and interest payments and was in default under the settlement agreement with a balance due of $280,000 as of June 30, 2021 and 2020, respectively.

Subsequent to June 30, 2021, and as part of the sale of substantially all of the Company's assets (see Note 16 Subsequent Event) all the obligations under the Promissory Note and settlement agreement were settled by way of a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release, the lender has agreed to release of security upon the full repayment on or before March 1, 2022 and with the payment of $2,800 per month.

Promissory Note - Vendor

During 2019, the Company issued a promissory note payable in the amount of $50,000. The promissory note bears interest at 0% and has a maturity date of March 31, 2020. In the event of default, the Company shall pay a monthly late fee of $1,500 a month. The balance due was $50,000 as of June 30, 2021 and 2020, respectively.

Subsequent to June 30, 2021, and as part of the sale of substantially all of the Company's assets all the obligations under the Installment Note were settled with the Company and assumed by the purchaser. (see Note 16 Subsequent Event 4.a)

Installment Note

During 2018, the Company entered into an assignment agreement and assumed an Installment Note for real estate located in Willits, CA ("Installment Note"). The Installment Note is in the amount of $2,650,000. The Installment Note bears interest at a rate of 4.53% per annum during 2019 and 6.8% per annum during 2019 required monthly payments until January 1, 2021 when the principal balance is due in full. The Installment Note is secured by a Deed of Trust located in Willits, CA. The balance due was 2,650,000 as of June 30, 2021 and 2020.

On January 1, 2021, the Company and lender entered into an extension agreement for the Installment Note. The extension agreement requires monthly interest payments at 6.8% per annum until January 1, 2022 when the Installment Note becomes due in full. Also, the Company has a right to exercise a one-year option to extend the Installment Note and all agreements until January 1, 2023 in exchange for $100,000. The amount of this extension option will be applied to the principal balance.

Subsequent to June 30, 2021, and as part of the sale of substantially all of the Company's assets all the obligations under the Installment Note were settled with the Company and assumed by the purchaser. (see Note 16 Subsequent Event 4.a)

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Convertible Debt

	June 30, 2021	June 30, 2020
Beginning Balance	$2,369,614	$2,369,614
Additions	-	-
Note converted into Common Stock	(1,869,614)	-
Ending balance	$ 500,000	$2,369,614
Unamortized debt discount	$ -	$ (123,039)
Ending balance	$ 500,000	$2,246,575

Convertible Note
During 2019, the Company signed a convertible promissory note payable in the amount $500,000. The note bears interest at 12% per annum with interest payments required monthly. The note is due and payable on October 8, 2020. The note is secured by specific piece of equipment and inventory. All the unpaid principal balance of this note maybe converted at the note holders' option or will automatically convert if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions, of all or substantially all of the company's assets. The balance due was $500,000 as of June 30, 2021 and 2020, respectively.

Subsequent to June 30, 2021, and as part of the sale of substantially all of the Company's assets all the obligations under the Convertible Promissory Note were settled under a General Release dated August 31, 2021 whereby the holder of the Convertible Promissory Note was issued a) with a portion of the special warrant consideration described in Note 16 Subsequent Event with the issuance of a $220,000 convertible debenture of the purchaser. (see Note 16 Subsequent Event 4.c)

Convertible Promissory Note – Related Party
During 2019, the Company signed a convertible promissory note payable in the amount $600,000 to a company that is owned by two of the Company's shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2017. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $600,000 as of June 30, 2020. On March 5, 2021 the Company converted the convertible note into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 912,066 shares of common stock for the convertible note in full payment.

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Convertible Promissory Note – Related Party (continued)
During 2019, the Company signed a convertible promissory note payable in the amount $634,807 to one of the Company's shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2017. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $634,807 as of June 30, 2020. On March 5, 2021 the Company converted the convertible note into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 964,976 shares of common stock for the convertible note in full payment.

During 2019, the Company signed a convertible promissory note payable in the amount $634,807 with one of the Company's officers/shareholders. The note was issued to pay off a joint venture obligation of the Company which was incurred in 2017. The note bears no interest, but the Company has imputed interest using a 10% per annum. The note is due and payable on February 11, 2021. The note is unsecured. The note is subordinated to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money. All the unpaid principal balance of this note maybe converted automatically if the closing of the sale, transfer or other disposition in a single transaction or series of related transactions of all or substantially all of the company's assets or after the maturity of the note at the sole discretion of the Company. The balance due was $634,807 as of June 30, 2020. . On March 5, 2021 the Company converted the convertible note into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 964,976 shares of common stock for the convertible note in full payment.

Lease obligations
Future minimum lease payments (principal and interest) on the leases is as follows:

	June 30, 2021
2021	$ 504,138
2022	524,301
2023	544,627
2024	178,385
2025	-
Thereafter	-
Minimum payments under lease	$ 1,751,451
Effect of discounting	(509,747)
Present value of minimum lease payments	$ 1,241,704
Less: Current portion	(361,874)
Lease obligations	$ 879,830

(Expressed in United States Dollars)

NOTE 9: DEBT AND LEASE OBLICATIONS (Continued)

Components of lease expense are listed below for the six months ended:

	Statement of Operations	June 30, 2021	June 30, 2020
Operating leases	Cost of sales and SG&A	$ 258,912	$ 251,255
Variable lease costs	Cost of sales and SG&A	1,004	11,323
		$ 259,916	$ 262,578

Other information related to the Company's leases as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 321,400
Lease assets obtained in exchange for new lease liabilities	
Operating Leases	$ 266,687
Weighted average remaining lease term (in years):	
Operating Leases	2.9
Weighted average discount rate:	
Operating Leases	10.0%

NOTE 10: SHAREHOLDERS' EQUITY (DEFICIT)

Common Stock
As of June 30, 2021, the Company had authorized 170,000,000 shares. As of June 30, 2021, and 2020 the Company had 155,083,373 and 149,241,355, respectively, shares issued and outstanding. The holders of common stock are entitled to one vote per share at all stockholder meetings.

Transactions during the six months ended June 30, 2021:
In June 2021, the warrant holder exercised the warrants for a $30,000 payment in exchange for 3 million shares of common stock of the Company.

On March 5, 2021 the Company converted three convertible notes into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

(Expressed in United States Dollars)

NOTE 10: SHAREHOLDERS' EQUITY (DEFICIT) (Continued)

Stock Options

The 2015 Equity Inventive Plan provided for the grant of incentive stock options, non-statutory stock, stock appreciation rights, restricted stock awards, restricted stock unit awards and other stock awards. Under the terms of the plan, a total of 13,200,000 common shares are reserved for issue. The exercise price for incentive stock options issued under the plan will be set by the board of directors but will not be less 100% of the fair market value of the Company's shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board. A ten percent stockholder will not be granted an incentive stock option unless the exercise price of such option is at least 110% of the fair market value on the date of grant and the option is not exercisable after the expiration of five years from the grant.

Reconciliation of Outstanding Stock Options

During the six months ended June 30, 2021 and 2020, the Company recognized $18,425 and $149,030, respectively, in share-based compensation. There were no options issued during the six months ended June 30, 2021 or 2020.

Company	Number of Options 2021		Weighted average exercise price 2021	Number of Options 2020		Weighted average exercise price 2020
Outstanding at January 1	1,190,000	$	0.25	3,720,000	$	0.25
Forfeited during the six months	(390,000)		0.25	(2,265,000)		0.25
Exercised during the six months	-		-	-		-
Granted during the six months	-		-	-		-
Outstanding at end	800,000	$	0.25	1,455,000	$	0.25
Options exercisable at June 30	641,354	$	0.25	824,167	$	0.25

Warrants

Each warrant entitles the holder to purchase one common stock share. A summary of the status of the warrants outstanding is as follows:

	Number of warrants 2021		Weighted average exercise price 2021	Number of warrants 2020		Weighted average exercise price 2020
Outstanding at January 1	3,000,000	$	0.01	3,000,000	$	0.01
Forfeted during the six months	-		-	-		-
Excercised during six months	(3,000,000)		0.01	-		-
Granted during the six months	-		-	-		-
Outstanding at June 30	-	$	-	3,000,000	$	0.01
Options exerciseable at June 30	-	$	-	3,000,000	$	0.01

In June 2021, the warrant holder exercised the warrants for a $30,000 payment in exchange for 3 million shares of common stock of the Company.

(Expressed in United States Dollars)

NOTE 11: INCOME TAXES

The following table summarizes the components of provision of income tax expense (benefit):

		June 30, 2021		June 30, 2020
Deferred				
Federal	$	(65,000)	$	(10,000)
State		(95,000)		(110,000)
Valuation Allowance Increase		75,000		105,000
Total Current	$	(85,000)	$	(15,000)
Net Tax Expense related to an increase (decrease) in Unrecognized Tax Expense				
Current Year Uncertain Tax Expense	$	370,000	$	340,000
Prior Year Uncertain Tax Expense that Expired		-		-
Net Tax Expense related to an increase (decrease) i	$	370,000	$	340,000
Provision of Income Tax Expense (Benefit)	$	285,000	$	325,000

The Company operates in the legal cannabis industry in the State of California but is subject to Section 280E of the Internal Revenue Code ("IRC"). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service ("IRS") has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

The IRS has invoked Section 280E in tax audits against various state-legal cannabis businesses in the U.S. Although the IRS has issued a clarification allowing the deduction of certain expenses, the scope of this allowance is interpreted very narrowly, resulting in the non-deductibility of certain operating and general administrative costs. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to the cannabis industry. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry.

(Expressed in United States Dollars)

NOTE 11: INCOME TAXES (Continued)

The following table summarizes the components of deferred tax:

	June 30, 2021	June 30, 2020
Deferred Tax Assets		
Allowance for doubtful accounts	$ 3,000	$ 3,000
Right of Use Leases	3,000	2,000
Net Operating Loss Carryforward	510,000	405,000
Deferred Tax Liabilities		
Biological Assets	(499,000)	(573,000)
Property Plant and Equipment	(1,027,000)	(1,147,000)
Valuation Allowance	(510,000)	(405,000)
Net Deferred Tax (Liabilities) Assets	$ (1,520,000)	$ (1,715,000)

The following table summarizes the Company's Liability for Unrecognized Expense:

	June 30, 2021	June 30, 2020
Beginning Balance	$ 2,285,000	$ 1,615,000
Net Tax Expense related to an increase (decrease) in Unrecognized Tax Expense		
Current Year Uncertain Tax Expense	$ 370,000	$ 340,000
Prior Year Uncertain Tax Expense that Expired	-	-
Ending balance	$ 2,655,000	$ 1,955,000

The Company records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions, especially considering the complex tax laws and regulations for federal purposes The Company has recorded tax benefits for those tax positions where it is more likely than not that a tax benefit will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will result, no tax benefit has been recognized in the consolidated financial statements. The Company files tax returns as prescribed by the tax laws. In the normal course of business, the Company is subject to examination by federal, and the State of California. As of June 30, 2021, the Company has not accrued interest and penalties for its uncertain tax positions. The Company records interest and penalties related to income tax amounts as a component of income tax expense when incurred.

NOTE 12: RELATED PARTY TRANSACTIONS

During 2019, the Company entered a convertible note with one of the Company's shareholders/officers in the amount of $637,807. See Note 10 Debt and Lease Obligations – Convertible Debt for additional information.

On March 5, 2021 the Company converted three convertible notes into common stock in accordance of the Maturity Conversion feature of the notes. The Company issued 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

(Expressed in United States Dollars)

NOTE 13: SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash activities were as follows for during the six months ended June 30:

	June 30, 2021	June 30, 2020
Biological assets transferred to inventory	$ 485,739	$ 905,475
Issuance of common stock for convertible promissory notes	$ -	$1,869,614
Equipment acquired through a lease	266,687	-

Cash paid for interest and income taxes were as follows for the six months ended June 30:

	June 30, 2021	June 30, 2020
Interest	$ 219,506	$ 192,993
Income Taxes	$ -	$ -

NOTE 14: ASSESSMENT OF CONTINGENT LIABILITIES.

(a) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2021, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulation as of June 30, 2021, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties or restrictions in the future.

NOTE 15: GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and, or member and shareholder capital contributions to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 16: SUBSEQUENT EVENTS

Sale of Substantially All Assets

On August 31, 2021 the Company sold substantially all the assets including control and management of all licensed entities, intellectual property, property, and equipment.

Total consideration was as follows (the number of securities and share prices set forth below reflect the 20 for 1 share consolidation which became effective on September 2, 2021. As part of the share consolidation, the Common Shares referenced below, will become Subordinated Voting Shares):

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a "Multiple Voting Share") of the Company. Each Multiple Voting Share carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Common Shares in the capital of the Company.
2. 2,033,333 Class A Common Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will bet the date that is 60 days following the Class A VWAP Date.
3. 1,220,000 Class B Common Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Common Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Common Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will bet the date that is 60 days following the Class B VWAP Date.

4. Assumption of debt of $3.25 million including:
    a. Assumption $2.65 million mortgage over the land acquired in Mendocino California,
    b. Assumption of $375,500 in obligations due to creditors of the Company. The buyer assumed other current liabilities of its licensed entities which are included in working capital.
    c. Settlement of certain debt through the issuance of a $220,000 convertible debenture of the buyer. The convertible debenture has a term of two years and has an interest rate of 10%.

NOTE 16: SUBSEQUENT EVENTS (Continued)

Sale of Substantially All Assets (continued)

5. Up to $3 million earnout based on both retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, Multiple Voting Shares or Common Shares at a price on when such securities become issuable.

Conversion of Convertible Debt
On March 5, 2021 the company converted three convertible notes into common stock in accordance of the Maturity Conversion feature of the notes. The Company issues 2,894,928 shares of common stock for the three convertible notes with a balance due of $1,869,614.

Exercise of Warrants
In June 2021, the warrant holder exercised the warrants for a $30,000 payment in exchange for 3 million shares of common stock of the Company.

Earnout Satisfied
On November 24, 2021 the Company satisfied the Earnout condition under the sale of assets with receipt of recreational licenses. In accordance with the terms of the Acquisition, with the receipt of recreational licenses for both of the Company's retail facilities within 18 months of closing, the Company will receive a $3 million earnout satisfied through the issuance of Multiple Voting Shares. Based on the terms of the asset acquisition agreement, the Earnout calculation will result in the buyer issuing to the Company 2,684,183 Multiple Voting Shares.