



CORE ONE LABS INC.
(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

**NOTICE OF NO AUDITOR REVIEW
OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

The accompanying unaudited condensed interim consolidated financial statements of Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.) (the “Company” or “Core One”) for the periods ended September 30, 2020 and 2019, have been prepared by, and are the responsibility of, the Company’s management.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim statements by an entity’s auditor. These unaudited condensed interim consolidated financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

CORE ONE LABS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(Expressed in Canadian Dollars)

| | Notes | September 30, 2020 | December 31, 2019 |
|---|-------|-----------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 1,112,732 | \$ 116,850 |
| Amounts receivable | 5 | 664,555 | 403,496 |
| Advances receivable | 6 | 35,494 | 33,860 |
| Prepays and other current assets | 4 | 641,430 | 546,478 |
| Biological assets | 8 | 232,004 | 167,881 |
| Inventory | 7 | 2,419,138 | 2,191,088 |
| Debenture receivable | 15 | 50,000 | - |
| Marketable securities | 10 | 1,228,346 | 295,000 |
| Total current assets | | 6,383,699 | 3,754,653 |
| Property, plant and equipment | 3 | 12,762,777 | 14,048,482 |
| Investment | 24 | 4,933,334 | - |
| TOTAL ASSETS | | \$ 24,079,810 | \$ 17,803,135 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 17 | \$ 7,172,476 | \$ 5,623,597 |
| Amounts due to related parties | 12 | 1,229,885 | 1,015,964 |
| Advances payable | 14 | 193,077 | 317,180 |
| Note payable | 14 | - | 206,249 |
| Lease liability | 11 | 713,163 | 665,853 |
| Deposit on sale of assets | 3 | 194,207 | 188,525 |
| Unearned revenue | 9 | 32,814 | 671,495 |
| Total current liabilities | | 9,535,622 | 8,688,863 |
| Convertible debenture | 15 | 448,662 | - |
| Non-current lease liability | 11 | 3,082,730 | 3,495,731 |
| Total liabilities | | 13,067,014 | 12,184,594 |
| Shareholders' equity | | | |
| Share capital | 13 | 81,875,526 | 51,372,447 |
| Reserves | 13 | 8,587,727 | 7,448,493 |
| Deficit | | (78,132,607) | (51,889,363) |
| Accumulated other comprehensive income | | 534,783 | 298,522 |
| Total parent shareholders' equity | | 12,865,429 | 7,230,099 |
| Non-controlling interests | 16 | (1,852,633) | (1,611,558) |
| Total shareholders' equity | | 11,012,796 | 5,618,541 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 24,079,810 | \$ 17,803,135 |

Nature and continuance of operations (Note 1)

Subsequent events (Note 27)

Approved by the Board of Directors and authorized for issue on November 30, 2020:

| | |
|-----------------|----------|
| "Joel Shacker" | Director |
| "Casey Fenwick" | Director |

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

CORE ONE LABS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)
(Expressed in Canadian Dollars)

| | Notes | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Sales | | \$ 997,198 | \$ 605,427 | \$ 2,250,480 | \$ 4,378,545 |
| Cost of sales | 7 | 84,123 | 966,399 | 1,190,472 | 5,757,373 |
| Gross profit, excluding fair value items and unallocated manufacturing costs | | 913,075 | (360,972) | 1,060,008 | (1,378,828) |
| Realized fair value amounts included in inventory sold | | 11,726 | (118,407) | 172,770 | (1,162,218) |
| Gross margin | | 901,349 | (242,565) | 887,238 | (216,610) |
| Consulting fees | 12 | 457,558 | 244,177 | 944,920 | 676,705 |
| Depreciation | 3 | 185,935 | 35,703 | 435,645 | 116,414 |
| Foreign exchange loss | | (20,805) | 27,346 | 55,346 | 110,761 |
| General and administrative expenses | 18 | 1,221,010 | 984,874 | 2,363,285 | 3,581,570 |
| Impairment of advances receivable | | - | - | - | 250,329 |
| Interest expense | 11 | 11,583 | 5,645 | 37,896 | 97,327 |
| Loss (gain) on investment | 10 | 15,041 | 2,986,255 | (736,916) | (981,859) |
| Loss (gain) on settlement of debt | 14 | - | - | (225,066) | 88,279 |
| Loss on acquisition | 25 | 20,549,005 | - | 20,549,005 | - |
| Marketing, sales and distribution | | 865,675 | 130,975 | 968,248 | 1,302,780 |
| Research and development | 12 | 34,047 | 59,941 | 92,613 | 175,536 |
| Share-based payments | | 891,550 | 1,069,512 | 917,817 | 2,375,145 |
| Write-down of inventory | 7 | 1,118,223 | - | 1,922,948 | - |
| Total operating expenses (recovery) | | 25,328,822 | 5,544,428 | 27,325,741 | 7,792,987 |
| Net income (loss) for the period | | \$ (24,427,473) | \$ (5,786,993) | \$ (26,438,503) | \$ (8,009,597) |
| Net income (loss) attributable to | | | | | |
| Shareholders of the Company | | (24,371,491) | (6,010,837) | (26,243,244) | (8,089,015) |
| Non-controlling interests | 16 | (55,982) | 223,844 | (195,259) | 79,418 |
| | | \$ (24,427,473) | \$ (5,786,993) | \$ (26,438,503) | \$ (8,009,597) |
| Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss) | | | | | |
| Foreign exchange translation | | 788,391 | 196,928 | 190,445 | (401,018) |
| Total comprehensive income (loss) for the period | | \$ (23,639,082) | \$ (5,590,065) | \$ (26,248,058) | \$ (8,410,615) |
| Other comprehensive income (loss) attributed to | | | | | |
| Shareholders of the Company | | 895,187 | 219,304 | 236,261 | (439,622) |
| Non-controlling interests | 16 | (106,796) | (22,376) | (45,816) | 38,604 |
| | | \$ 788,391 | \$ 196,928 | \$ 190,445 | \$ (401,018) |
| Total comprehensive income (loss) attributable to | | | | | |
| Shareholders of the Company | | (23,476,304) | (5,791,533) | (26,006,983) | (8,528,637) |
| Non-controlling interests | 16 | (162,778) | 201,468 | (241,075) | 118,022 |
| | | \$ (23,639,082) | \$ (5,590,065) | \$ (26,248,058) | \$ (8,410,615) |
| Weighted average number of shares | | 67,435,496 | 11,622,103 | 33,110,664 | 10,846,518 |
| Net income (loss) per share - basic and diluted | | \$ (0.36) | \$ (0.52) | \$ (0.79) | \$ (0.75) |

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

CORE ONE LABS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(Expressed in Canadian Dollars)

| | Common shares | | Obligation to issue shares | Reserves | Deficit | Accumulated other comprehensive income (loss) | Non-controlling Interest | Total shareholders' equity |
|---|---------------|---------------|----------------------------------|--------------|-----------------|--|-----------------------------|----------------------------------|
| | Shares | Amount | | | | | | |
| Balance at December 31, 2018 | 9,978,422 | \$ 42,797,498 | - | \$ 4,502,317 | \$ (30,426,172) | \$ 903,903 | \$ (1,495,623) | \$ 16,281,923 |
| Private placement | 1,618,680 | 6,422,050 | - | 139,669 | - | - | - | 6,561,719 |
| Exercise of options | 25,000 | 262,899 | - | (112,899) | - | - | - | 150,000 |
| Share-based compensation | - | - | - | 2,375,146 | - | - | - | 2,375,146 |
| Discount on marketable securities acquired from related party | - | - | - | 142,500 | - | - | - | 142,500 |
| Repurchase of non-controlling interest in equity | - | - | - | - | - | - | (1,281) | (1,281) |
| Foreign exchange translation | - | - | - | - | - | (439,622) | 38,604 | (401,018) |
| Net loss for the period | - | - | - | - | (8,089,015) | - | 79,418 | (8,009,597) |
| Balance at September 30, 2019 | 11,622,102 | 49,482,447 | - | 7,046,733 | (38,515,187) | 464,281 | (1,378,882) | 17,099,392 |
| Shares issued for assets | 1,750,000 | 1,890,000 | - | - | - | - | - | 1,890,000 |
| Share-based compensation | - | - | - | 401,760 | - | - | - | 401,760 |
| Repurchase of non-controlling interest in equity | - | - | - | - | - | - | - | - |
| Foreign exchange translation | - | - | - | - | - | (165,759) | 35,994 | (129,765) |
| Net loss for the period | - | - | - | - | (13,374,176) | - | (268,670) | (13,642,846) |
| Balance at December 31, 2019 | 13,372,102 | 51,372,447 | - | 7,448,493 | (51,889,363) | 298,522 | (1,611,558) | 5,618,541 |
| Shares issued on acquisition of investment | 2,666,667 | 724,408 | - | - | - | - | - | 724,408 |
| Shares issued on acquisition of Rejuva | 25,760,000 | 20,608,000 | - | - | - | - | - | 20,608,000 |
| Shares issued on investment on Shahcor | 5,666,667 | 4,533,334 | - | - | - | - | - | 4,533,334 |
| Private placement | 21,052,632 | 4,000,000 | - | - | - | - | - | 4,000,000 |
| Share issue costs | - | (170,988) | - | 139,041 | - | - | - | (31,947) |
| Convertible debt | - | - | - | 82,376 | - | - | - | 82,376 |
| Shares issued for debt settlement | 2,449,470 | 808,325 | - | - | - | - | - | 808,325 |
| Share-based compensation | - | - | - | 917,817 | - | - | - | 917,817 |
| Adjustment due to share consolidation | (31) | - | - | - | - | - | - | - |
| Foreign exchange translation | - | - | - | - | - | 236,261 | (45,816) | 190,445 |
| Net loss for the period | - | - | - | - | (26,243,244) | - | (195,259) | (26,438,503) |
| Balance at September 30, 2020 | 70,967,507 | \$ 81,875,526 | - | \$ 8,587,727 | \$ (78,132,607) | \$ 534,783 | \$ (1,852,633) | \$ 11,012,796 |

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

CORE ONE LABS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Expressed in Canadian Dollars)

| | Nine months ended September 30, | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| Cash flows generated by (used in) operating activities | | |
| Net loss | \$ (26,438,503) | \$ (8,009,597) |
| Non cash items: | | |
| Depreciation | 1,666,188 | 1,041,291 |
| Foreign exchange | 733,376 | (15,032) |
| Impairment of advances receivable | - | 250,329 |
| Impairment of inventory | 1,922,948 | - |
| Interest expense | 407,889 | 97,353 |
| Gain on equity investment | (823,884) | (981,859) |
| Loss (gain) on settlement of debt | (225,066) | 88,279 |
| Loss on acquisition | 20,608,000 | - |
| Share-based compensation | 917,817 | 2,375,146 |
| Gain on changes in fair value of biological assets | - | (1,162,218) |
| Gain on disposition of assets | - | (5,069) |
| Changes in operating assets and liabilities: | | |
| Amounts receivable | (252,903) | (410,073) |
| Prepays and other current assets | (55,930) | (370,010) |
| Biological assets | (1,983,436) | (892,848) |
| Inventory | (891,143) | 1,200,693 |
| Accounts payable and accrued liabilities | 1,139,623 | (625,814) |
| Amounts due to related parties | 608,651 | 390,805 |
| Unearned revenue | (26,150) | - |
| Net cash used in operating activities | (2,692,523) | (7,028,624) |
| Cash flows provided by (used in) investing activities | | |
| Equipment purchased, net of disposals | 24,396 | (241,464) |
| Production facility | - | (454,463) |
| Sale of marketable securities | - | 1,487,987 |
| Investment in Shahcor | (400,000) | - |
| Net cash provided by (used in) investing activities | (375,604) | 792,060 |
| Cash flows provided by (used in) financing activities | | |
| Advances payable | 14,965 | 250,000 |
| Notes receivable | - | (410,537) |
| Issuance of common stock for private placements | 3,968,051 | 6,561,719 |
| Proceeds from loans | 450,000 | - |
| Proceeds from option exercise | - | 150,000 |
| Repayment of loans | - | (642,826) |
| Repayment of lease | (365,607) | - |
| Net cash provided by financing activities | 4,067,409 | 5,908,356 |
| Effects of foreign currency exchange | (3,400) | (4,563) |
| Change in cash and cash equivalents | 995,882 | (332,771) |
| Cash and cash equivalents, beginning | 116,850 | 452,295 |
| Cash and cash equivalents, ending | \$ 1,112,732 | \$ 119,524 |

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

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated on September 14, 2010, pursuant to the provision of the Business Corporations Act (British Columbia). On September 6, 2019, the Company changed its name from Lifestyle Delivery Systems Inc. to Core One Labs Inc. The name change was done to more accurately reflect the Company's operational expertise, as well as the Company's overall product and service offerings. In conjunction with changing its name, the Company consolidated its issued and outstanding common shares on the basis of six (6) pre-consolidation shares for every one (1) post-consolidation share. On July 7, 2020, the Company further consolidated its issued and outstanding common shares on the basis of two (2) pre-consolidation shares for every one (1) post-consolidation share. All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio and are presented in these financial statements on a post-consolidation basis.

Core One is a technology company that licenses its technology to a state-of-the-art production and packaging facility located in Southern California. The Company's technology produces infused strips that allow for bioavailability of cannabis constituents. Through its wholly-owned subsidiaries, Core Isogenics Inc. and CSPA Group Inc., the Company operates a licensed vertically integrated cannabis cultivation, manufacturing, and distribution facility in the City of Adelanto, California. The Company's head office is located at Suite 3123 – 595 Burrard Street, Three Bentall Centre P.O. Box 49139; Vancouver, BC, V7X 1J1, Canada. The Company's shares trade on the Canadian Securities Exchange under the trading symbol "COOL," on the OTCQX under the trading symbol "CLABF," and on the Borse Frankfurt Exchange under the symbol "LD6, WKN: A14XHT".

As of the date of these condensed interim consolidated financial statements, the Company's structure is represented by Core One Labs Inc., parent company incorporated pursuant to the provision of the Business Corporations Act (British Columbia), and the following subsidiaries:

| Name | Jurisdiction of Incorporation | Interest | Function |
|---|--------------------------------------|-----------------|--|
| Canna Delivery Systems Inc. | Nevada | 100% | Holding company |
| LDS Agrotech Inc. | Nevada | 75% | Consulting services – cultivation |
| LDS Scientific Inc. | Nevada | 75% | Consulting services - extraction and manufacturing |
| Rêveur Holdings Inc. (formerly Adelanto Agricultural Advisors Inc.) | California | 100% | Holding company |
| LDS Development Corporation | California | 100% | Real estate holdings; equipment |
| Lifestyle Capital Corporation | California | 100% | Financing |
| Omni Distribution Inc. | California | 100% | No current operating activities |
| Optimus Prime Design Corp. | British Columbia | 100% | Holding company |
| CSPA Group, Inc. | California | 100% | Manufacturing and transportation |
| Core Isogenics Inc. | California | 100% | Nursery and cultivation |
| Agrotech LLC. | California | 50% | Cultivation |
| Rainy Daze Cannabis Corp. | British Columbia | 100% | Microcultivation |
| Rejuva Alternative Medicine Research Centre Inc. | British Columbia | 100% | Medical Clinic |
| Shahcor Health Services Inc. | British Columbia | 25% | Medical Clinic |

These condensed interim consolidated financial statements have been prepared with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These condensed interim consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern. These adjustments could be material.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These condensed interim consolidated financial statements were authorized for issue on November 30, 2020, by the Directors of the Company.

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim consolidated financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual financial statements. Since the unaudited condensed interim consolidated financial statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries, as listed in Note 1. All intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

Basis of Measurement and Use of Estimates

These condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical costs basis except for certain financial instruments and contingencies which are valued at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, the Company’s functional and presentation currency. The Company’s USA-based subsidiaries’ functional currency is the US dollar.

Newly adopted accounting standards

Amendments to IFRS 3 – Definition of a business

In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

Management is currently assessing the impact of the new standard on the Company’s accounting policies and financial statement presentation.

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

3. PROPERTY, PLANT AND EQUIPMENT

| | Membership and CUP | Property | Plant | Equipment | ROU | Total |
|--|-------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <u>Cost</u> | | | | | | |
| Balance at December 31, 2018 | \$ 3,587,915 | \$ 2,057,974 | \$ 6,431,946 | \$ 5,630,624 | \$ 2,364,559 | \$ 20,073,018 |
| Additions | - | - | 673,768 | 961,478 | 2,447,457 | 4,082,703 |
| Impairment | - | (338,566) | (347,032) | - | (2,069,729) | (2,755,327) |
| Foreign exchange | - | (91,489) | (307,001) | (269,118) | (133,571) | (801,179) |
| Balance at December 31, 2019 | 3,587,915 | 1,627,919 | 6,451,681 | 6,322,984 | 2,608,716 | 20,599,215 |
| Additions | - | - | 42,685 | - | - | 42,685 |
| Disposals | - | - | (87,675) | (66,717) | - | (154,392) |
| Foreign exchange | - | 43,995 | 149,198 | 136,025 | 52,555 | 381,773 |
| Balance at September 30, 2020 | \$ 3,587,915 | \$ 1,671,914 | \$ 6,555,889 | \$ 6,392,292 | \$ 2,661,271 | \$ 20,869,281 |
| <u>Accumulated Amortization</u> | | | | | | |
| Balance at December 31, 2018 | \$ - | \$ - | \$ 172,432 | \$ 337,672 | \$ - | \$ 510,104 |
| Depreciation | - | - | 850,666 | 972,635 | 682,479 | 2,505,780 |
| Amortization | 3,580,455 | - | - | - | - | 3,580,455 |
| Foreign exchange | 7,460 | - | (18,015) | (20,598) | (14,453) | (45,606) |
| Balance at December 31, 2019 | 3,587,915 | - | 1,005,083 | 1,289,709 | 668,026 | 6,550,733 |
| Depreciation | - | - | 588,526 | 747,895 | 242,907 | 1,579,328 |
| Foreign exchange | - | - | (8,779) | (11,156) | (3,622) | (23,557) |
| Balance at September 30, 2020 | \$ 3,587,915 | \$ - | \$ 1,584,830 | \$ 2,026,448 | \$ 907,311 | \$ 8,106,504 |
| <u>Net Book Value</u> | | | | | | |
| At December 31, 2019 | \$ - | \$ 1,627,919 | \$ 5,446,598 | \$ 5,033,275 | \$ 1,940,690 | \$ 14,048,482 |
| At September 30, 2020 | \$ - | \$ 1,671,914 | \$ 4,971,059 | \$ 4,365,844 | \$ 1,753,960 | \$ 12,762,777 |

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At September 30, 2020, \$1,143,683 (2019 - \$924,877) in amortization and depreciation expenses were included in cost of sales.

In January 2020, the Company entered into an option agreement with an affiliated party (the “Buyer”), wherein the Company granted the Buyer the exclusive right and option to purchase the Company’s land parcel in Adelanto, California for \$200,000. The option gives the Buyer the right to purchase the property for \$800,000 until August 6, 2021, or for \$1,000,000 until January 6, 2023. As at September 30, 2020, the Company recognized \$194,207 as deposit on option (December 31, 2019 - \$188,525). As at September 30, 2020, the option has not been exercised.

4. PREPAIDS AND OTHER CURRENT ASSETS

Prepays and other current assets as at September 30, 2020 and December 31, 2019 consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Insurance | \$ 704 | \$ 5,780 |
| Prepaid construction costs | 66,695 | - |
| Prepaid service fees | 276,560 | 234,821 |
| Prepaid IR fees | - | - |
| Security deposits | 250,458 | 244,920 |
| Prepaid regulatory fees | 47,013 | 60,957 |
| Total prepaids and other current assets | \$ 641,430 | \$ 546,478 |

5. AMOUNTS RECEIVABLE

Amounts receivable as at September 30, 2020 and December 31, 2019, consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|---------------------------------|--------------------|-------------------|
| Trade accounts receivable | \$ 664,963 | \$ 542,788 |
| GST receivable | 103,403 | 12,364 |
| Allowance for doubtful accounts | (103,811) | (154,937) |
| Foreign exchange | - | 3,281 |
| Total amounts receivable | \$ 664,555 | \$ 403,496 |

During the nine-month period ended September 30, 2020, the Company set up an allowance for trade accounts receivable which were deemed uncollectible totaling \$103,811 (December 31, 2019 - \$154,937). No additional provision for expected credit losses has been set up.

6. ADVANCES RECEIVABLE

During the year ended December 31, 2019, the Company advanced a net amount of \$71,252 to affiliated companies with senior management in common. The advances are due on demand and do not accumulate interest. The Company did not advance any funds during the nine-month period ended September 30, 2020. At September 30, 2020, the Company had a total of \$35,494 in advances receivable from affiliated entities (December 31, 2019 - \$33,860).

During the year ended December 31, 2018, the Company advanced \$1,102,464 (US\$889,865) to EPG Power Corporation (“EPG”), an affiliated company with former directors and senior management in common, to acquire a power generator and supplies necessary for its operation. At December 31, 2018, the Company assessed EPG’s financial position and its ability to repay the advances; it considered EPG’s short cash position, negative working capital, and ongoing negotiations with the City of Adelanto to supply power to cannabis operations, which led to a decision to set up an impairment of the amount advanced to EPG being \$1,204,405.

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

6. ADVANCES RECEIVABLE (CONTINUED)

During the year ended December 31, 2019, the Company used EPG's power generator in its cultivation operations resulting in \$540,768 in advances being recovered. As at September 30, 2020, \$602,269 continues to be impaired until such time that EPG completes additional financing and is able to repay the cost of the power generator.

7. INVENTORY

At September 30, 2020, the Company's inventory was valued at \$2,419,138 (December 31, 2019 - \$2,191,088) and consisted of \$176,011 in raw materials held for manufacturing (December 31, 2019 - \$88,785) and \$2,243,127 in finished products ready for sale (December 31, 2019 - \$2,102,303).

During the nine-month period ended September 30, 2020, the Company expensed \$1,190,472 of inventory to cost of goods sold (2019 - \$5,757,373); in addition the Company recognized \$172,770 non-cash expense relating to the changes in fair value of inventory sold (2019 - \$(1,162,218)).

As at September 30, 2020, the Company wrote down its inventory of cannabis-related products to the net realizable value, which resulted in an impairment of \$1,922,948 (2019 - \$Nil).

8. BIOLOGICAL ASSETS

The continuity of biological assets for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Biological assets, beginning of the period | \$ 167,881 | \$ - |
| Production of biological assets | 472,114 | 2,430,575 |
| Unrealized changes in fair value less costs to sell of biological assets | - | 679,267 |
| Transfers to inventory upon harvest | (405,484) | (2,927,576) |
| Foreign exchange | (2,507) | (14,385) |
| Total biological assets | \$ 232,004 | \$ 167,881 |

The Company's biological assets consist of cannabis plants. Biological assets are valued in accordance with IAS 41, *Agriculture*, based on a market approach where fair value at the point of harvest is estimated based on selling prices less costs to sell at harvest. Since there is no actively traded commodity market for cannabis plants in California, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

For in-process biological assets, the Company estimates the expected harvest yield in pounds ("lbs") and then adjusts the amount at point of harvest based on their stage of growth and by the expected selling costs per lbs.

The following significant unobservable inputs were used by management as model:

- Estimated selling price per lbs – with limited sales history, the Company's management evaluates available industry data and expects to closely approximate the expected selling price.
- Stage of growth – the Company applies a weighted average number of days out of the 16-week growing cycle that biological assets have reached as of the measurement date based on historical evidence. The Company assigns fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Plant yield – represents the expected number of ounces of finished cannabis flower and content of cannabidiol as a percentage of weight to be obtained from each harvested cannabis plant based on historical evidence.

CORE ONE LABS INC.

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8. BIOLOGICAL ASSETS (CONTINUED)

Other unobservable inputs include: estimated post-harvest costs, costs to complete and wastage. All inputs noted above are classified as level three on the fair value hierarchy.

The following table quantifies each significant unobservable input and provides the impact of a 20% increase or decrease that each input would have on the fair value of biological assets:

| | Indoor Cultivation | Impact of 20% change - September 30, 2020 |
|-------------------------------------|--------------------|--|
| Estimated yield per plant | 52.37 g | \$ 208,715 |
| Average selling price, mature plant | \$1,500/lb | \$ 208,715 |
| Growth stage | 48% | \$ 208,715 |

9. UNEARNED REVENUE

At September 30, 2020, the Company recorded \$32,814 (December 31, 2019 - \$671,495) in deferred revenue on future services which were comprised of the following:

| | September 30, 2020 | December 31, 2019 |
|--------------------------------------|--------------------|-------------------|
| Prepayments received from customers | \$ 32,814 | \$ 57,033 |
| Payment for Track and Trace software | - | 614,462 |
| Total unearned revenue | \$ 32,814 | \$ 671,495 |

During the year ended December 31, 2017, the Company entered into an Intellectual Property License and Royalty Agreement (the "TCAN Agreement") with TransCanna Holdings Inc. ("TransCanna"), a company related by virtue of former common management and common directors, for its Track and Trace software, which the Company was commissioned to develop. At September 30, 2020, the Track and Trace software development was not completed, furthermore it was suspended due to changes in regulatory requirements imposed by the state of California. During the nine months ended September 30, 2020, the Company was released from its obligation to deliver the Track and Trace software pursuant to the Settlement Agreement between the Company and TransCanna and recognized a gain of \$614,947 in the statement of profit and loss.

10. MARKETABLE SECURITIES

On March 16, 2020, the Company acquired 3,149,606 common shares of Cannabis Growth Opportunity Corporation ("CGOC") in exchange for issuing CGOC 2,666,667 common shares of the Company. At the time of the transaction, the fair market value of CGOC shares was \$0.23 per share and the fair market value of the Company's shares was \$0.42 per share. On acquisition, the Company recognized marketable securities of \$724,409 for the CGOC shares. At September 30, 2020, the revaluation of the CGOC shares resulted in an unrealized gain of \$503,937, due to the increase in CGOC's share price from \$0.23 at acquisition to \$0.39 per share at September 30, 2020. The fair market value of the CGOC shares as at September 30, 2020 was \$1,228,346, and was classified as current in the statement of financial position. The CGOC shares cannot be sold without prior written consent of CGOC, until September 16, 2021, according to share exchange agreements between the Company and CGOC.

On May 4, 2020, the Company entered into a Settlement Agreement with TransCanna, a former related party by virtue of having directors in common. Pursuant to the Settlement Agreement, the Company agreed to return to treasury 250,000 common shares of TransCanna it held as at that date (the "TCAN Shares") to TransCanna in exchange for release of the Company from its obligations under TCAN Agreement to deliver Track and Trace software (Note 9), as well as to repay US\$150,000 the Company owed to TransCanna under the loan agreement the Company signed on July 4, 2019 (Note 14).

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10. MARKETABLE SECURITIES (CONTINUED)

As at the date of the Settlement Agreement, the Company wrote off marketable securities of \$200,000 based on the market price of TCAN Shares of \$0.80 per share at the Settlement date. During the nine months ended September 30, 2020, the revaluation of the equity investment in TCAN Shares resulted in a \$95,000 loss (2019 - \$3,968,114 gain). The loss resulted from a decrease of the market price of TCAN shares from \$1.18 per share at December 31, 2019, to \$0.80 per share at the Settlement date.

11. LEASE

The Company leases certain assets under lease agreements. The lease liability consists of leases for the manufacturing facility terminating on March 31, 2021, and the warehouse facility terminating on March 31, 2024, and various short-term and operating leases for office space and equipment. The leases are calculated using an incremental borrowing rate of 12% per annum.

At September 30, 2020, and December 31, 2019, the Company's lease liability related to leases is as follows:

| | September 30, 2020 | | December 31, 2019 | |
|---------------------------------|---------------------------|------------------|--------------------------|------------------|
| Lease liability - beginning | \$ | 4,161,584 | \$ | 2,364,559 |
| Additions | | - | | 2,447,457 |
| Interest expense | | 367,684 | | 472,103 |
| Lease payments | | (853,083) | | (955,368) |
| Foreign exchange | | 119,708 | | (167,167) |
| Lease liability - ending | \$ | 3,795,893 | \$ | 4,161,584 |
| Current portion | | 713,163 | | 665,853 |
| Long-term portion | | 3,082,730 | | 3,495,731 |

At September 30, 2020, the Company is committed to minimum lease payments as follows:

| Maturity analysis | September 30, 2020 | |
|---|---------------------------|------------------|
| Less than one year | \$ | 1,144,756 |
| One to five years | | 3,884,371 |
| Total undiscounted lease liabilities | \$ | 5,029,127 |

12. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| | | September 30, 2020 | | September 30, 2019 | |
|--|----|---------------------------|---------|---------------------------|-----------|
| Management consulting services | a) | \$ | 349,236 | \$ | 390,590 |
| Consulting services for research and development | b) | \$ | 53,872 | \$ | 117,773 |
| Management salaries | c) | \$ | 327,015 | \$ | 495,131 |
| Share-based compensation | d) | \$ | 111,933 | \$ | 1,671,876 |

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

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12. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Management consulting services consist of the following:

- \$170,973 (2019 – \$276,028) in consulting fees paid or accrued to Mr. Eckenweiler, the former CEO and director of the Company pursuant to a consulting agreement with Mr. Eckenweiler. The Company agreed to pay Mr. Eckenweiler US\$25,000 per month for his services until his termination on July 3, 2020.
- \$40,349 (2019 - \$79,909) in consulting fees paid or accrued to Ms. Silina, the Company's former Chief Financial Officer (the "CFO") and former director. The Company agreed to pay Ms. Silina US\$7,500 per month for her services pursuant to a management consulting agreement which automatically renewed for an additional one-year term on May 1, 2019, as provided under the renewal provision included in the agreement. Ms. Silina resigned from the Company's board of directors on November 14, 2019 and as CFO effective April 30, 2020.
- \$Nil (2019 - \$12,500) in consulting fees paid or accrued to Mr. Johannson, a former member of the board of directors of the Company. The Company agreed to pay Mr. Johannson \$5,000 per month for his services pursuant to a consulting agreement. Mr. Johannson resigned as a director of the Company on March 15, 2019, effectively terminating his management consulting agreement with the Company.
- \$73,915 (2019 - \$22,153) in consulting fees paid or accrued to Mr. McEnulty, director, and executive officer of the Company's wholly-owned California subsidiaries. The Company agreed to pay Mr. McEnulty US\$12,000 per month for his services pursuant to a consulting agreement expiring December 30, 2020. During the second quarter of its Fiscal 2019, the Company re-negotiated the consulting agreement with Mr. McEnulty due to a change in the scope of services provided by Mr. McEnulty. Pursuant to the amended agreement, Mr. McEnulty's consulting fees were set at US\$6,000 per month and were retroactively adjusted from August 1, 2018.
- \$24,000 (2019 - \$Nil) in consulting fees paid or accrued to Mr. Morris, director of the Company. The Company agreed to pay Mr. Morris \$1,500 per month for his services pursuant to a consulting agreement.
- \$40,000 (2019 - \$Nil) in consulting fees paid or accrued to Mr. Shacker, current CEO of the Company. The Company agreed to pay Mr. Shacker \$10,000 per month for his services pursuant to a consulting agreement starting June 2020.

b) Consulting services for research and development consist of the following:

- \$53,872 (2019 – \$53,069) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer (the "CSO") of the Company. On July 1, 2017, the Company and Dr. Sanderson entered into a consulting agreement for US\$5,000 per month extending for a term of three years expiring on June 30, 2020, with automatic renewals for successive one-year periods thereafter.
- \$Nil (2019 - \$66,275) in consulting fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson ("Nanostrips"). In addition to the research and development fees, the Company incurred \$12,231 with Nanostrips during the nine months ended September 30, 2019, which were associated with the manufacturing of CannaStrips™ and therefore included in cost of sales.

c) Management salaries consist of the following:

- \$182,804 in management salaries paid or accrued to Mr. Fenwick, following his appointment as President and a member of the board of directors on February 4, 2019. Pursuant to the employment agreement Mr. Fenwick is entitled to a monthly salary of US\$15,000 in addition to all regular payroll benefits the Company set up for its USA-based employees

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12. RELATED PARTY TRANSACTIONS (CONTINUED)

- \$140,149 in management salaries paid or accrued to Mr. Ferguson, President and a 25% shareholder of LDS Agrotech. As of August 1, 2018, Mr. Ferguson is being remunerated through the regular monthly payroll. Mr. Ferguson is entitled to a monthly salary of US\$11,500 in addition to all regular payroll benefits the Company set up for its USA-based employees.
- \$4,062 in management salaries paid to Ms. Christopherson, CEO of CSPA Group, Inc. and the partner of Mr. Eckenweiler.

d) Share-based compensation consists of the following:

| | September 30, 2020 | September 30, 2019 |
|--|--------------------|---------------------|
| Brad Eckenweiler | \$ - | \$ 294,632 |
| Casey Fenwick | 41,239 | 916,250 |
| Dr. John Sanderson | 11,782 | 146,219 |
| Yanika Silina | - | 146,219 |
| Patrick Morris | 5,891 | - |
| Frank McEnulty | 11,782 | 168,556 |
| Matt Ferguson | 41,239 | - |
| Total share-based compensation to related parties | \$ 111,933 | \$ 1,671,876 |

Related party payables at September 30, 2020 and December 31, 2019 consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|---|---------------------|---------------------|
| Brad Eckenweiler | \$ 231,468 | \$ 337,532 |
| Casey Fenwick | 382,875 | 294,884 |
| Dr. John Sanderson | 93,373 | 38,964 |
| Yanika Silina | 98,014 | 88,476 |
| Arni Johannson | 49,875 | 49,875 |
| Patrick Morris | 26,782 | - |
| Frank McEnulty | 149,738 | 125,077 |
| Jonathan Hunt | 28,657 | 27,903 |
| Nanostrips Inc. | 8,673 | 8,445 |
| Matt Ferguson | 132,049 | 44,808 |
| Joel Shacker | 28,381 | - |
| Total payable to related parties | \$ 1,229,885 | \$ 1,015,964 |

13. CAPITAL AND RESERVES**A. Common Shares**

Authorized: Unlimited number of common voting shares without nominal or par value.

On September 6, 2019, the Company effected a consolidation of its capital on the basis of six (6) existing common shares for one (1) new common share. On July 7, 2020, the Company further consolidated its share capital on the basis of two (2) existing common shares for one (1) new common share. All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio.

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13. CAPITAL AND RESERVES (CONTINUED)**B. Issued Share Capital**

As at September 30, 2020, the Company had 70,967,507 shares issued and outstanding.

During the nine months ended September 30, 2020, the Company had the following transactions that resulted in issuance of its common stock:

- i. On March 16 2020, the Company issued 2,666,667 common shares to CGOC in exchange for 3,149,606 common shares of CGOC (the "Share-Swap"). At the time of transaction, the fair market value of CGOC's shares was \$0.27 per share, and therefore the Company recorded \$724,408 as share capital. The shares were issued as restricted, and therefore, until September 16, 2021, CGOC will not be able to trade the shares without prior written consent of the Company (Notes 10 and 15).
- ii. In April 2020, the Company entered into agreements for the settlement of \$808,325 in debt through the issuance of common shares of the Company (the "Debt Settlements"). Pursuant to the Debt Settlements, the Company issued a total of 2,449,470 common shares of the Company at a price of \$0.33 per share to certain creditors of the Company, including certain directors and officers of the Company.
- iii. In July 2020, the Company completed a non-brokered private placement of 21,052,621 units at a price of \$0.19 per unit for gross proceeds of \$4,000,000. Each unit consists of one common share of the Company, and one-half-of-one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.70 per share until July 3, 2022. The warrants were ascribed a value of \$nil under the residual value method.

In connection with completion of the private placement, the Company paid finders' fees of \$31,947. In addition the Company issued 434,891 warrants to certain arms-length parties who assisted in introducing subscribers to the Company, with a fair market value of \$139,041, which was determined using Black-Scholes Option pricing model based on the following assumptions:

| | July 3, 2020 |
|--------------------------------------|---------------------|
| Expected Life of the Broker Warrants | 2 years |
| Risk-Free Interest Rate | 0.26% |
| Expected Dividend Yield | Nil |
| Expected Stock Price Volatility | 75% |

- iv. On July 10, 2020, the Company issued 25,760,000 common shares at a market price of \$0.80 per share in relation of the acquisition of all the issued and outstanding shares of Rejuva (Note 25).
- v. On July 10, 2020, the Company issued 5,666,667 common shares at a market price of \$0.80 per share in relation of the acquisition of 25% of the non-voting participating share capital of Shahcor (Note 24).

During the year ended December 31, 2019, the Company had the following transactions that resulted in issuance of its common stock:

- vi. During the year ended December 31, 2019, the Company issued 25,000 shares for total proceeds of \$150,000 to a former director on exercise of an option to acquire common shares of the Company granted under the Company's rolling stock option plan.

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13. CAPITAL AND RESERVES (CONTINUED)

- vii. On May 9, 2019, the Company closed a non-brokered private placement financing (the “Financing”) by issuing a total of 1,618,680 units (the “Units”) at \$4.20 per Unit for total gross proceeds of \$6,798,457. Each Unit sold in the Financing consisted of one common share of the Company (each a “Unit Share”) and one common share purchase warrant (each a “Warrant”) entitling the holder to purchase one additional common share (a “Warrant Share”) at a price of \$3.00 per Warrant Share for a period ending on May 9, 2020.

In connection with the Financing, the Company paid cash commissions of \$233,076 and recognized \$3,663 as share issuance costs. In addition, the Company issued 55,495 brokers’ warrants with a fair market value of \$139,669, which was determined using Black-Scholes Option pricing model based on the following assumptions:

| | May 9, 2019 |
|--------------------------------------|--------------------|
| Expected Life of the Broker Warrants | 1 year |
| Risk-Free Interest Rate | 1.61% |
| Expected Dividend Yield | Nil |
| Expected Stock Price Volatility | 109% |

The brokers’ warrants were exercisable at \$6.00 per share for a one-year period expiring on May 9, 2020. These warrants expired unexercised.

- viii. On November 14, 2019, the Company issued 1,750,000 common shares at a deemed price of \$1.08 per share in consideration of the acquisition of all the issued and outstanding shares of Rainy Daze.

C. Stock Purchase Options

The Company maintains a rolling stock option plan (the “Plan”) pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, with the exercise price of each option being equal to or above the market price of the common shares on the grant date. Options granted under the Plan, including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

On July 8, 2020, the Company granted 2,100,000 incentive stock options to certain consultants and employees of the Company. Each option vested immediately upon grant and will be exercisable to acquire one common share of the Company, at a price of \$0.67 per share, until July 8, 2025. The grant date fair value of these options was \$829,640. The value of the options at grant date was determined using the Black-Scholes Option pricing model using the following assumptions:

| | July 8, 2020 |
|---------------------------------|---------------------|
| Expected Life of the Options | 5 years |
| Risk-Free Interest Rate | 0.32% |
| Expected Dividend Yield | Nil |
| Expected Stock Price Volatility | 75% |

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13. CAPITAL AND RESERVES (CONTINUED)

On May 28, 2020, the Company granted 1,500,000 options to certain directors, officers and consultants of the Company. The options are exercisable at \$0.33 per share until May 1, 2022. The options vest quarterly in equal installments beginning on August 28, 2020 until May 28, 2021. The grant date fair value of these options was \$176,737. The value of the options at grant date was determined using the Black-Scholes Option pricing model using the following assumptions:

| | May 28, 2020 |
|---------------------------------|---------------------|
| Expected Life of the Options | 1.93 years |
| Risk-Free Interest Rate | 0.28% |
| Expected Dividend Yield | Nil |
| Expected Stock Price Volatility | 75% |

During the nine months ended September 30, 2020, the Company recognized \$88,177 of share-based compensation for the vesting of these options.

The following table summarizes the continuity of share options for the nine-month period ended September 30, 2020 and the year ended December 31, 2019:

| | September 30, 2020 | | December 31, 2019 | |
|--------------------------------|---------------------------|------------------------------------|--------------------------|------------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Options outstanding, beginning | - | n/a | 996,940 | \$6.60 |
| Granted | 3,600,000 | \$0.53 | 1,423,800 | \$3.58 |
| Expired | - | n/a | (733,538) | \$6.54 |
| Exercised | - | n/a | (25,000) | \$6.00 |
| Cancelled | - | n/a | (1,662,202) | \$4.07 |
| Options outstanding, ending | 3,600,000 | \$0.53 | - | n/a |

The following table summarizes information about share options outstanding and exercisable at September 30, 2020:

| Outstanding and exercisable | Weighted average exercise price | Expiry date |
|------------------------------------|--|--------------------|
| 1,500,000 | \$ 0.33 | May 1, 2022 |
| 2,100,000 | \$ 0.67 | July 8, 2025 |
| 3,600,000 | \$ 0.53 | |

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the nine-month period ended September 30, 2020 and the year ended December 31, 2019:

| | September 30, 2020 | | December 31, 2019 | |
|---------------------------------|---------------------------|------------------------------------|--------------------------|------------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Warrants outstanding, beginning | 1,674,175 | \$6.00 | 441,667 | \$9.00 |
| Issued | 11,711,215 | \$0.73 | 1,674,175 | \$6.00 |
| Exercised | - | n/a | - | n/a |
| Expired | (1,674,175) | \$6.00 | (441,667) | \$9.00 |
| Warrants outstanding, ending | 11,711,215 | \$0.73 | 1,674,175 | \$6.00 |

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13. CAPITAL AND RESERVES (CONTINUED)

During the nine months ended September 30, 2020, 1,674,175 share purchase warrants expiring on May 9, 2020 expired unexercised.

During the nine months ended September 30, 2020, 10,961,215 share purchase warrants were issued pursuant to the private placement financing in July 2020 (Note 13(B)).

On March 16, 2020, as part of the Transaction with CGOC for a \$1,500,000 convertible debt facility (the "Debt Facility"), the Company issued to CGOC 750,000 common share purchase warrants (the "CGOC Warrants") (Note 15). The CGOC Warrants are exercisable at a price of \$1.20 per share, expiring on December 31, 2022, and vest in three equal tranches of 250,000 warrants each upon CGOC making each \$500,000 advance under the Debt Facility. The Company may accelerate the expiration date of the CGOC Warrants to 30 days after providing written notice to CGOC if the Company's common shares trade at or above \$3.00 per share for 10 consecutive trading days on the Canadian Securities Exchange.

The CGOC Warrants were valued at \$113,216 using the Black-Scholes Option pricing model using the assumptions provided in the table below. As at September 30, 2020, CGOC advanced \$450,000, which was not sufficient for the first tranche to vest, therefore the Company recognized \$26,675 in financing costs, being a fractional allocation of full cost to funds advanced by CGOC.

| | Assumptions used |
|------------------------------------|-------------------------|
| Expected Life of the CGOC Warrants | 2.79 years |
| Risk-Free Interest Rate | 0.51% |
| Expected Dividend Yield | Nil |
| Expected Stock Price Volatility | 103.12% |

The following table summarizes information about stock purchase warrants outstanding and exercisable at September 30, 2020:

| Outstanding and exercisable | Weighted average exercise price | Expiry date |
|------------------------------------|--|--------------------|
| 750,000 | \$ 1.20 | December 31, 2022 |
| 10,961,215 | \$ 0.70 | July 3, 2022 |
| 11,711,215 | \$ 0.73 | |

14. NOTES AND ADVANCES PAYABLE

On July 30, 2019, the Company issued a secure promissory note to TransCanna Holdings Inc. for USD\$150,000 advance by TransCanna to the Company on July 5, 2019 (the "TCAN Loan"). Outstanding principal under the TCAN Loan accrued interest at a rate of 1% per month, compounded monthly and was payable on October 30, 2019. The Company did not repay the TCAN Loan at maturity, therefore the Company was in default of the TCAN Loan. During the nine-month period ended September 30, 2020, the Company recorded \$7,468 in interest expense associated with the TCAN Loan.

In May 2020, the Company was released from its obligation to repay the TCAN Loan and interest as part of the Settlement Agreement that was effected on May 5, 2020, between the Company and TransCanna. During the nine months ended September 30, 2020, the Company recorded \$225,066 as a gain on settlement of debt in the statement of profit and loss.

During the nine-month period ended September 30, 2020, the Company had \$193,077 in advances payable, received for working capital (December 31, 2019 -\$317,180). The advances are due on demand and bear no interest.

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15. CONVERTIBLE DEBENTURE

On March 16, 2020, the Company entered into an agreement with CGOC for convertible debt facility (the "Debt Facility"). As consideration for the Debt Facility, the Company issued to CGOC a convertible debenture in the principal amount of up to \$1,500,000 (the "CGOC Debenture") and 750,000 share purchase warrants (the "CGOC Warrants") (Note 13). The aggregate principal amount available under the Debenture may be advanced by CGOC to the Company in three equal installments of \$500,000 each. At September 30, 2020, the Company has received total advances of \$450,000. The balance remaining receivable under the first tranche, being \$50,000, was recorded as debenture receivable.

The Debenture matures on December 31, 2022 (the "Maturity Date"), with interest accruing at a rate of 12% per annum. The amounts advanced under the Debenture will be unsecured until CGOC has advanced the full \$1,500,000 to the Company, upon which time the amounts owed under the Debenture will be secured by a general security agreement covering all of the Company's personal property. The outstanding principal amount under the Debenture, together with any accrued and unpaid interest thereon may be converted into common shares of the Company at a conversion price of \$0.80 per share.

Since the CGOC Debenture is conditional upon the Company meeting certain requirements, only the first \$500,000 tranche was recorded on the Company's statement of financial position. At the time of recognition, the CGOC Debenture was separated into its liability and equity components by first valuing the liability component. The fair value of the liability component of the first tranche of the CGOC Debenture at the time of issue was determined to be \$417,624, and calculated based on the discounted cash flows for the CGOC Debentures assuming an 20% discount rate, historical rate of interest the Company was able to secure prior debt facilities from non-related parties. The fair value of the equity component (conversion feature) was calculated to be \$82,376 and was determined at the time of issue as the difference between the face value of the CGOC Debenture and the fair value of the liability component.

During the nine months ended September 30, 2020, the Company recorded accretion expense of \$8,517 (2019 - \$Nil).

16. NON-CONTROLLING INTERESTS

At September 30, 2020, the Company owns a 75% interest in two of its subsidiaries, LDS Agrotech Inc., and LDS Scientific Inc. The remaining 25% equity interest of LDS Agrotech is held by Matthew Ferguson, its President; and the remaining 25% equity interest of LDS Scientific is held by Jonathan Hunt, its former President. In addition, the Company holds 50% equity of Agrotech, LLC ("Agrotech"), of which 50% of equity was transferred to an arms-length US Person during the year ended December 31, 2019.

On January 31, 2019, the Company reacquired the full ownership of Omni Distribution Inc. as part of the settlement agreement and release the Company negotiated with Ms. Elrod, the former President of LDS Scientific.

At September 30, 2020, and December 31, 2019, the non-controlling interests consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|----------------------|---------------------------|--------------------------|
| LDS Scientific (25%) | \$ (2,096,718) | \$ (1,838,406) |
| LDS Agrotech (25%) | (119,044) | (115,847) |
| Agrotech, LLC (50%) | 363,129 | 342,695 |
| | \$ (1,852,633) | \$ (1,611,558) |

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

16. NON-CONTROLLING INTERESTS (CONTINUED)

The following are the summarized statements of financial position of LDS Scientific, LDS Agrotech, and Agrotech as at September 30, 2020 and December 31, 2019:

As at September 30, 2020

| | LDS Scientific | | LDS Agrotech | | Agrotech | | Total | |
|--|----------------|--------------------|--------------|------------------|-----------|----------------|-----------|--------------------|
| Assets | \$ | 16,467 | \$ | - | \$ | 1,106,296 | \$ | 1,122,763 |
| Liabilities | | (8,403,335) | | (476,175) | | (380,038) | | (9,259,548) |
| Total net assets | \$ | (8,386,868) | \$ | (476,175) | \$ | 726,258 | \$ | (8,136,785) |
| Total net assets allocated to NCI | \$ | (2,096,718) | \$ | (119,044) | \$ | 363,129 | \$ | (1,852,633) |

As at December 31, 2019

| | LDS Scientific | | LDS Agrotech | | Agrotech | | Omni Distribution | | Total | |
|--|----------------|--------------------|--------------|------------------|-----------|----------------|-------------------|----------|-----------|--------------------|
| Assets | \$ | 15,099 | \$ | - | \$ | 1,745,731 | \$ | 520 | \$ | 1,761,350 |
| Liabilities | | (7,368,722) | | (463,384) | | (1,060,341) | | - | | (8,892,447) |
| Total net assets | \$ | (7,353,623) | \$ | (463,384) | \$ | 685,390 | \$ | 520 | \$ | (7,131,097) |
| Total net assets allocated to NCI | \$ | (1,838,406) | \$ | (115,847) | \$ | 342,695 | \$ | - | \$ | (1,611,558) |

The following table summarizes comprehensive income (loss) incurred by the Company's subsidiaries with non-controlling interests for the nine months ended September 30, 2020 and 2019:

For the nine months ended September 30, 2020

| | LDS Scientific | | LDS Agrotech | | Agrotech | | Total | |
|---|----------------|------------------|--------------|----------------|-----------|---------------|-----------|------------------|
| Gross profit | \$ | - | \$ | - | \$ | 22,093 | \$ | 22,093 |
| Operating expenses | | (826,403) | | - | | 591 | | (825,812) |
| Net income (loss) | | (826,403) | | - | | 22,684 | | (803,719) |
| Other comprehensive income (loss) | | (206,843) | | (12,789) | | 18,184 | | (201,448) |
| Comprehensive income (loss) | \$ | (1,033,246) | \$ | (12,789) | \$ | 40,868 | \$ | (1,005,167) |
| Comprehensive income (loss) allocated to NCI | \$ | (258,312) | \$ | (3,197) | \$ | 20,434 | \$ | (241,075) |

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

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16. NON-CONTROLLING INTERESTS (CONTINUED)**For the nine months ended September 30, 2019**

| | LDS | | LDS | | Agrotech | | Total | |
|---|-------------------|------------------|-----------------|-----------|-----------------|----------------|--------------|------------------|
| | Scientific | | Agrotech | | | | | |
| Gross profit | \$ | - | \$ | - | \$ | 1,162,218 | \$ | 1,162,218 |
| Operating expenses | | (1,987,756) | | (2,537) | | (8,237) | | (1,998,530) |
| Net income (loss) | | (1,987,756) | | (2,537) | | 1,153,981 | | (836,312) |
| Other comprehensive income (loss) | | 143,017 | | 2,894 | | 4,254 | | 150,165 |
| Comprehensive income (loss) | \$ | (1,844,739) | \$ | 357 | \$ | 1,158,235 | \$ | (686,147) |
| Comprehensive income (loss) allocated to NCI | \$ | (461,185) | \$ | 89 | \$ | 579,118 | \$ | \$118,022 |

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | September 30, 2020 | | December 31, 2019 | |
|---|---------------------------|------------------|--------------------------|------------------|
| Accounts payable | \$ | 5,637,730 | \$ | 4,060,344 |
| Wages payable | | 34,890 | | 32,122 |
| Accrued liabilities | | 472,809 | | 531,110 |
| Liability under crop-share arrangement | | 1,027,047 | | 1,000,021 |
| Total accounts payable and accrued liabilities | \$ | 7,172,476 | \$ | 5,623,597 |

During the year ended December 31, 2019, the Company's 50%-owned subsidiary, Agrotech LLC, entered into two crop-share farm lease agreements for outdoor cultivation of cannabis (the "Farm Agreements") which expired on December 31, 2019. According to the Farm Agreements, the farm owners are entitled to receive 50% of net income generated from the sale of the biological assets. At September 30, 2020, the Company recorded \$1,027,047 due to the farm owners under the crop-share agreement for their share of expected net income (December 31, 2019: \$1,000,021) The Company determined the liability based on an expected selling price of USD\$500/lb of biomass. At September 30, 2020, a 10% change in expected selling price would result in a \$165,239 change to the liability.

18. GENERAL AND ADMINISTRATIVE EXPENSES

At September 30, 2020 and 2019 general and administrative expenses consisted of the following:

| | Nine months ended, | | | |
|--|---------------------------|------------------|---------------------------|------------------|
| | September 30, 2020 | | September 30, 2019 | |
| Accounting fees | \$ | 174,086 | \$ | 109,678 |
| Accretion and finance fees for debenture | | 22,145 | | - |
| IT infrastructure | | 136,946 | | 238,894 |
| Legal fees | | 513,285 | | 329,855 |
| Meals and travel expenses | | 62,802 | | 336,031 |
| Office and general | | 417,937 | | 763,933 |
| Regulatory fees | | 173,279 | | 312,015 |
| Salaries and wages expense | | 717,077 | | 1,491,164 |
| Unallocated manufacturing costs | | 145,728 | | - |
| Total general and administrative | \$ | 2,363,285 | \$ | 3,581,570 |

19. COMMITMENTS

Aside from lease liabilities, as describe in Note 11, the Company's commitments were represented by the annual property taxes the Company is required to pay for its manufacturing and grow facility, as well as for its land parcels. The total annual property taxes are estimated at \$36,761 (US\$28,304).

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

20. GEOGRAPHICAL INFORMATION

Geographical information relating to the Company's activities is as follows:

| | Revenue | |
|---------------|--|--------------|
| | Nine months ended September 30 , 2020 | 2019 |
| United States | \$ 2,250,480 | \$ 4,378,545 |
| | \$ 2,250,480 | \$ 4,378,545 |

| | Long-Term Assets⁽¹⁾ | |
|---------------|---|---|
| | Nine months ended September 30, 2020 | Year ended December 31, 2019 |
| United States | \$ 12,762,777 | \$ 14,048,482 |
| Canada | 4,933,334 | - |
| | \$ 17,696,111 | \$ 14,048,482 |

⁽¹⁾ Includes: Property, plant, and equipment, and investment**21. REVENUE**

For the nine-month period ended September 30, 2020 and year ended December 31, 2019 the following revenue was recorded from customers that comprise 10% or more of revenue:

| | September 30, 2020 | December 31, 2019 |
|------------|---------------------------|--------------------------|
| Customer A | \$ - | \$ 372,903 |
| Customer B | \$ 1,073,081 | \$ - |
| Customer C | \$ - | \$ 1,300,558 |
| Customer D | \$ 141,916 | \$ - |
| Customer E | \$ 657,599 | \$ - |

22. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company only recently started generating revenue and cash flows used in its operations are still negative; as such the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company's management of capital during the nine months ended September 30, 2020. The Company is not subject to any externally imposed capital requirements.

23. FINANCIAL INSTRUMENTS AND RISKS

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

CORE ONE LABS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars) (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019

23. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

The Company has classified its cash and cash equivalents and marketable securities as measured at fair value in the statement of financial position, using level 1 inputs. Amounts and advances receivable, accounts payable and accrued liabilities, amounts due to related parties, advances payable, and unearned revenue approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and lease obligations where interest is charged at a fixed rate is not significantly different than fair value.

Risk management

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk, and foreign currency risk. Management, the Board of Directors, and the Audit Committee monitor risk management activities and review the adequacy of such activities.

Credit risk:

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at September 30, 2020 is the carrying amount of cash, marketable securities, amounts and advances receivable.

The risk for cash is mitigated by holding these instruments with highly rated financial institutions in Canada and USA.

Some concentrations of credit risk with respect to amounts receivable exist due to the small number of customers. Amounts receivable are shown net of any provision made for impairment of the receivables. Due to this factor, the management of the Company believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in amounts receivable.

Market risk:

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

i. Interest rate risk:

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal.

As at September 30, 2020, the Company's advances and amounts payable were interest-free and payable on demand.

The Company considers its interest rate risk policies to be effective and has been following them consistently.

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

(Expressed in Canadian Dollars) (Unaudited)

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23. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)*ii. Currency risk:*

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated in US dollars.

| | September 30, 2020 | | December 31, 2019 | |
|---|---------------------------|-------------|--------------------------|-------------|
| Cash denominated in USD | \$ | 191,522 | \$ | 116,470 |
| Accounts receivable denominated in USD | | 561,152 | | 391,132 |
| Prepays and other current assets denominated in USD | | 569,171 | | 478,737 |
| Accounts and wages payable and accrued liabilities denominated in USD | | (5,953,353) | | (4,569,278) |
| Notes and advances denominated in USD | | (24,263) | | (476,191) |
| Total | | (4,655,771) | | (4,059,130) |
| Effect of a 10% change in exchange rates | \$ | (465,577) | \$ | (405,913) |

iii. Equity price risk:

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks. At September 30, 2020, the Company held 3,149,606 restricted common shares of CGOC valued at \$1,228,346 (2019 – \$Nil). As at September 30, 2020, the Company's equity investment represented less than 50% of its current assets. Market fluctuations in share price of CGOC would not have an impact on the Company's liquidity until such time that the CGOC shares become free-trading. For these reasons the Company's management determined that equity price risk was not material to the Company's operations.

iv. Liquidity risk:

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. As at September 30, 2020, the Company had cash of \$1,112,732 to settle current financial liabilities of \$9,535,622. In order to meet its current liabilities, the Company will need to raise/borrow funds from either loans or private placements. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements, with an increased grow, manufacturing and distribution operations, the likelihood of the Company generating positive cash flows is probable, however, given the industry and the global economy, remain uncertain. Likewise, the Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following shows the Company's financial liabilities and is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2020:

| | Within 12 months | | After 12 months | |
|---|-------------------------|-----------|------------------------|-----------|
| Accounts payables and accrued liabilities | \$ | 7,172,476 | \$ | - |
| Amounts due to related parties | | 1,229,885 | | - |
| Advances payable | | 193,077 | | - |
| Lease liability | | 713,163 | | 3,082,730 |
| Convertible debenture | | - | | 448,662 |
| Total | \$ | 9,308,601 | \$ | 3,531,392 |

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

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24. INVESTMENT IN SHAHCOR

On July 10, 2020, the Company completed an acquisition (the “Shahcor Acquisition”) of one-quarter of the non-voting participating share capital of Shahcor.

The Company paid cash of \$400,000 and issued 5,555,556 common shares to the existing shareholders of Shahcor in exchange for 25% of the non-voting participating share capital of Shahcor.

The existing shareholders of Shahcor will also be eligible to receive a one-time bonus payment of \$1,000,000 (the “Bonus Payment”) in the event Shahcor achieves monthly recurring revenue of at least \$30,000 in the three months following completion of the Shahcor Acquisition. At the election of the Company, the Bonus Payment will be payable in cash, or common shares of the Company, based upon the volume-weighted average closing price of the common shares of the Company on the Canadian Securities Exchange in the ten trading days prior to the issuance of the shares. As at the date of this report, there is no assurance that the bonus payment was triggered, so no accrual was made for this.

In connection with completion of the Shahcor Acquisition, the Company issued 111,111 common shares, and paid \$8,000 as an administrative fee to unrelated parties that assisted in the acquisition.

The investment has been accounted for using the cost method. The Company did not gain significant influence or control over Shahcor, and the shares purchases are non-voting shares.

The following table summarizes the recognition of investment asset at the date of acquisition.

| Consideration | | Amount |
|--|----|---------------|
| 5,555,556 shares at a value of \$0.80 per share | \$ | 4,444,445 |
| Cash consideration | | 400,000 |
| 111,111 shares issued as Administration fee at a value of \$0.80 per share | | 88,889 |
| Investment in Shahcor | \$ | 4,933,334 |

25. ACQUISITION OF REJUVA

On July 10, 2020, the Company completed an acquisition (the “Rejuva Acquisition”) of all of the outstanding share capital of Rejuva. In consideration for all of the outstanding share capital of Rejuva, the Company issued 23,000,000 common shares to the existing shareholders of Rejuva. In addition, the Company issued 2,300,000 common shares as a finders’ fee, and 460,000 common shares as an administrative fee to unrelated parties that assisted in the acquisition.

At the date of acquisition, The Company determined that Rejuva did not constitute a business as defined under IFRS 3, Business Combinations, and the Rejuva Acquisition was accounted for as an asset acquisition. There were no intangible assets identified that met the recognition criteria under IFRS; therefore, the excess of the consideration paid over the fair value of the monetary assets and liabilities assumed was expensed.

CORE ONE LABS INC.**Notes to the Condensed Interim Consolidated Financial Statements**

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25. ACQUISITION OF REJUVA (CONTINUED)

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

| Consideration | | Amount |
|--|-----------|-------------------|
| 23,000,000 shares issued as consideration at a value of \$0.80 per share | \$ | 18,400,000 |
| 2,300,000 shares issued as Finder fee at a value of \$0.80 per share | | 1,840,000 |
| 460,000 shares issued as Administration fee at a value of \$0.80 per share | | 368,000 |
| | \$ | <u>20,608,000</u> |
| Net liabilities of Rejuva as at July 10, 2020 | | |
| Cash | \$ | 94,749 |
| Other current assets | | - |
| Amounts payable and accrued liabilities | \$ | <u>(35,754)</u> |
| Net liabilities acquired | \$ | 58,995 |
| Loss on acquisition | \$ | 20,549,005 |

26. IMPACT OF COVID-19

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada, the USA, and other countries to contain and treat the virus. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

27. SUBSEQUENT EVENTS

The following material events have occurred subsequent to September 30, 2020:

- On October 7, 2020, the Company entered into a Letter of Intent (the "LOI") dated effective October 1, 2020 to acquire all of the outstanding share capital of Vocan Biotechnologies Inc. ("Vocan"). Vocan is a genetic engineering and biosynthesis research firm developing a proprietary fermentation system for the production of psilocybin API. Vocan's mission is to use science and technology to advance the knowledge of natural-based medicines for the treatment of mental health illnesses, including addictions.

Under the terms of the LOI, in consideration for all of the outstanding share capital of Vocan, the Company is expected to issue 23,500,000 common shares (the "Consideration Shares"), and 4,000,000 common share purchase warrants (the "Consideration Warrants"), to the existing shareholders of Vocan. Each Consideration Warrant will be exercisable to acquire an additional common share of the Company at a price of \$0.30 for a period of twenty-four months. In addition to the Consideration Shares, and the Consideration Warrants, the existing shareholders of Vocan will also be eligible to receive bonus payments of up to 5,000,000 common shares (the "Bonus Shares"). The Bonus Shares will be issuable in two tranches, of which 2,500,000 will be issuable upon the successful synthesis of psilocybin, and a further 2,500,000 will be issuable upon the filing of a patent application for such synthesis method in at least one jurisdiction. It is anticipated that a portion of the Consideration Shares will be subject to the terms of a pooling arrangement, during which time they not be transferred or traded without the prior consent of the Company. The Consideration Shares will be released from the arrangement in tranches over a period of nine months following completion of the acquisition.

CORE ONE LABS INC.

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27. SUBSEQUENT EVENTS (CONTINUED)

Completion of the acquisition of Vocan remains subject to a number of conditions, including the satisfactory completion of due diligence, receipt of any required regulatory approvals and the negotiation of definitive documentation. No finders fees or commissions are payable in connection with the acquisition of Vocan. An administrative fee of 470,000 common shares is owing to a third-party consultant who will be assisting with completion of the acquisition.