Vibe Bioscience Ltd.
(formerly Altitude Resources Inc.)

Consolidated Financial Statements

As at and for the Year Ended December 31, 2019

(In U.S. Dollars, Unless Otherwise Noted)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)

Opinion

We have audited the accompanying consolidated financial statements of Vibe Bioscience Ltd. (formerly Altitude Resources Inc.) (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, statement of changes in shareholders' equity and cash flows for the year ended December 31, 2019 and the period from incorporation on June 11, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and the period from incorporation on June 11, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company had a deficit of $11,972,994 at December 31, 2019 and incurred a net loss of $8,617,911 during the year ended December 31, 2019. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Professional Accountants

April 29, 2020

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Consolidated Statements of Financial Position
(Expressed in U.S. dollars)

As at	*notes*	**December 31, 2019**	December 31, 2018
Assets			*(note 18)*
Current assets			
Cash and cash equivalents		**$ 1,637,496**	$ 2,328,893
Restricted cash		**-**	352,069
Accounts receivable		**246,750**	20,155
Inventory	*5*	**521,592**	-
Biological assets	*6*	**176,767**	-
Other current assets		**227,996**	148,786
Total current assets		**2,810,601**	2,849,903
Intangible assets and goodwill	*4(b), 7*	**5,493,648**	2,542,826
Property and equipment	*8*	**3,599,951**	2,134
Right-of-use assets	*9*	**669,880**	-
Deposits	*8*	**-**	800,000
Investments	*4(e)*	**-**	550,000
Total assets		**$ 12,574,080**	$ 6,744,863
Liabilities			
Current liabilities			
Accounts payable		**$ 2,358,720**	$ 592,658
Income taxes payable		**559,102**	-
Current portion of lease obligations and notes payable	*10, 11*	**258,030**	-
Subscription received in advance	*13*	**-**	352,069
Total current liabilities		**3,175,852**	944,727
Notes payable	*11*	**1,130,113**	-
Lease obligations	*10*	**478,022**	-
Deferred tax liability	*12*	**787,080**	-
Total liabilities		**$ 5,571,067**	$ 944,727
Shareholders' equity			
Share capital	*13(a)*	**$ 17,651,013**	$ 8,584,340
Warrants	*13(b)*	**25,227**	25,227
Contributed surplus		**1,379,539**	752,332
Accumulated other comprehensive loss		**(79,772)**	(206,680)
Deficit		**(11,972,994)**	(3,355,083)
		7,003,013	5,800,136
Total liabilities and shareholders' equity		**$ 12,574,080**	$ 6,744,863

Nature of Operations (Note 1)
Going Concern (Note 2(c))
Contingencies (Note 16)
Subsequent event (Note 20)

On behalf of the Board:

"*Mark Waldron*", Director — "*Jim Meloche*", Director
Mark Waldron — Jim Meloche

The accompanying notes are an integral part of these Consolidated Financial Statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in U.S. dollars)

	notes	**For the year ended December 31, 2019**	For the period from incorporation on June 11, 2018 to December 31, 2018
			(note 18)
Revenue		**$ 12,600,159**	$ -
Cost of goods sold		**8,062,106**	-
Gross margin before biological asset adjustments		**4,538,053**	-
Net effect of adjustments for biological assets	6	**79,593**	-
Gross margin		**4,617,646**	-
Operating expenses			
General and administrative		**2,992,297**	1,206,257
Sales, security and marketing		**1,556,673**	-
Stock-based compensation	*13(c)*	**708,252**	1,966,956
Depreciation and amortization	*7, 8, 9*	**834,281**	213,963
		6,091,503	3,387,176
Other expenses (income)			
Listing fee	*4(a)*	**564,704**	-
Loss on investment	*4(a)(ii)*	**415,000**	-
Transaction expenses	*4(f)*	**455,644**	-
Finance expense		**132,609**	-
Unrealized gain on fair value of financial asset	*4(a)(i)*	**(113,195)**	-
Loss on funding advance	*4(d)*	**320,000**	-
Impairment of goodwill	*7*	**2,314,960**	-
Impairment of intangible assets	*7*	**2,336,858**	-
Other		**20,311**	(32,093)
		6,446,891	(32,093)
Loss before income taxes		**(7,920,748)**	(3,355,083)
Income tax expense (recovery)	*12*		
Current		**751,083**	-
Deferred		**(53,920)**	-
		697,163	-
Net loss for the period		**(8,617,911)**	(3,355,083)
Other comprehensive income (loss)			
Foreign currency translation gain (loss)		**126,908**	(206,680)
Net loss and comprehensive loss for the period		**$ (8,491,003)**	$ (3,561,763)
Loss per share			
Basic and diluted *(1)*		**$ (0.11)**	$ (0.05)
Weighted average shares outstanding			
Basic and diluted		76,052,414	74,206,985

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

The accompanying notes are an integral part of these Consolidated Financial Statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. dollars)

	Common share capital	Warrants	Contributed surplus	AOCI*	Deficit	Total shareholders' equity
Balance at December 31, 2018	**$ 8,584,340**	**$ 25,227**	**$ 752,332**	**$ (206,680)**	**$ (3,355,083)**	**$ 5,800,136**
Shares issued in private placement	3,845,288	-	-	-	-	3,845,288
Shares issued in business acquisitions	4,234,037	-	-	-	-	4,234,037
Shares issued in asset acquisition	55,683	-	-	-	-	55,683
Shares issued in reverse take-over	850,620	-	-	-	-	850,620
Exercise of stock options	81,045	-	(81,045)	-	-	-
Stock-based compensation	-	-	708,252	-	-	708,252
Total net and comprehensive loss	-	-	-	126,908	(8,617,911)	(8,491,003)
Balance at December 31, 2019	**$ 17,651,013**	**$ 25,227**	**$ 1,379,539**	**$ (79,772)**	**$ (11,972,994)**	**$ 7,003,013**
Balance at June 11, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Shares issued in asset purchase	2,874,387	-	-	-	-	2,874,387
Shares issued in private placement	4,481,367	25,227	-	-	-	4,506,594
Exercise of stock options	1,228,586	-	(1,214,624)	-	-	13,962
Stock-based compensation	-	-	1,966,956	-	-	1,966,956
Total net and comprehensive loss	-	-	-	(206,680)	(3,355,083)	(3,561,763)
Balance at December 31, 2018	**$ 8,584,340**	**$ 25,227**	**$ 752,332**	**$ (206,680)**	**$ (3,355,083)**	**$ 5,800,136**

* Accumulated other comprehensive income

The accompanying notes are an integral part of these Consolidated Financial Statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	For the year ended December 31, 2019	For the period from incorporation on June 11, 2018 to December 31, 2018
Operating activities		
Net loss for the period	$ (8,617,911)	$ (3,355,083)
Items not involving cash:		
Listing fee	564,704	-
Rent	-	20,924
Stock-based compensation	708,252	1,966,956
Loss on investment	415,000	-
Depreciation and amortization	834,281	213,963
Impairment of goodwill	2,314,960	
Impairment of intangible assets	2,336,858	-
Unrealized foreign exchange loss	338	(42,115)
Unrealized gain on fair value of financial asset	(113,195)	-
Deferred income tax recovery	(53,920)	-
	(1,610,633)	(1,195,355)
Change in non-cash working capital:		
Accounts receivable	432,013	(20,155)
Inventory	(262,897)	-
Biological assets	(79,593)	-
Other current assets	(45,381)	(48,211)
Accounts payable and accrued liabilities	1,017,544	592,658
Income taxes payable	(123,328)	-
Cash flow used in operating activities	(672,275)	(671,063)
Investing activities		
Cash paid on business acquisitions, net of cash acquired	(2,336,355)	-
Deposits related to acquisitions	-	(1,350,000)
Loan receivable	-	(100,575)
Cash paid for an asset acquisition	(109,244)	-
Purchases of property and equipment	(1,270,850)	(2,512)
Cash flow used in investing activities	(3,716,449)	(1,453,087)
Financing activities		
Issuance of common shares	3,494,102	4,506,594
Settlement of subscriptions received in advance	-	13,962
Subscriptions received in advance	-	352,069
Restricted cash	352,069	(352,069)
Repayment of lease obligation	(168,765)	-
Repayment of notes payable	(43,224)	-
Cash flows provided from financing activities	3,634,182	4,520,556
Effect of translation of cash held in foreign currencies	63,145	(67,513)
Increase (decrease) in cash and cash equivalents	(691,397)	2,328,893
Beginning cash and cash equivalents	2,328,893	-
Ending cash and cash equivalents	$ 1,637,496	$ 2,328,893
Supplemental cash flow information		
Interest paid in period	$ 68,538	$ -
Income taxes paid in period	$ 874,410	$ -

The accompanying notes are an integral part of these Consolidated Financial Statements

1. NATURE OF OPERATIONS

On March 25, 2019, Altitude Resources Inc. ("Altitude"), 2657152 Ontario Inc. ("Newco"), a wholly-owned subsidiary of Altitude and Vibe Bioscience Corporation ("Vibe") completed a three-cornered amalgamation whereby Vibe amalgamated with Newco and completed a reverse take-over of Altitude (the "Altitude Reverse Take-over"). The Altitude Reverse Take-over was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe outstanding, resulting in Vibe becoming a wholly-owned subsidiary of Altitude with the former shareholders of Vibe acquiring a controlling interest in Altitude. In connection with the Altitude Reverse Take-over, Altitude delisted its shares on the TSX Venture Exchange, changed its name to Vibe Bioscience Ltd. (the "Company"), completed a listing on the Canadian Securities Exchange under the ticker symbol "VIBE" and consolidated its issued and outstanding common shares on a basis of 12 to 1. The Company's Canadian head office is located at #214, 2505 - 17 Ave SW Calgary, Alberta T3E 7V3 and its U.S. head office is located at 8112 Alpine Ave Sacramento, California 95826.

Prior to the Altitude Reverse Take-over, Altitude did not operate an active business. The current operations of the Company are conducted through Vibe which was incorporated under the laws of the Province of Ontario on June 11, 2018. The Company's business is to evaluate, acquire and develop cannabis cultivation and manufacturing assets and retail cannabis dispensaries, predominantly in the U.S., in order to become a vertically integrated cannabis operator. For accounting and presentation purposes, the consolidated financial statements reflect the results of operations of Vibe, the accounting acquirer, with the exception of the number of shares which were retroactively adjusted to reflect the legal capital of the Company.

In addition to the 6.883 to 1 share exchange and 12 to 1 share consolidation of Vibe's Class A Common Shares prior to the completion of the Altitude Reverse Takeover noted above, Vibe completed a share split on a 1 to 1.511 basis following the completion of certain private placements of Vibe's Class A common shares completed in February and March 2019 (Note 13). All results presented as at and for the year ended December 31, 2019, including comparative results, related to common share, per common share amounts, warrants, stock options and related exercise prices reflect the share exchange, consolidation and split.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). These financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 29, 2019.

(b) Measurement basis

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value and specifically noted within the notes to these consolidated financial statements.

2. BASIS OF PRESENTATION (continued)

(c) Going concern

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations, generate sufficient funds therefrom, and continue to obtain capital from investors sufficient to meet its current and future obligations. As at December 31, 2019, the Company had a working capital deficit of $107,221 (exclusive of the current portion of lease obligations and notes payable), a deficit of $11,972,994 and incurred a net loss of $8,617,911 during the year then ended. Included in the loss for the year ended December 31, 2019 are two non-cash charges with respect to the impairment of goodwill and intangible assets (Note 7) and certain one-time costs with respect to the Company’s public listing and completion of various acquisitions (Note 4). Management continues to focus its efforts on minimizing sales, security and marketing and general and administrative expenses, completing accretive transactions, raising additional capital through debt or equity financings and debt settlement transactions.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This pandemic, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds. The State of California has deemed the sale of cannabis an essential service allowing the Company to keep its dispensaries open and maintain its cultivation operations. The Company will continue to follow the guidance of local, state, national and international health authorities to make informed decisions and provide its clients and staff with information as the Company's priority is on the safety and well-being of its employees and clients.

Although management’s efforts to raise capital and monetize assets have been successful in the past, there is no certainty that they will be able to do so in the future. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern. These consolidated financial statements have been prepared using accounting principles that are applied to a going concern and do not reflect the adjustments that would be necessary to the presentation and carrying amounts of the assets and liabilities if the Company were not able to continue operations. These adjustments and reclassifications may be material.

(d) Functional and presentation currency

These consolidated financial statements are presented in United States Dollars. The Canadian Dollar is the functional currency of the Company and its wholly own subsidiary Vibe. The functional currency of the Company’s subsidiaries operating in United States is the United States Dollar. The Company changed its reporting currency to United States Dollars with an effect from June 11, 2018. This change was triggered by the completion of the acquisitions in Note 4(b).

In making this change to the United States dollar presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company’s presentation currency. In accordance with IAS 21, the financial statements for all years presented have been translated using the new United States dollar as the presentation currency. For the 2018 comparative balances, assets and liabilities have been translated into the presentation currency of United States dollars at the rate of exchange prevailing at the reporting date (Note 18). The statements of operations and comprehensive income (loss) were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of transactions. Exchange differences arising on translation were recorded in the accumulated other comprehensive income in shareholders’ equity.

2. BASIS OF PRESENTATION (continued)

(d) Functional and presentation currency (continued)

For reporting purposes, the assets and liabilities of Vibe Bioscience Ltd. and Vibe are translated into United Sates Dollars at the closing rate at the date of the balance sheets, and revenue and expenses are translated at the average rate for the period. Foreign currency translation adjustments are recorded in other comprehensive income (loss).

(e) Basis of consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

Subsidiary	Jurisdiction of incorporation
Vibe Bioscience Corporation	Ontario, Canada
Vibe Investments, LLC (formerly Hype Bioscience Inc.) ("Hype U.S.")	Nevada, U.S.A
Vibe by California Inc. (formerly Vibe Bioscience Inc.) ("Vibe U.S.")	Nevada, U.S.A
Hype Bioscience Corporation ("Hype Canada")	Alberta, Canada
Port City Alternative of Stockton Inc. ("Port City")	California, U.S.A
Alpine Cultivation LLC (formerly Alpine CNAA LLC) ("Alpine Cultivation")	California, U.S.A
Alpine Alternative Naturopathic Inc. ("Alpine Alternative")	California, U.S.A
EVR Managers LLC ("Redding")	California, U.S.A

All subsidiaries are wholly-owned by the Company. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. All significant intercompany accounts and transactions have been eliminated.

(f) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

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 plants to the point of harvest, harvesting costs, and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and an estimate for any inventory for which cost is lower than estimated net realizable value and recognizes inventory provisions accordingly.

2. BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgments (continued)

Business combinations
Judgement is required when assessing i) whether or not the acquisition of assets meets the criteria of a business combination; ii) the value of the consideration transferred and the net identifiable assets acquired and liabilities assumed in connection with business combinations and iii) determining goodwill or bargain purchase gain.

Discount rate for leases
Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Estimated useful lives and depreciation of property, equipment and intangible assets
Depreciation of property, equipment and intangible assets 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.

Cash Generating Unit ("CGU")
IFRS requires that the Company's cannabis operations be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the dispensaries and cultivation operations for impairment. The determination of the Company's CGUs is subject to management's judgment.

Impairment of Property, equipment, intangible assets and goodwill
Indicators of impairment are assessed by management using judgement, considering future plans, market conditions and cannabis prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Income taxes
The Company recognises deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and that sufficient taxable income will be generated in the future to recover such deferred tax assets. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

2. BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgments (continued)

Provisions and contingencies
The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Stock-based compensation and warrants
The amounts recorded in respect of share-based compensation and share purchase warrants granted and the derivative liability for non-compensation warrants issued are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time.

Functional currency
Management judgement is required in determining the functional currency that represents the economic environment of underlying transactions, events and conditions.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents consist of all cash balances on hand at dispensary locations or held at financial institutions and short-term investments and similar instruments that are readily convertible to cash. Cash and cash equivalents are initially recognized at fair value and subsequently measured at amortized cost.

(b) Accounts receivable

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost less a provision of doubtful accounts based on expected future credit losses. Changes to the provision for doubtful accounts and any subsequent collection of accounts previously written off as uncollectable are included as other income in the consolidated statement of operations and comprehensive loss. When a receivable is determined to be uncollectable it is written off.

(c) Inventory

Inventory purchased from third parties, including work-in-process, finished goods and packaging supplies are valued at the lower of cost and net realizable value. Inventory of harvested cannabis is transferred from biological assets at its fair value less cost to sell at harvest which becomes its deemed cost for inventory purposes. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than the net realizable value. Net realizable value is the estimated selling price of the inventory in the ordinary course of business, less the estimated cost to sell. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value. Inventory write-downs are included in cost of goods sold in the consolidated statement of operations and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Biological assets

The Company's biological assets consist of cannabis plants used for medical and recreational purposes. Production costs, including all direct and indirect costs relating to the biological transformation of the plants are capitalized to biological assets. Direct and indirect costs include labor and related grow costs, grow consumables, materials, utilities and facility costs. The Company measures and adjusts the carrying value of biological assets to fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of harvested goods included in inventory. Unrealized gains or losses arising from changes in fair value less cost to sell are included in cost of goods sold in the consolidated statement of operations and comprehensive loss in the period they arise.

(e) Intangible assets and goodwill

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. The cost of an intangible asset acquired in a business combination is initially measured at fair value at the date of acquisition. Intangible assets are amortized in a straight-line basis as follows:

Health Canada license	7 years - term of underlying lease
U.S. cultivation and retail licenses	10 years - estimated useful life
Tradename	10 years - estimated useful life
Software	2 years - estimated useful life

Where applicable, estimated useful lives do not exceed the underlying contractual period associated with the intangible assets. The estimated useful lives, residual values and amortization methods are reviewed periodically and any changes in estimates are accounted for prospectively. Goodwill arises only in business combinations and represents the excess of the purchase price over the fair values of the net identifiable assets acquired and liabilities assumed. Goodwill is carried at cost less accumulated impairment losses and is not subject to amortization.

(f) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated based on a straight-line basis over the following estimated useful lives:

Buildings	25 years
Equipment	3 to 5 years
Furniture and fixtures	5 years
Computer equipment	3 years

Depreciation commences when the asset is available for use. An asset's useful life and residual value, if any, are reviewed periodically and adjusted on a prospective basis, if appropriate. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset. The difference is recognized as other income or expense, as applicable, in the consolidated statement of operations and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of non-financial assets

Property and equipment and intangible assets are subject to an impairment test whenever there are indications that the carrying amount may not be fully recoverable. Goodwill is tested for impairment at least annually, and more often if events and circumstances indicate the carrying amount may not be recoverable.

Assets are tested individually unless they do not generate cash inflows that are largely independent of other assets. Where cash inflows are not independent, individual assets are grouped into the smallest group of assets that generates independent cash inflows (Cash Generating Units or "CGUs"). Goodwill is allocated to individual or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose, with the grouping of CGUs being no larger than an operating segment.

The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less cost of disposal. The Company determines fair value less cost of disposal based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, net of estimates of the cost of the disposal. In assessing value in use, the estimated future cash flows of the asset, CGU or group of CGUs are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, CGU or group of CGUs.

An impairment loss is recognized if the carrying amount of an asset, CGU or group of CGUs exceeds its recoverable amount. Where an impairment loss arises on CGUs with allocated goodwill, the loss is allocated first to reduce the carrying amount of the goodwill and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis. Impairment losses are recognized immediately as a separate line item in the consolidated statement of operations and comprehensive loss.

A previous impairment of an asset with a definite life is subsequently assessed for any indications that the impairment is reduced or no longer exists. An impairment loss is reversed if there has been an increase in the recoverable amount of an asset compared to its current carrying value. Impairment losses are reversed only to the extent that the asset's carrying amount would not exceed the carrying amount that would have been reported if no impairment loss had been recognized. Impairment losses on goodwill are never reversed.

(h) Business combinations

Business combinations are accounted for using the acquisition method whereby the total consideration paid including assets given up, liabilities incurred or assumed, equity instruments issued and contingent consideration, is allocated to the fair value of the identifiable net assets of the acquired business at the acquisition date. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. If total consideration is less than the fair value of the identifiable net assets, the deficiency is reported entirely as a gain in the consolidated statement of operations and comprehensive loss at the acquisition date. Expenses associated with business acquisitions, other than costs associated with the issuance of debt or equity, are expensed when incurred. The results of operations of acquired businesses are included in the consolidated statement of operations and comprehensive loss commencing on the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

On January 1, 2019, Vibe adopted IFRS 16: Leases ("IFRS 16") to replace IAS 17: Leases and IFRIC 4: Determining whether an Arrangement contains a Lease. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statements of financial position for all leases, where The Company is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. The Company is the lessee in all of its lease arrangements effective January 1, 2019. The Company adopted IFRS 16 using the modified retrospective approach, which does not require restatement of prior period financial information and applies the standard prospectively.

The impact of applying IFRS 16 on the financial statements in the period was affected by multiple factors and conditions, including, but not limited to, the Company's incremental borrowing rate at January 1, 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Company chose to use practical expedients and recognition exemptions.

On initial adoption, the Company had the following optional practical expedients available under IFRS 16: Certain short-term leases and leases of low value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. The Company has excluded certain low value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low value leases are expensed in the state of operations in the period incurred. Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. The Company did not apply this practical expedient on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and expensed in profit or loss in the period incurred. For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. The Company has applied this practical expedient for leases having similar characteristic on recognition.

On initial adoption of IFRS 16, The Company recognized a lease liability, herein referred to as a "lease obligation", and corresponding right-of-use asset, herein referred to as a "lease asset", for each identified lease effective January 1, 2019. The effect of initially applying the standard was recognized as a $133,304 increase to right-of-use assets with a corresponding increase to lease obligations (the non-current portion of $17,289 is recorded in "Lease Obligation" and the current portion of the lease obligation is $116,015. The lease obligation was determined by discounting the remaining lease term payments using the interest rate implicit in the lease, or the Company's incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depreciation expense the statement of operations and comprehensive income. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in the statement of operations. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows. Any remeasurements based on changes in lease term, payment, or discount rate will increase or decrease the present value of the lease obligation and corresponding lease asset. Such changes will be accounted for through statement of operations. See Notes 9 and 10 to these Financial Statements for further details on the financial effects of IFRS 16 on initial adoption.

(Expressed in U.S. dollars unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16 and the application incremental borrowing rate. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Lease obligations that are recognized have been estimated using a discount rate equal to the Company's incremental borrowing rate. This rate represents the rate that the Company's would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

The following reconciliation of the Company's commitments as at December 31, 2018 to the Company's opening lease liability as at January 1, 2019:

Commitments disclosed on December 31, 2018	$ 46,911
Relief for short term and low value lease	(6,597)
Lease obligation extension	120,941
Gross lease liabilities as at January 1, 2019	161,255
Discounting	(27,951)
Present value of lease liabilities	$ 133,304

(j) Financial instruments

Financial assets

Financial assets are recognized and measured using a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently remeasured at either (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

Financial assets that are subsequently remeasured at amortized cost are those assets that are held with the objective to collect contractual cash flows, and those contractual flows represent SPPI. Amortized cost is determined using the effective interest method. The Company measures its cash and cash equivalents, restricted cash accounts receivable and loan receivable (included in other assets) at amortized cost. Financial assets that are remeasured at amortized cost are assed for impairment based on expected future credit losses. The Company measures expected future credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors.

Financial assets that are subsequently remeasured at FVTOCI are those assets that are held with the objective to both (i) collect contractual cash flows (and those contractual cash flows represent SPPI), and (ii) sell the financial asset. The fair value of these financial assets is remeasured at each reporting period date with the resulting changes included as other comprehensive income with no transfer to profit or loss of any gains or losses arising on the derecognition of the financial asset. The Company does not measure any financial instruments at FVTOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets that are subsequently remeasured at FVTPL are those financial assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category generally includes debt instruments whose cash flow characteristics are not SPPI or are not held with the objective to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset. In addition, derivative instruments and certain equity instruments that are not designated as FVTOCI are included in this category. The Company measured certain accounts receivable due in connection with the Altitude reverse take-over (Note 4(a)(i)) at FVTPL.

Financial liabilities
Financial liabilities are initially measured at fair value and subsequently remeasured at amortized cost. The Company's financial liabilities include accounts payable, subscriptions received in advance, and notes payable.

Fair value determination
Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. The levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date as observable market data is unavailable. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

(k) Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Common share capital

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

(m) Stock-based payments

The Company grants stock options to acquire common shares of the Company to officers, employees, directors and consultants. Compensation expense associated with the issuance of stock options is based on the fair value of the option which is deferred and recognized in the consolidated statement of operations and comprehensive loss over the vesting period of the option with the offsetting credit to contributed surplus. The Company measures the fair value of stock options at the date of grant, using the Black-Scholes option pricing model. When stock options are exercised, common share capital is increased by the total consideration paid to exercise the option. In addition, the amount previously recorded as contributed surplus attributable to the exercised options is reclassified from contributed surplus to common share capital. The fair value of any stock options that are cancelled or expire remains in contributed surplus.

(n) Foreign currency

Foreign currency transactions
Transactions denominated in a currency that is not the functional currency of an entity are translated at the exchange rate in effect at the time of the transaction, or in the case of non-monetary items measured at fair value, at the exchange rate in effect at the date the fair value is measured. Monetary items are subsequently re-translated into the entity’s functional currency at the exchange rates in effect at each reporting period. Non-monetary items and revenues and expenses are not subsequently re-translated. All resulting foreign exchange differences are reported as other expenses in the consolidated statement of operations and comprehensive loss.

(o) Revenue recognition

The Company generates revenue through the sale of cannabis and cannabis related products, largely on a point-of-sale basis. Revenue is recognized based on the following five step process:

1. The parties have entered into a customer contract (written or oral).
2. The performance obligations associated with the contract are known.
3. The amount to be paid and the terms of the payment have been identified.
4. The Company’s cash flows are expected to change as a result of fulfilling the contract.
5. It is probable that the Company will collect the consideration to which it is entitled.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

The Company recognizes revenue once all performance obligations are met. Performance obligations are met by the Company once the cannabis or cannabis related products are transferred to the customer. The Company does not grant credit to customers related to the retail sale of cannabis and cannabis related products, and therefore, delivery of the product does not occur unless cash is collected from the customer by the Company. Credit is granted to customers related to the sale of cannabis to wholesale distributors. However, the Company recognizes revenue at the time the cannabis is delivered to the wholesale distributor as a detailed credit assessment of each wholesale distributor is conducted prior to delivering the product.

The Company does not have any contracts to provide products or services to customers over a period of time or for which multiple performance obligations exist.

(p) Earnings (loss) per share

Basic (loss) earnings per share is computed by dividing net earnings (loss) attributable to the Company's shareholders by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) attributable to the Company's shareholders by the weighted average number of shares outstanding after giving effect to the potential dilution that would occur if outstanding in-the-money stock options, warrants and similar instruments were exercised. The calculation of diluted earnings (loss) per share assumes that the proceeds received from the exercise of in-the-money stock options, warrants and similar instruments are used to repurchase the Company's common shares at average market prices during the period. In periods where the Company has realized a net loss, the impact of exercising outstanding in-the-money stock options, warrants and similar instruments would be anti-dilutive, and therefore, not disclosed.

(r) Accounting standards Issued but not yet applied

In October 2018, the IASB issued amendments to IFRS 3 "Definition of a Business" that narrowed and clarified the definition of a business. The amendments permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments are effective January 1, 2020 with earlier adoption permitted. The amendments apply to business combinations after the date of adoption. The Company prospectively adopted the amendments on January 1, 2020 and has concluded this standard will not have a material impact on the consolidated financial statements.

In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments make minor changes to the definition of the term "material" and align the definition across all IFRS Standards. Materiality is used in making judgments related to the preparation of financial statements. The amendments are effective January 1, 2020 with earlier adoption permitted. The Company prospectively adopted the amendments on January 1, 2020 and has concluded this standard will not have a material impact on the consolidated financial statements.

(Expressed in U.S. dollars unless otherwise noted)

4. ACQUISITIONS

(a) Altitude Reverse Take-over

On March 25, 2019, Altitude, Newco and Vibe completed a three-cornered amalgamation whereby Vibe amalgamated with Newco and together completed the Reverse Take-over. The Reverse Take-over was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe resulting in Vibe becoming a wholly-owned subsidiary of Altitude with the former shareholders of Vibe acquiring a controlling interest in the amalgamated company. The Company issued 2,197,992 common shares at a fair value of $850,620 ($0.39 per share) to complete the Reverse Take-over. In addition, certain former shareholders of Altitude are to receive $34,625 of cash to complete the Reverse Take-over. The total consideration paid in connection with the reverse take-over is applied to the fair value of net assets remaining of Altitude as follows:

	March 25, 2019
Net assets	
Accounts receivable - Proceeds from Atrum Shares *(i)*	$ 482,815
Accounts receivable - Proceeds from Palisades Assets *(ii)*	-
Accounts receivable - additional proceeds due *(iii)*	105,440
Accounts payable and accrued liabilities	(185,747)
Notes payable	(81,967)
Total net assets acquired	**320,541**
Listing fee	564,704
Total acquisition	**$ 885,245**
Consideration	
Fair value of common shares (2,197,992 common shares)	**$ 850,620**
Cash	34,625
Total consideration	**$ 885,245**

Prior to completion of the Reverse Take-over, Altitude did not operate an active business. Accordingly, the transaction does not constitute a business combination and is accounted for as a capital transaction in substance.

Certain mining and other assets included in Altitude immediately prior to the Reverse Take-over were sold to an entity owned by certain former shareholders of Altitude including the following:

(i) *Common shares of Atrum Coal Limited ("Atrum Shares")* Altitude owned 2,953,674 common shares of Atrum Coal Limited which is a publicly traded entity on the Australian Stock Exchange. A condition of the Altitude Reverse Takeover was the proceeds of the sale of the Atrum Shares were due to the Company. The Atrum Shares were sold on May 6, 2019 for net proceeds totaling CAD $799,115 and the cash proceeds were remitted to the Company in August 2019. Prior to the Company receiving the proceeds from the sale of the Atrum Shares, the underlying receivable was recognized as a financial asset measured at fair value through profit and loss ("FVTPL"). Accordingly, the Company recorded a gain on the fair value measurement of the Atrum Share proceeds totaling $113,195 in 2019. The calculation of the gain on the Atrum Share proceeds due was based on Level 1 Inputs in the fair value hierarchy.

4. ACQUISITIONS (continued)

(a) Altitude Reverse Take-over (continued)

(ii) Palisades mining assets. Altitude owned certain partially developed mining assets in Alberta, Canada ("Palisades Assets"). The proceeds from the sale of the Palisades Assets are due to the Company; however, the Palisades Assets remain unsold at December 31, 2019. The fair value of the accounts receivable related to the sale of the Palisades Assets is determined to be $nil as there has not been any specific buyer identified to date, and it is unclear if a buyer will be found for the Palisades Assets in the near term.

(iii) Additional cash proceeds due Altitude owned other mining assets in Alberta, Canada at various stages of development. The proceeds from the sale of the other mining assets total $105,440. The additional cash proceeds were collected in August 2019.

The Reverse Take-over was completed to provide the Company with a public listing on the Canadian Securities Exchange. Accordingly, the excess of the consideration paid over the acquired net assets, totaling $564,704, is expensed as listing costs in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2019

(b) Acquisition of U.S. Targets (the "U.S. Acquisition")

On February 18, 2019, the Company simultaneously acquired the issued and outstanding securities of (i) Port City, (ii) 8130 Alpine LLC ("8130 Alpine"), (iii) Alpine CNAA, and (iv) Alpine Alternative (collectively, the "U.S. Targets") and began operating its cannabis business on a combined basis. Prior to the U.S. Acquisition, the U.S. Targets were under common control but had separate operating structures and business models that required separate acquisition structures and purchase and sale agreements for each of the U.S. Targets (except as described below). Accordingly, for financial statement purposes, the acquisition of each of the U.S. Targets is accounted for as a separate business combination requiring a separate allocation of purchase price over each set of net assets acquired in accordance with the terms and conditions of each purchase and sale agreement (except as noted below). Each of the business combinations are described in detail below and reflect the share splits and consolidation referenced in Note 1.

(Expressed in U.S. dollars unless otherwise noted)

4. ACQUISITIONS (continued)

(b) Acquisition of U.S. Targets (the "U.S. Acquisition") (continued)

The U.S. Targets acquired are as follows:

(i) *Port City.* The Company acquired all the issued and outstanding securities of Port City for total consideration of $1,931,838 consisting of $984,321 in cash and the issuance of 2,420,300 common shares of the Company with a calculated value of $947,517. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ 124,987
Working capital deficit, excluding cash	(178,285)
Due from other U.S. Targets	173,839
Right-of-use asset	769,397
Property and equipment	70,991
Intangible assets	
License	960,000
Lease liability	(760,500)
Deferred income tax liability	(271,000)
Goodwill	1,042,409
	$ 1,931,838
Consideration	
Cash at closing	$ 1,046,000
Estimated cash to be paid for working capital adjustment	(61,679)
Total cash consideration	984,321
Common shares of the Company	947,517
	$ 1,931,838

The total consideration due in the Port City acquisition was subject to final working capital adjustment that resulted in a $61,679 favorable adjustment to the total purchase price paid by the Company at closing. All amounts held in escrow pending settlement of the final working capital adjustment were distributed in 2019.

The Company previously acquired a 20% non-controlling interest in Port City for cash proceeds totaling $800,000 of which $250,000 and $550,000 was paid in December 2018 and January 2019, respectively. The fair value of the Company's 20% interest immediately prior to the Port City acquisition was $385,000 resulting in a loss on the original investment in Port City of $415,000 which is recorded in the consolidated statement of operations and comprehensive loss in the year ended December 31, 2019.

The Port City acquisition provides the Company with established, cash flow positive medical and adult recreational use dispensary operations in Stockton, California. Goodwill realized in the Port City acquisition is largely a result of the assembled work force, customer networks and loyalty and synergies expected from fully combining and integrating the Port City operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

(Expressed in U.S. dollars unless otherwise noted)

4. ACQUISITIONS (continued)

(b) Acquisition of U.S. Targets (the "U.S. Acquisition") (continued)

(ii) Alpine CNAA and 8130 Alpine (collectively "Alpine Cultivation"). The Company entered into separate acquisition agreements with Alpine CNAA and 8130 Alpine. However, Alpine CNAA and 8130 Alpine operated in conjunction with each other prior to the acquisition and completed a merger immediately following the closing the acquisition. Accordingly, the acquisition of each of Alpine CNAA and 8130 Alpine are considered one acquisition for financial statement purposes.

The Company acquired all the issued and outstanding securities of Alpine Cultivation for total consideration of $2,644,878 consisting of $1,042,374 in cash and the issuance of 4,093,374 common shares of the Company with a calculated value of $1,602,504. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ -
Working capital, excluding cash and biological assets	68,119
Biological assets	89,494
Due to other U.S. Targets	(291,674)
Property and equipment	309,442
Intangible assets	
License	200,000
Trademark	78,500
Note payable	(18,963)
Deferred income tax liability	(105,000)
Goodwill	2,314,960
	$ 2,644,878
Consideration	
Cash at closing	$ 1,004,000
Estimated cash to be paid for working capital adjustment	38,374
Total cash consideration	1,042,374
Common shares of the Company	1,602,504
	$ 2,644,878

The total consideration due in the Alpine Cultivation acquisition was subject to final working capital adjustment that resulted in additional consideration paid by the Company totaling $38,374. All amounts held in escrow pending settlement of the final working capital adjustment were distributed in 2019.

The Alpine Cultivation acquisition provides the Company with cannabis cultivation and manufacturing facilities in Sacramento, California that supports the Company's vertical integration strategy. Goodwill realized in the Alpine acquisition is largely a result of the assembled work force and synergies expected from fully combining and integrating the Alpine operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

(Expressed in U.S. dollars unless otherwise noted)

4. ACQUISITIONS (continued)

(b) Acquisition of U.S. Targets (the "U.S. Acquisition") (continued)

(iii) Alpine Alternative. The Company acquired all the issued and outstanding securities of Alpine Alternative for total consideration of $2,842,825 consisting of $1,158,809 in cash and the issuance of 4,301,483 common shares of the Company with a value of $1,684,016. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ 174,162
Working capital deficit, excluding cash	(755,537)
Due from other U.S. Targets	117,835
Property and equipment	51,261
Intangible assets	
Licenses	1,660,000
Deferred income liability	(465,000)
Goodwill	2,060,104
	$ 2,842,825
Consideration	
Cash at closing	$ 1,750,000
Estimated cash to be paid for working capital adjustment	(591,191)
Total cash consideration	1,158,809
Common shares of the Company	1,684,016
	$ 2,842,825

The total consideration due in the Alpine Alternative acquisition was subject to final working capital adjustment that resulted in a $591,191 favorable adjustment to the total purchase price paid by the Company at closing. All amounts held in escrow pending settlement of the final working capital adjustment were distributed in the prior to December 31, 2019.

The Alpine Alternative acquisition provides the Company with established, cash flow positive medical and adult recreational use dispensary operations in Sacramento, California. Goodwill realized in the Alpine Alternative acquisition is largely a result of the assembled work force, customer networks and loyalty and synergies expected from fully combining and integrating the Alpine Alternative operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

The aforementioned acquisitions (Note 4b (i, ii and iii)) contributed revenue of $12,600,159 and $1,384,788 in operating profits before taxes from the dates of acquisition to December 31, 2019. The Company estimates that had the acquisitions occurred on January 1, 2019, the increase in revenue would be approximately $1,410,800 and operating profit would have increased by approximately $401,600 for the year ended December 31, 2019.

4. ACQUISITIONS (continued)

(c) EVR Managers LLC

On December 30, 2019, the Company acquired all the issued and outstanding securities of EVR Managers LLC in exchange for 964,284 common shares of the Company with a calculated value of $55,683 plus $109,244 advanced in early 2019. The assets acquired are a license and a right of use asset with respect to the property lease therefore the acquisition is not considered a business acquisition.

(d) NGEV, Inc. acquisition

The Company also entered into a purchase and sale agreement with NGEV, Inc. ("NGEV") whereby the Company was to acquire all the issued and outstanding securities of NGEV. However, the acquisition of NGEV was conditional upon NGEV obtaining a license from the State of California to operate as a cannabis cultivation facility (the "NGEV License"). The NGEV License was not obtained and the NGEV purchase and sale agreement was terminated by the Company in May 2019.

Although the acquisition of NGEV was never completed, the Company funded the operations of NGEV through May, 2019. Approximately $320,000 of expenses of NGEV were funded by the Company in 2019, which are included as other expenses in the consolidated statement of operations and comprehensive loss.

(e) Cash deposit

In addition to the $250,000 paid in connection with acquiring a non-controlling interest in Port City described in Note 4(b)(i), the Company also advanced $300,000 to the vendors of the U.S. Targets as a deposit on the final proceeds to be paid on closing the U.S. Acquisition. The total $550,000 cash paid was recorded as an investment at December 31, 2018 and became part of the total purchase price paid in the U.S. Acquisition on February 18, 2019.

(f) Transaction expenses

The Company incurred total transaction expenses in connection with the Altitude Reverse Take-over and the acquisition of the U.S. Targets totaling $455,644 in 2019. Transaction expenses are disclosed separately in the consolidated statement of operations and comprehensive loss.

(Expressed in U.S. dollars unless otherwise noted)

5. INVENTORY

The Company's inventory consists of the following:

As at	**December 31, 2019**	**December 31, 2018**
Harvested cannabis - raw materials	$ 33,627	$ -
Cannabis related products and packaging	487,965	-
	$ 521,592	**$ -**

The Company's inventory is derived entirely from the U.S. Targets. The Company regularly performs a review of slow moving, obsolete and redundant items and records a provision for such amounts to reflect inventory balances at net realizable value. There were no slow moving, obsolete or redundant items of inventory at December 31, 2019.

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants which were acquired in connection with the Alpine Cultivation acquisition. The changes in the carrying value of the biological assets are as follows:

	December 31, 2019	**December 31, 2018**
Balance, beginning of period	**$ -**	**$ -**
Biological assets acquired from U.S. Targets	89,494	-
Changes in fair value less cost to sell due to biological transformation	79,593	-
Production costs	944,876	
Transferred to inventory upon harvest	(937,196)	-
Balance, end of period	**$ 176,767**	**$ -**

The Company values biological assets at the end of each reporting period at fair value less costs to sell ("FVLCS"). The determination of fair value lest costs to sell is based a valuation model that estimates the expected harvest yield per plant applied to the estimated wholesale price per gram, less estimated selling costs. The model also considers the stage of the biological asset in the aggregate plant life cycle.

The valuation model includes the following estimates, all of which are Level 3 inputs in the fair value hierarchy:

(i) Average number of weeks in the growing cycle (from propagation to harvest) = 17 weeks based on historical results.

(ii) Average selling price of whole flower = $5.00 per gram based on historical and expected future sales.

(iii) Average harvest yield of whole flower = 59 grams per plant, net of expected wastage, based on historical results.

(iv) Selling costs (shipping, order fulfillment, and labelling) = $0.50 per gram based on historical results.

(Expressed in U.S. dollars unless otherwise noted)

6. BIOLOGICAL ASSETS (continued)

The above inputs are subject to volatility and uncontrollable factors which could significantly affect the fair value of biological assets in future periods. Management has quantified the sensitivity of the inputs on the calculation of the fair value of the biological assets for the year ended December 31, 2019 as follows:

	Change in FVLCS at	
	December 31, 2019	**December 31, 2018**
Input		
Selling price per gram - 10% change	$ 18,600	$ -
Harvest yield per plant - 10% change	$ 16,600	$ -

At December 31, 2019 the average stage of completion of the biological assets is 68.8% based on the number of days remaining to harvest. The estimated FVLCS of dry cannabis at December 31, 2019 is $181.11 per plant and the expected total yield is approximately 57,663 grams of cannabis.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill at consist of the following:

	Intangible assets				
	Licenses	**Software**	**Trademark**	**Goodwill**	**Total**
Cost					
Balance at June 11, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Acquired in asset acquisition	2,565,500	183,250	-	-	2,748,750
Balance at December 31, 2018	**$ 2,565,500**	**$ 183,250**	**$ -**	**$ -**	**$ 2,748,750**
Acquired in business acquisitions	2,820,000	-	78,500	5,417,473	8,315,973
Acquired in asset acquistion	164,927	-	-	-	164,927
Impact of foreign exchange	81,055	9,222	-	-	90,277
Balance at December 31, 2019	**$ 5,631,482**	**$ 192,472**	**$ 78,500**	**$ 5,417,473**	**$ 11,319,927**
Accumulated amortization					
Balance at June 11, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Amortization expense	170,942	42,735	-	-	213,677
Impact of foreign exchange	(6,186)	(1,567)	-	-	(7,753)
Balance at December 31, 2018	**$ 164,756**	**$ 41,168**	**$ -**	**$ -**	**$ 205,924**
Amortization expense	457,394	70,792	6,968	-	535,154
Loss on investment	-	-	-	415,000	415,000
Impairment	2,261,281	75,577	-	2,314,960	4,651,818
Impact of foreign exchange	13,448	4,935	-	-	18,383
Balance at December 31, 2019	**$ 2,896,879**	**$ 192,472**	**$ 6,968**	**$ 2,729,960**	**$ 5,826,279**
Net book value at December 31, 2018	$ 2,400,744	$ 142,082	$ -	$ -	$ 2,542,826
Net book value at December 31, 2019	**$ 2,734,603**	**$ -**	**$ 71,532**	**$ 2,687,513**	**$ 5,493,648**

7. INTANGIBLE ASSETS AND GOODWILL (continued)

Licenses consist of (i) a Health Canada cultivation license application acquired from certain shareholders of the Company in July 2018, and (ii) retail and cultivation licenses acquired in connection with the acquisition of the U.S. Targets in February 2019. The Health Canada cultivation license application is being amortized on a straight-line basis over seven years. The retail and cultivation licenses acquired in connection with the acquisition of the U.S. Targets are being amortized on a straight-line basis over 10 years.

The software intangible consists of eCommerce software acquired from certain shareholders of the Company in July 2018. The software intangible asset is being amortized on a straight-line basis over two years.

The trademark intangible asset consists of the Hype Cannabis Co. (“Hype”) which is a registered California trademark owned by Alpine CNAA which was acquired in the Alpine Cultivation acquisition. The Hype product is sold in both the Port City, Alpine Alternative and Redding dispensaries along with numerous arm’s length third party dispensaries across California. The trademark intangible asset is being amortized on a straight-line basis over 10 years.

The Company performed its annual impairment test as at December 31, 2019. For the purpose of annual impairment testing, all intangible assets and goodwill was allocated to the CGU which is expected to benefit from the synergies of the business combinations from which goodwill arose. The recoverable amount of the CGU was determined based on value in use. The calculation used post-tax cash flows covering a five to seven year period based on financial budget, forecast approved by management, using an expected average growth rate of 2% and inflation rate of 1% to 3%, a post tax risk adjusted discount rate of 25% and a terminal growth rate of 3%. Key assumptions also include usual profit margins and growth within the California market determined by past experience. As at December 31, 2019, the recoverable amount of the United States dispensary CGU’s acquired in the February 18, 2019 acquisitions (Note 4) exceeded its carrying value. The Company determined its cultivation CGU was impaired by $2,314,960. The cultivation impairment charge is due to a change in management’s forecasted sales, scaled back capital expansion plans due to capital constraints in the cannabis sector and profitability outlook.

If future results, in particular, future revenues, were to be significantly different from management’s best estimates of key assumptions, the Company could potentially experience future impairment charges in respect of its intangible assets and goodwill.

As a result of current economic conditions in the Canadian cannabis sector and the Company’s focus on United States operations with no capital has been allocated to the Canadian assets to support the operations in the last quarter of 2019 and 2020 and, as a result, the Company recognized a $2,336,858 intangible asset impairment charge related to the Health Canada permits, licenses and software that is no longer being utilized. The impairment was based on fair value less cost of disposal (“FVLCD”). The best indicator of FVLCD is the amount obtained from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties and as such the Company established FVLCD by reference to an estimated cost to obtain the Health Canada license. As a result, management has fully impairment the Canadian assets described above.

Goodwill results from the acquisition of the U.S. Targets in February 2019 and is initially measured at the excess of the consideration paid over the fair value of the identifiable net assets acquired. Goodwill is not amortized but goodwill is subject to impairment tests at least annually. Prior to completing the acquisition of the U.S. Targets, the Company purchased a 20% non-controlling interest in Port City for $800,000. At the time of the U.S. Target acquisition, it was determined that the $800,000 carrying value of the initial Port City investment was impaired and a loss of $415,000 was recognized in the consolidated statement of operations and comprehensive loss.

(Expressed in U.S. dollars unless otherwise noted)

8. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Buildings	Land	Equipment and other	Construction in process	Total
Cost					
Balance at June 11, 2018	$ -	$ -	$ -	$ -	$ -
Purchases	-	-	2,420	-	2,420
Balance at December 31, 2018	**$ -**	**$ -**	**$ 2,420**	**$ -**	**$ 2,420**
Acquired in business acquisitions	140,237	-	143,329	148,128	431,694
Purchases	1,199,596	800,000	65,257	1,205,593	3,270,446
Transfers from construction in process	994,251	-	-	(994,251)	-
Impact of foreign exchange	-	-	(140)	-	(140)
Balance at December 31, 2019	**$ 2,334,084**	**$ 800,000**	**$ 210,866**	**$ 359,470**	**$ 3,704,420**
Accumulated amortization					
Balance at June 11, 2018	$ -	$ -	$ -	$ -	$ -
Amortization expense	-	-	297	-	297
Impact of foreign exchange	-	-	(11)	-	(11)
Balance at December 31, 2018	**$ -**	**$ -**	**$ 286**	**$ -**	**$ 286**
Depreciation expense	55,248	-	48,982	-	104,230
Impact of foreign exchange	-	-	(47)	-	(47)
Balance at December 31, 2019	**$ 55,248**	**$ -**	**$ 49,221**	**$ -**	**$ 104,469**
Net book value at December 31, 2018	**$ -**	**$ -**	**$ 2,134**	**$ -**	**$ 2,134**
Net book value at December 31, 2019	**$ 2,278,836**	**$ 800,000**	**$ 161,645**	**$ 359,470**	**$ 3,599,951**

The Company purchased land and buildings totaling $1,999,596 purchased in 2019. The consideration paid to acquire the land and buildings consisted of $800,000 cash and the assumption of a note payable totaling $1,199,682 (Note 11). The cash was paid as a deposit in December 2018. The buildings currently hold the cultivation and dispensary locations acquired in the Alpine Cultivation and Alpine Alternative acquisitions.

Buildings and equipment and other assets are depreciated on a straight-line basis over their estimated useful lives. Land is not depreciated.

Assets under construction consist of improvements and renovations being completed on the Company's buildings. The construction and upgrades are not yet complete and will not be subject to depreciation until the underlying asset is available for use.

The Company did not dispose of any property and equipment in the year ended December 31, 2019 and there were no impairments of property and equipment at December 31, 2019 or December 31, 2018.

(Expressed in U.S. dollars unless otherwise noted)

9. RIGHT-OF-USE ASSETS

Right-of-use assets consist of the following:

	Leases		
	Dispensary	**Warehouse**	**Total**
Cost			
Balance at December 31, 2018	$ -	$ -	$ -
Initial adoption of new lease standard	-	133,304	133,304
Acquired in business acquisitions	769,397	-	769,397
Acquired in asset acquisition	82,026	-	82,026
Lease termination	-	(133,304)	(133,304)
Balance at December 31, 2019	**$ 851,423**	**$ -**	**$ 851,423**
Accumulated depreciation			
Balance at December 31, 2018	$ -	$ -	$ -
Depreciation expense	181,543	13,354	194,897
Lease termination	-	(13,354)	(13,354)
Balance at December 31, 2019	**$ 181,543**	**$ -**	**$ 181,543**
Net book value at December 31, 2019	**$ 669,880**	**$ -**	**$ 669,880**

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. In October 2019, the Company terminated the warehouse lease with no penalties or costs.

(Expressed in U.S. dollars unless otherwise noted)

10. LEASE OBLIGATIONS

Effective January 1, 2019, the Company recognized a discounted lease obligation of $133,304 on initial adoption of IFRS 16. A reconciliation of the discounted lease obligation is set forth below:

	Leases		
	Dispensary	**Warehouse**	**Total**
Balance at December 31, 2018	$ -	$ -	$ -
Initial adoption of new lease standard	-	133,304	133,304
Acquired in business acquisitions	760,500	-	760,500
Acquired in asset acquistion	82,026	-	82,026
Principal paid	(153,859)	(14,906)	(168,765)
Lease termination	-	(118,398)	(118,398)
Impact of foreign exchange	-	-	-
Total balance at December 31, 2019	688,667	-	688,667
Less current portion of lease obligation	(210,645)	-	(210,645)
Lease obligations at December 31, 2019	**$ 478,022**	**$ -**	**$ 478,022**

The dispensary leases acquired in the Por City and Redding acquisitions terminate on October 31, 2022 and June 30, 2025 with respective monthly rent payments of $20,000 and $1,536 through the term of the lease. The lease contains no extension options.

The Company's warehouse lease had an initial term ending August 31, 2020 with monthly rent payments totaling CAD $2,750 through the term of the lease. The lease has two options to extend for five years each. The measurement of the lease obligation assumes only the first extension option will be exercised. In October 2019, the Company was able to terminate the lease with no penalties.

Neither the dispensary or warehouse leases contain purchase or early termination options and there are no requirements to purchase the underlying assets or any residual value guarantees at the end of the leases. In 2019, the Company incurred $56,511 of interest with respect to the aforementioned leases.

The Company has the following future commitments associated with its dispensary lease obligations:

Less than one year	$ 257,564
2 - 5 years	514,193
Thereafter	9,646
Total lease payments	781,403
Amount representing interest over the term	(92,736)
Present value of the net obligation	$ 688,667

The Company utilized certain IFRS 16 exemptions to exclude low-value right-of-use assets and short-term lease arrangements as leases. There were no lease arrangements subject to variable lease payments. These types of lease arrangements were recognized operating leases payments totalled $28,012 and were recognized in the administrative expenses in the consolidated statements of operations on a straight-line basis during the year ended December 31, 2019.

(Expressed in U.S. dollars unless otherwise noted)

11. NOTES PAYABLE

The Company's notes payable consists of the following:

	December 31, 2019
Note payable:	
Land and buildings	$ 1,162,182
Vehicle	15,316
Total notes payable	1,177,498
Less current portion	(47,385)
Notes payable, long term	**$ 1,130,113**

The Company has a secured note payable outstanding related to the acquisition of land and buildings in Sacramento, California totaling $1,162,182 at December 31, 2019 (Note 8). The note bears interest at 6% per year, requires monthly payments of principal and interest totaling $9,314 and matures in April 2036. Interest expense recognized in the 2019 fiscal year totaled $75,944 and principal repaid was $43,224. Principal repayments due in the next 12 months totaling $43,224 are recorded as current liabilities on the consolidated statement of financial position at December 31, 2019.

The Company also has a note payable related to the acquisition of vehicle which was assumed on the Alpine Alternative acquisition. The note payable bears interest at 4.99% per year, requires monthly payments of principal and interest totaling $395 and matures in December 2023. Principal repayments due in the next 12 months totaling $4,161 are recorded as current liabilities on the consolidated statement of financial position at December 31, 2019.

The following table presents the contractual maturities of the notes payable at December 31, 2019 on an undiscounted basis:

	Note payable		
	Land and buildings	Vehicle	Total
Amounts due			
Less than one year	$ 111,768	$ 4,740	$ 116,508
One to three years	223,536	10,576	234,112
Four to five years	223,536	-	223,536
Thereafter	603,342	-	603,342
Total maturities at December 31, 2019	**$ 1,162,182**	**$ 15,316**	**$ 1,177,498**

(Expressed in U.S. dollars unless otherwise noted)

12. INCOME TAXES

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31, 2019	December 31, 2018
Loss before taxes	$ (7,920,748)	$ (3,355,083)
Combined corporate statutory tax rate (%)	27%	27%
Expected tax recovery at statutory rates	(2,138,602)	(905,872)
Tax differences		
Share based compensation	191,228	531,078
Impairment of goodwill	625,039	
IRS 280E adjustments *(i)*	400,136	-
Other	127,057	761
Deferred tax benefits deemed not probable to be recovered	1,492,305	374,033
Total income tax recovery	$ 697,163	$ -
Current income tax expense	$ 751,083	$ -
Deferred income tax recovery	(53,920)	-
	$ 697,163	$ -

(i) The Company's cannabis dispensaries are subject to the limits of Section 280E of the U.S. Internal Revenue Code under which only those expenses directly related to sales of cannabis can be deducted. Accordingly, each of the Company's dispensaries are effectively taxed at the gross margin level for federal income tax purposes. Further, although proper deductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. 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 cannabis businesses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's deferred income tax assets and liabilities are as follows:

As at	**December 31, 2019**	**December 31, 2018**
Deferred tax liability (asset)		
Property and equipment and intangible assets	$ 787,080	$ -
Tax losses and other	367,283	374,033
Less deferred tax benefits deemed not probable to be recovered	(367,283)	(374,033)
	$ 787,080	$ -

(Expressed in U.S. dollars unless otherwise noted)

12. INCOME TAXES (continued)

The Company's tax losses are largely due to operating losses arising out of the Canadian head office which is recorded in the accounts of Vibe, a Canadian incorporated entity. The likelihood that Vibe will generate sufficient future profits to utilize the tax losses is not currently probable. Accordingly, the entire balance of Vibe's Canadian tax losses estimated at $3,633,000 CAD has not been recognized as a deferred tax asset at December 31, 2019 and December 31, 2018. The losses will expire in 2038 and 2039.

13. SHAREHOLDERS' EQUITY

(a) Share capital

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to participate in dividends when declared by the Company.

The Company has the following issued and outstanding common shares:

	December 31, 2019	December 31, 2018
Balance beginning of period	**53,535,586**	**-**
Issued on incorporation (i)	-	390
Issued in private placement (ii)	9,856,242	11,364,759
Issued in acquisition of U.S. Targets (Note 4(b) and iv))	10,815,157	-
Issued in Altitude Reverse Take-over (Note 4(a) and iv)	2,197,992	-
Issued in asset acquisitions (Note 4(c) and v)	964,284	38,990,513
Exercise of stock options	207,951	3,179,924
Balance end of period	**77,577,212**	**53,535,586**

(i) The Company issued 390 shares upon incorporation for nominal consideration.

(ii) The Company completed a private placement of common shares in February and December 2019 whereby 9,856,242 shares were issued at $0.39 per share. In December 2018, the Company received advances of $352,069 related to subscriptions to purchase the Company's common shares. The common shares were issued to the subscribers in February 2019 as part of the private placement.

(iii) In December 2018, the Company issued 11,364,759 common shares at $0.39 per share and issued finders warrants (Note 13(b)).

(iv) The common shares issued in connection with the acquisition of the U.S. Targets and the Altitude Reverse Take-over are recorded at a calculated price of $0.39 per share, consistent with the private placement per share proceeds noted above.

(Expressed in U.S. dollars unless otherwise noted)

13. SHAREHOLDERS' EQUITY (continued)

(a) Share capital (continued)

(v) On July 19, 2018, the Company issued 38,990,513 shares as for consideration for the transfer of e-commerce software, a Canadian cannabis license application and a one year office lease. The fair value of the Canadian cannabis license application was based on a comparison to other licenses with a discount applied due to the stage in the application process of the license application. The fair value of the e-commerce software as based on the estimated replacement cost of the software and the fair value of the one-year office lease was based on the estimated approximate fair value of office leases with similar characteristics. The License Application and software have been accounted for as intangible assets (Note 6) and the office lease was accounted for as a prepaid expense.

(b) Warrants

In connection with the private placement of common shares, the Company issued Finder's Warrants in December 2018 that are exercisable for up to 125,810 common shares of the Company. The Finder's Warrants have an exercise price of $0.52 (CAD) per share, expire eighteen months from the date of issuance and had a fair value at the date of issuance of $25,227. The weighted average fair market value per warrant of approximately $0.36 (CAD) was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 115%, risk free rate – 2.21% and expected life – 1.5 years.

(c) Stock Options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The options are non-transferable if not exercised. The exercise price is based on the Company's common shares prior to the day of the grant, which may be different from the closing price of such shares on the day of grant for options granted to date. To date the exercise price has not been materially different from the trading price of the shares on the grant date. A summary of the status of the Company's stock option plan as at December 31, 2019 and 2018 and changes during the respective periods ended on those dates is presented below:

	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance beginning of period	**3,626,154**	**$ 0.12**	**-**	**$ -**
Granted	5,763,999	0.83	6,979,372	0.07
Exchanged in Altitude Reverse Take-over	156,662	1.21	-	-
Exercised	(207,951)	0.006	(173,293)	0.006
Cancelled	(4,738,646)	0.42	(3,179,925)	0.006
Balance end of period	**4,600,218**	**$ 0.62**	**3,626,154**	**$ 0.12**
Exercisable, end of period	**3,033,398**	**$ 0.79**	**1,035,425**	**$ 0.28**

(Expressed in U.S. dollars unless otherwise noted)

13. SHAREHOLDERS' EQUITY (continued)

(c) Stock Options (continued)

In connection with the Altitude Reverse Take-over (Note 4(a)), the Company exchanged 156,662 fully vested stock options outstanding in Altitude for fully vested stock options of the Company.

The weighted average fair market value per option of approximately $0.28 (CAD) (2018 - $0.28 CAD)was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 88% to 115% (2018 – 115%) , risk free rate – 1.47% to 2.21% (2018 – 2.21%), expected life – 2 to 4 years (2018 – 4 years), an estimated forfeiture rate – 5% and utilizing the graded option method.

The range of exercise prices for the options outstanding and exercisable at December 31, 2019 are as follows:

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaing Contractual Life	Expiry Date	Number Exerciseable
August 2, 2018	385,577	$ 0.006	3.59	August 2, 2023	385,577
November 5, 2018	129,970	$ 0.52	0.35	May 5, 2020	129,970
November 14, 2018	129,970	$ 0.52	0.37	May 14, 2020	129,970
January 15, 2019	173,293	$ 0.96	1.54	July 15, 2021	86,646
February 14, 2019	173,293	$ 0.52	2.13	February 14, 2022	86,646
February 14, 2019	1,732,929	$ 1.15	1.13	February 14, 2021	1,732,928
March 12, 2019	303,263	$ 0.52	2.16	February 28, 2022	-
March 12, 2019	303,263	$ 0.52	1.95	December 12, 2021	-
March 25, 2019	45,832	$ 0.96	1.41	May 30, 2021	45,832
March 25, 2019	55,832	$ 1.20	1.41	May 30, 2021	55,832
March 25, 2019	54,998	$ 1.44	1.41	May 30, 2021	54,998
April 4, 2019	225,000	$ 0.85	1.26	April 4, 2021	125,000
May 30, 2019	437,000	$ 0.52	3.41	May 30, 2023	-
October 1, 2019	150,000	$ 0.20	3.75	October 1, 2023	-
October 9, 2019	200,000	$ 0.20	2.00	December 31, 2021	200,000
October 9, 2019	100,000	$ 0.20	1.78	October 9, 2021	-
	4,600,218				3,033,398

Subsequent to year end, the Company issued 150,000 options with an exercise price of $0.15.

(Expressed in U.S. dollars unless otherwise noted)

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable, subscriptions received in advance and notes payable.

Fair Value Measurements

All financial instruments are initially recognized at fair value and subsequently measured at amortized costs except for the proceeds due on the sale of Atrum Shares included in accounts receivable which was measured at FVTPL with fair value calculated using Level 1 Inputs in the fair value measurement hierarchy (Note 4). The Atrum Shares were sold in May 2019 and the proceeds from the sale were received by the Company in August 2019.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable and subscriptions received in advance approximately their value due to the short period to maturity of these instruments.

The fair value of the notes payable approximates fair value as they are based on amounts owed to third parties and estimated internal borrowing rates (in the case of lease obligations) using current market price indicators.

Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Store sales are monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments or expenditure reductions.

The Company is obligated to the following contractual maturities of undiscounted cash flows:

	Less than one year	Two to Three years	Four to Five years	Thereafter	Total
Financial liability					
Accounts payable	$ 2,358,720	$ -	$ -	$ -	$ 2,358,720
Notes payable	116,508	234,112	223,536	603,342	1,177,498
Lease obligations	257,564	476,362	37,831	9,646	781,403
Total contractual maturities	**$ 2,732,792**	**$ 710,474**	**$ 261,367**	**$ 612,988**	**$ 4,317,621**

14. FINANCIAL INSTRUMENTS (continued)

Market Risk

Market risk is comprised of four components: currency risk, interest rate risk concentration risk and price risk.

i) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than the United States Dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in exploration and evaluation and administrative costs in foreign currencies. The Company incurs expenditures in Canadian Dollars and United States Dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place at December 31, 2019 and December 31, 2018.

ii) Interest Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as its note payable bears interest at fixed rates.

iii) Concentration Risk

The Company only operates in California. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

iv) Price Risk

Price risk is the risk of variability in fair value due to movements in market prices. Please refer to Note 6 Biological Assets for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

15. CAPITAL MANAGEMENT

The Company views its capital as the combination of notes payable and shareholders' equity. The Company's objectives when managing its capital are to safeguard assets while maximizing the growth of the business and return to shareholders. The overall capitalization of the Company is as follows:

	December 31, 2019	December 31, 2018
Notes payable, including current portion	$ 1,177,498	$ -
Shareholders' equity	7,003,013	5,800,136
Total capital	**$ 8,180,511**	**$ 5,800,136**

15. CAPITAL MANAGEMENT (continued)

In order to meet the Company's capital management objectives, management is focused on several specific strategies as follows:

(i) Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions.
(ii) Maintaining a strong capital base to secure investor, creditor and market confidence and ensure the Company's strategic objectives are met.
(iii) Providing shareholder return through profitable business opportunities that grow the Company and benefit other stakeholders, while also safeguarding the entity's ability to continue as a going concern.

In managing the Company's capital, management considers current economic conditions, the risk characteristics of the underlying assets and the Company's planned capital requirements, within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by issuing new debt or equity securities when opportunities are identified and through the disposition of under-performing assets to reduce debt or equity when required.

16. CONTINGENCIES

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines or restrictions on its operations and losses of permits that could cause the Company to cease operations. While management believes that the Company is compliant with applicable local and state regulations at December 31, 2019, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. Accordingly, the Company may be subject to regulatory fines, penalties or operating restrictions in the future.

Although the possession, cultivation and distribution of cannabis for recreational and medical use is permitted in California cannabis is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of cannabis preempts state laws that legalize its use, strict enforcement of federal law regarding cannabis would likely result in the Company's inability to proceed with our business plans. In addition, the Company's assets, including real property, cash, equipment and other goods, could be subject to asset forfeiture because cannabis is still federally illegal.

From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. On November 22, 2019, the Company received communication of a potential litigation claim and a proposed settlement amount of $550,000 CAD. The Company responded on December 2, 2019 and is of the view that the potential claim is entirely without merit and will vigorously defend any action brought forth. No provision for the potential claim has been recorded as at December 31, 2019.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

17. COMPENSATION TO KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are its directors and executive officers. Key management personnel compensation is comprised of the following:

	December 31, 2019	December 31, 2018
Executive and Executive directors	$ 368,972	$ 41,847
Non-Executive Directors	31,655	-
Share based compensation	516,394	-
Total remuneration	**$ 917,021**	**$ 41,847**

Personnel expenses are recorded in general and administrative expenses.

18. ADJUSTMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION DUE TO CHANGE IN PRESENTATION CURRENCY

For comparative purposes, the statement of financial position as at December 31 2018 includes adjustments to reflect the change in the reporting currency to United States dollars. The amounts previously reported in Canadian Dollars as shown below have been translated into United States dollars at the December 31, 2018 of 0.7330 CAD:USD.

	Previously reported (CAD)	Reported in USD
Total assets - CAD denominated	$ 7,221,648	$ 5,294,288
Total assets - USD denominated	1,968,961	1,450,575
Total assets	**$ 9,190,609**	**$ 6,744,863**
Total liabilities - CAD denominated	$ 1,011,721	$ 741,568
Total liabilities - USD denominated	268,264	203,159
Total liabilities	**$ 1,279,985**	**$ 944,727**
Deficit	**$ (4,409,586)**	**$ (3,355,083)**

For comparative purposes, the Consolidated Statements of Operations and Comprehensive Loss for the period of incorporation on June 11, 2018 to December 31, 2018 includes adjustments reflect the change in the reporting currency to United States dollars. The amounts previously reported in Canadian Dollars of $4,409,586 have been translated into US dollars at the average 2018 exchange rate for the period of 0.7609 CAD:USD. The resulting loss from translating CAD denominated balances into USD was $206,680 and is included in accumulated and other comprehensive loss in the consolidated statement of financial position at December 31, 2018.

(Expressed in U.S. dollars unless otherwise noted)

19. SEGMENTED DISCLOSURE

The Company has four reportable operating segments for the year ended December 31, 2019: Dispensaries, Cultivation, Real Estate and Canada. In 2018, the Company only had the Canadian reporting segment. The Company, through its operating segments, is engaged primarily in the retail sale and cultivation of cannabis. Previous to the Acquisitions described in Note 4, the Company had no active operations other than incurred costs to consummate the transactions and complete the equity financing. Management will regularly review the operating results of each operating segment to assess the operating segments' profitability and, correspondingly, the ability of each operating segment to sustain capital, enable future growth through capital investment and to repay debt.

The following tables show information regarding the Company's segments for the year ended and as at December 31, 2019.

As at December 31, 2019	**Dispensaries**	**Cultivation**	**Real Estate**	**Canada**	**Total**
Total current assets	$ 1,461,732	$ 456,506	$ 985	$ 891,378	$ 2,810,601
Intangible assets and goodwill	5,239,870	253,778	-	-	5,493,648
Property and equipment	520,596	822,251	2,256,030	1,074	3,599,951
Right-of-use assets	669,880	-	-	-	669,880
Total assets	$ 7,892,078	$ 1,532,535	$ 2,257,015	$ 892,452	$ 12,574,080
Total current liabilities	$ 2,526,615	$ 61,129	$ 47,944	$ 540,164	$ 3,175,852
Notes payable	-	11,155	1,118,958	-	1,130,113
Lease obligations	478,022	-	-	-	478,022
Deferred tax liability	711,455	75,625	-	-	787,080
Total liabilities	$ 3,716,092	$ 147,909	$ 1,166,902	$ 540,164	$ 5,571,067

	Dispensaries	**Cultivation**	**Real Estate**	**Canada**	**Total**
Revenue	$ 11,892,991	$ 707,168	$ -	$ -	$ 12,600,159
Cost of goods sold	7,014,635	1,047,471	-	-	8,062,106
Gross margin before biological asset adjustments	4,878,356	(340,303)		-	4,538,053
Net effect of adjustments for biological assets	-	(79,593)	-	-	(79,593)
Gross margin	4,878,356	(260,710)	-	-	4,617,646
Operating expenses					
General and administrative	891,125	181,568	9,632	1,909,972	2,992,297
Sales and marketing	1,542,784	13,889	-	-	1,556,673
Stock-based compensation	-	-	-	708,252	708,252
Depreciation and amortization	445,494	52,205	43,565	293,017	834,281
Imapairment of goodwill	-	2,314,960	-	-	2,314,960
Impairment of intangible assets	-	-	-	2,336,858	2,336,858
	2,879,403	2,562,622	53,197	5,248,099	10,743,321
Other expenses (income)	759,670	24,092	67,670	943,641	1,795,073
Income tax expense (recovery)	701,156	(3,993)	-	-	697,163
Net loss for the year	$ 538,127	$ (2,843,431)	$ (120,867)	$ (6,191,740)	$ (8,617,911)

The Canada segment is also considered the corporate segment. The dispensaries, cultivation and real estate segments are all based in California.

20. SUBSEQUENT EVENTS

Except as disclosed elsewhere in these consolidated financial statements the Company has the following subsequent event:

In March 2020, the Company entered into an acquisition agreement with NGEV Inc. to acquire a 13,000 square foot cannabis cultivation facility in Crescent City, California. The acquisition will be completed with the issuance of 600,000 common shares of the Company and the assumption of approximately $463,000 in term debt. The completion of the NGEV acquisition is subject to, among other things, the receipt of regulatory approvals, receipt of certain consents from third parties and the satisfaction or waiver of closing conditions.