Vext Science, Inc.

(formerly Vapen MJ Ventures Corporation)

Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in U.S. Dollars)

Vext Science, Inc.

(formerly Vapen MJ Ventures Corporation)

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BUCKLEY DODDS LLP
Chartered Professional Accountants
Suite 1140 - 1185 West Georgia Street
Vancouver, B.C. Canada V6E 4E6
Telephone: (604) 688-7227
Fax: (604) 681-7716

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Vext Science, Inc. (formerly Vapen MJ Ventures Corporation):

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Vext Science, Inc. (formerly Vapen MJ Ventures Corporation) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the 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 identified above 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 the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 group to express an opinion on the financial statements.

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 Mickey Goldstein.

Buckley Dodds LLP

Vancouver, British Columbia
April 29, 2020

Buckley Dodds LLP
Chartered Professional Accountants

VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		**$ 7,292,261**	$ 3,393,567
Accounts receivable	4	**15,548,015**	13,206,458
Subscriptions receivable		**-**	233,250
Inventory	5	**-**	73,973
Prepaid expenses, deposits, and other receivables	6	**303,402**	263,507
Notes receivable - current	7	**1,130,587**	-
Advances to joint ventures	9	**440,830**	-
Investment in sublease – current	13	**122,027**	-
		24,837,122	17,170,755
Non-current assets			
Notes receivable	7	**2,020,182**	-
Investment	8	**350,000**	-
Property, plant and equipment	10	**8,526,628**	4,081,645
Investment in sublease – non-current	13	**576,887**	-
Right-of-use asset	13	**287,890**	-
Due from related parties	15	**2,181,785**	2,181,785
Total Assets		**$ 38,780,494**	$ 23,434,185
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables and accrued liabilities	11, 15	**$ 1,068,635**	$ 899,707
Due to Legacy Ventures Hawaii, LLC	8	**203,000**	-
Notes payable – current portion	12, 15	**920,414**	1,098,695
Lease liability – current portion	13	**132,654**	-
Income tax payable		**45,728**	649,379
Total current liabilities		**2,370,431**	2,647,781
Long-term liabilities			
Notes payable – non-current portion	12, 15	**98,894**	161,734
Lease liability – non-current portion	13	**858,504**	-
Long term loan payable	14	**5,280,467**	-
Deferred tax liabilities	23	**4,499,000**	3,624,095
Total liabilities		**13,107,296**	6,433,610
Shareholders' equity			
Subordinated and multiple voting shares	16	**9,597,465**	4,150,351
Subordinated voting shares – subscription receivable	16	**-**	50,000
Special warrants – subscriptions receivable	16	**-**	183,250
Reserves	16	**733,781**	89,628
Accumulated other comprehensive income		**50,738**	4,091
Retained earnings		**15,291,214**	12,523,255
Total shareholders' equity		**25,673,198**	17,000,575
Total liabilities and shareholders' equity		**$ 38,780,494**	$ 23,434,185

Nature of operations and going concern (Note 1)
Subsequent events (Note 24)

Approved on April 29, 2020 on behalf of the Board of Directors:

"Jason T. Nguyen" , Director *"Eric J. Offenberger"* , Director

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

VEXT SCIENCE, INC.
(formerly Vapen MJ Ventures Corporation)
Consolidated Statements of Operations and Comprehensive Income
(Expressed in U.S. Dollars)

	Notes		December 31, 2019		December 31, 2018
REVENUES					
Management fees		$	**4,638,000**	$	4,800,000
Professional services			**6,458,297**		6,652,534
Product sales			**9,949,209**		5,342,956
Equipment leasing			**1,019,403**		1,000,779
Property leasing	13		**257,659**		680,000
			22,322,568		18,476,269
COST OF SALES					
Cost of goods sold			**6,607,533**		3,726,520
Salaries, wages, and contractors	15		**5,545,340**		4,890,750
Property and equipment leasing, utilities, and property taxes	13		**103,948**		204,045
Amortization	10		**697,899**		480,603
			(12,954,720)		(9,301,918)
Gross Profit			**9,367,848**		9,174,351
OPERATING EXPENSES					
Advertising and promotion			**926,459**		1,022,045
Amortization	10, 13		**135,351**		86,215
Bank charges and interest	13		**64,593**		59,365
Consulting fees	15		**763,342**		184,206
Insurance			**69,722**		48,683
Office and general			**606,351**		288,075
Professional fees			**840,248**		351,527
Rent, property taxes, and utilities	13, 15		**182,293**		169,103
Repairs and maintenance			**325,311**		508,550
Research and development			**112,962**		107,354
Share-based compensation	15, 16		**419,552**		-
Salaries, wages, and commissions	15		**909,995**		304,180
Travel, training, and meals and entertainment			**493,560**		475,018
			(5,849,739)		(3,604,321)
Loss on acquisition	22		-		(702,036)
Loss on asset disposal			(3,404)		-
Foreign exchange gain			3,205		-
Gain on derecognition of ROU asset	13		38,129		-
Gain on settlement of debt	16		104,092		-
Interest income			8,098		12,000
Net income before taxes			**3,668,229**		4,879,994
Income tax expense			**(874,905)**		(1,131,432)
Net income after taxes		**$**	**2,793,324**	$	3,748,562
Unrealized gain on foreign exchange translation			**46,647**		4,091
Total comprehensive income		**$**	**2,839,971**	$	3,752,653
Basic earnings per common shares		$	0.04		0.06
Diluted earnings per common shares		$	0.04	$	0.06
Weighted average number of common share outstanding - basic			**78,900,736**		65,125,000
Weighted average number of common share outstanding - diluted			**79,258,439**		65,125,000

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

VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)

	Share Capital												
	Number of subordinated voting shares	**Amount: subordinated voting shares**	**Number of multiple voting shares**	**Amount: multiple voting shares**	**Number of special warrants**	**Special warrants**	**Subscriptions receivable – special warrants**	**Subscriptions receivable – subordinated voting shares**	**Reserves: compensatory warrants**	**Reserves: stock options**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance at December 31, 2017	**2,596,300**	**$ 1**	**625,287**	**$ 19**	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 8,774,693**	**$ 8,774,713**
Private placement – New Gen	4,799,161	3,501,370	-	-	-	-	-	50,000	-	-	-	-	3,551,370
Equity of the Company at December 31, 2017	1,630,500	49,732	-	-	-	-	-	-	-	-	-	-	49,732
Repurchase of shares	(1,000,000)	(37,498)	-	-	-	-	-	-	-	-	-	-	(37,498)
Private placement	1,000,000	36,650	-	-	-	-	-	-	-	-	-	-	36,650
Private placement	2,500,000	91,625	-	-	-	-	-	-	-	-	-	-	91,625
Private placement – Special Warrants	-	-	-	-	1,000,000	-	183,250	-	-	-	-	-	183,250
Remove equity of the Company up to the date of the Acquisition	-	(140,509)	-	-	-	-	-	-	-	-	-	-	(140,509)
Fair value of the Acquisition	-	756,914	-	-	-	-	-	-	-	-	-	-	756,914
Share issuance costs – warrants	-	(89,628)	-	-	-	-	-	-	89,628	-	-	-	-
Share issuance costs – cash	-	(18,325)	-	-	-	-	-	-	-	-	-	-	(18,325)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	4,091	-	4,091
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	3,748,562	3,748,562
Balance at December 31, 2018	**11,525,961**	**4,150,332**	**625,287**	**19**	**1,000,000**	**-**	**183,250**	**50,000**	**89,628**	**-**	**4,091**	**12,523,255**	**17,000,575**
Subscriptions received for subordinated voting shares	-	50,000	-	-	-	-	-	(50,000)	-	-	-	-	-
Subscriptions received for special warrants	-	-	-	-	-	183,250	(183,250)	-	-	-	-	-	-
Shares attached to special warrants	1,000,000	183,250	-	-	(1,000,000)	(183,250)	-	-	-	-	-	-	-
Private placement	6,148,665	4,585,134	-	-	-	-	-	-	-	-	-	-	4,585,134
Share issuance costs - warrants	-	(8,340)	-	-	-	-	-	-	8,340	-	-	-	-
Share issuance costs – cash	-	(31,841)	-	-	-	-	-	-	-	-	-	-	(31,841)
Shares for debt settlement	160,000	100,881	-	-	-	-	-	-	-	-	-	-	100,881
Shares issued from warrants exercised	3,000,000	568,030	-	-	-	-	-	-	-	-	-	-	568,030
Share-based compensation	-	-	-	-	-	-	-	-	238,513	181,039	-	-	419,552
Warrants issued as transaction cost on long-term loan payable	-	-	-	-	-	-	-	-	216,261	-	-	-	216,261
Cumulative catch-up adjustment of recognition of right-of-use assets	-	-	-	-	-	-	-	-	-	-	-	(101,718)	(107,718)
Cumulative catch-up adjustment of derecognition of right-of-use assets and recognition of net investment in sublease	-	-	-	-	-	-	-	-	-	-	-	76,353	76,353
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	46,647	-	46,647
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	2,793,324	2,793,324
Balance at December 31, 2019	**21,834,626**	**$ 9,597,446**	**625,287**	**$ 19**	**-**	**$ -**	**$ -**	**$ -**	**$ 552,742**	**$ 181,039**	**$ 50,738**	**$ 15,291,214**	**$ 25,673,198**

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

VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

		December 31, 2019		December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the year	$	2,793,324	$	3,748,562
Items not affecting cash:				
Amortization		833,250		566,818
Accretion on leases		104,655		-
Finance income on subleases		(77,659)		-
Deferred tax liabilities		874,905		969,796
Share-based compensation		419,552		-
Loss on acquisition		-		702,036
Gain on settlement of debt		(104,092)		-
Gain on derecognition of ROU asset		(38,129)		-
Foreign exchange		43,375		-
Loss on asset disposal		3,404		-
Accrued interest income		(7,962)		-
Non-cash working capital item changes:				
Accounts receivable		(5,275,514)		(4,084,191)
Inventory		73,973		205,618
Prepaid expenses, deposits and other receivables		(39,895)		(153,058)
Payables and accrued liabilities		373,901		296,555
Subscription receivable		233,250		-
Income tax payable		(603,651)		157,500
Net cash (used in) provided by operating activities		(393,313)		2,409,636
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in Legacy Ventures Hawaii, LLC		(147,000)		-
Cash acquired from acquisition		-		79,524
Acquisition of property, plant and equipment		(5,259,715)		(1,502,921)
Net cash used in investing activities		(5,406,715)		(1,423,397)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of notes receivable		(208,850)		-
Advances to joint ventures		(440,830)		-
Receipt of long-term debt		5,500,000		-
(Repayment) issuance of notes payable		(241,121)		401,975
Lease payments made		(208,800)		-
Sublease payments received		177,000		-
Due from shareholders		-		6,607
Due from related parties		-		(1,328,383)
Common shares issued for cash – private placement		4,585,134		3,501,370
Common shares issued for cash – exercise of warrants		568,030		-
Cash share issuance costs		(31,841)		-
Net cash provided by financing activities		9,698,722		2,581,569
Net change in cash during the year		3,898,694		3,567,808
Cash (bank indebtedness), beginning of the year		3,393,567		(174,241)
Cash, end of the year	$	7,292,261	$	3,393,567
Cash paid for				
Interest	$	130,086	$	101,601
Taxes	$	595,527	$	-

Non-cash financing and investing activities (Note 17)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Vext Science, Inc. (formerly Vapen MJ Ventures Corporation) (the "Company") provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical cannabis field. The head office and principal address of the Company is located at Suite 2250 – 1055 W. Hastings St., Vancouver, BC V6E 2E9 and the U.S. headquarters is at 4152 N. 39th Ave, Phoenix, Arizona 85019. On December 31, 2018, the Company changed its name from Fabula Exploration Inc. to Calyx Growth Corporation. On March 25, 2019, the Company changed its name from Calyx Growth Corporation to Vapen MJ Ventures Corporation. On November 12, 2019, the Company changed its name from Vapen MJ Ventures Corporation to Vext Science, Inc.

These consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent upon the Company's ability to continue to earn adequate revenues from operations, and to raise adequate financing. The Company intends to finance its future requirements through continued operations.

As at December 31, 2019, the Company had working capital of $22,466,691 (December 31, 2018 - $14,522,974) and retained earnings of $15,291,214 (December 31, 2018 - $12,523,255). There is uncertainty as the likely effects of the novel coronavirus ("COVID-19") outbreak which may, among other things, impact the Company's operations and ability to raise further financing (see Note 24). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

These consolidated financial statements do not reflect any adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss, and are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The consolidated financial statements, unless otherwise specified, are presented in United States ("U.S.") dollars.

(Expressed in U.S. Dollars)

2. BASIS OF PRESENTATION (*CONTINUED…*)

c) Basis of Consolidation

The consolidated financial statements include consolidated accounts of the Company and its subsidiaries, including its economic interest in joint ventures. Subsidiaries are those entities that the Company controls. The Company controls an entity when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Entities of the Company are listed below.

Name	Jurisdiction	Ownership
Vext Science, Inc.	BC, Canada	100%
New Gen Holdings, Inc.	Wyoming, USA	100%
Step 1 Consulting, LLC	Arizona, USA	100%
New Gen Admin Services, LLC	Arizona, USA	100%
New Gen Agricultural Services, LLC	Arizona, USA	100%
New Gen Real Estate Services, LLC	Arizona, USA	100%
Hydroponics Solutions, LLC	Arizona, USA	100%
X-Tane, LLC	Arizona, USA	100%
Pure Touch Botanicals, LLC	Arizona, USA	100%
Vapen, LLC	Arizona, USA	100%
Vapen CBD, LLC	Arizona, USA	100%
Joint Ventures:		
Vapen 501 Lab LLC(1)	Arkansas, USA	50%
Vapen Mass, LLC	Massachusetts, USA	50%

(1) Terminated on March 26, 2020.

d) Reclassification

Certain prior year amounts have been reclassified to conform with current year's presentation.

e) Approval of the Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on April 29, 2020.

2. BASIS OF PRESENTATION (*CONTINUED…*)

e) Significant Accounting Judgements and Estimates

The preparation of the Company's consolidated financial statements is in conformity with IFRS, which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported revenues and expenses during the reporting period.

Critical Judgements

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as the determination of functional currency, and its classification of joint arrangements. The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. Management has determined that the functional currency of the parent is the Canadian dollar, while the functional currency of the subsidiaries has been determined to be the U.S. dollar.

Joint Arrangements

As at December 31, 2019, the Company holds a 50% interest in two separate joint arrangements. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Company's joint arrangements are structured as a limited liability corporation and provide the Company and its partners (parties to the agreements) with rights to the net assets of the limited liability corporations under the arrangements. Therefore, these arrangements are classified as joint ventures.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of these consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting these consolidated financial statements include:

Allowance for Doubtful Accounts

The Company estimates the amount of accounts receivable that may not be collectable and will allow for a write down of such amounts. Management uses historical information on the recoverability of accounts receivable and also looks at specific account balances in determining the allowance.

Inventory Obsolescence

The Company estimates the amount of inventory on hand that may not be recoverable and will allow for a write down of such amounts.

2. BASIS OF PRESENTATION (*CONTINUED…*)

e) Significant Accounting Judgements and Estimates (*continued…*)

Deferred Tax Assets & Liabilities

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

Useful Life of Property, Plant and Equipment

Property, plant and equipment are amortized over its estimated useful life. Estimated useful lives are determined based on current facts and past management experience and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

Share-Based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash consists of cash held at major financial institutions and is subject to insignificant risk of changes in value. As at December 31, 2019 and 2018, the Company's cash balance is comprised of cash on hand and deposits held with banks.

b) Inventory

Inventories are valued at the lower of cost and net realizable value, with cost determined based on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Inventories include the cost of materials purchased, as well as other costs required to bring the inventories to their present location and condition.

c) Property, plant and equipment

Property, plant and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The cost of the item of property and equipment consists of the purchase price, financing costs, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. An item of property, plant and equipment is no longer recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of operations and comprehensive income. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Amortization	Rate
Land	No amortization	-
Building	Straight line method	3%
Equipment and machinery	Straight line method	14-20%
Leasehold improvements	Straight line method	5 years (over the term of the lease)
Automobile	Straight line method	20% (new) 33% (used)

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

d) Investments

The Company carries its investments at fair value as financial assets at FVTPL. When a financial instrument is initially recognized, its fair value is generally the value of consideration paid or received. Acquisition costs relating to investments are not included as part of the cost of the investment and are recorded as an expense in the statements of operations and comprehensive income.

In the absence of an active market, the fair value is determined by management using the appropriate valuation methodologies. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed.

e) Joint arrangements

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. If the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint ventures), the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

f) Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for any assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

f) Financial instruments (*continued…*)

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

Classification

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

Measurement

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

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

Debt investments at FVOCI:
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

f) Financial instruments (*continued…*)

Impairment of financial assets at amortized cost

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

Derecognition

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

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

Gains and losses on derecognition are generally recognized in profit or loss.

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

f) Financial instruments (*continued…*)

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Classification
Cash	Fair value
Accounts receivable	Amortized cost
Subscriptions receivable	Amortized cost
Notes receivable	Amortized cost
Advances to joint ventures	Amortized cost
Investment in sub-lease	Amortized cost
Investment in Legacy Ventures Hawaii, LLC	Fair value
Due from shareholders	Amortized cost
Prepaid deposits and other receivables	Amortized cost
Due from related parties	Amortized cost
Due to shareholders	Amortized cost
Payables	Amortized cost
Due to Legacy Ventures Hawaii, LLC	Amortized cost
Lease liability	Amortized cost
Notes payable	Amortized cost

g) Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a separate line item. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

h) Revenue recognition

The Company recognizes revenue when it has persuasive evidence of a contract, performance obligations have been identified and satisfied, payment terms have been identified, and it is probable that the Company will collect the consideration it is entitled to.

In addition to this general policy, the following are the specific revenue recognition policies for each major category of revenue:

<u>Management fees:</u>
The Company provides monthly management fees at a fixed rate to its customer. This revenue is recorded monthly, when billed.

<u>Professional services:</u>
Revenues derived from professional services consist of fees associated with staff provided by the Company to its customer. The Company bills its customer monthly, based on a markup of paid wages and salaries. This revenue is recorded when billed.

<u>Product sales:</u>
Product sales relates to the sale of low-pressure tanks with liquid gas, as well as for materials and supplies purchased by the Company for the cultivation and dispensary facilities it provides to its customer. Revenue relating to the sale of the liquid gas is recognized when the tanks are shipped to the customer. Revenue from the materials and supplies used in cultivation and dispensary facilities are recognized when invoiced to the customer, based on the supplies purchased specifically for the cultivation and dispensary locations.

<u>Equipment and property leasing:</u>
Revenues derived from leasing are recognized when invoiced to the customer. This revenue consists of amounts charged to the customer for leased equipment used in the cultivation and dispensary facilities, as well as buildings and property leased to the customer.

i) Cost of sales

Cost of goods sold consists of the cost of cultivation supplies, merchandising materials, packaging materials and the cost of the low-pressure liquid gas. Other cost of sales include the cost of sales included in the cost of salaries, wages, and contractors used to generate management fees and professional services revenue; utilities, property taxes and lease expenses used to generate revenues from leasing certain equipment and properties; as well as amortization of property used to generate property leasing revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

j) Income taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

k) Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company is the Canadian dollar, and the functional currency of its wholly owned subsidiaries is the U.S. dollar. The statements are presented in U.S dollars.

Accordingly, the accounts of the Company are translated into U.S. dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;
- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and
- exchange gains and losses arising from translation are included in accumulated other comprehensive income.

Transactions in currencies other than the functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

l) Share capital

Subordinated and multiple voting shares are classified as equity. Transaction costs directly attributable to the issue of subordinated and multiple voting shares and subordinated voting share warrants are recognized as a deduction from equity. Subordinated and multiple voting shares issued for non-monetary consideration are measured based on their market value at the date the subordinated voting shares are issued.

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration are valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between subordinated and multiple voting shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the subordinated voting shares at the time the units are priced, and any residual value is allocated to the warrants reserve. Consideration received for the exercise of options or warrants is recorded in share capital and the related residual value is transferred to share capital.

m) Earnings per share

Basic earnings per share is computed by dividing net earnings available to shareholders by the weighted average number of shares outstanding during the reporting period. For diluted per share computations, assumptions are made regarding potential subordinated voting shares outstanding during the period. The weighted average number of subordinated voting shares is increased to include the number of additional subordinated voting shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's subordinated voting shares at their average market price during the period, thereby reducing the weighted average number of subordinated voting shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

n) Share-based payments

The Company grants stock options and warrants to buy subordinated voting shares of the Company to directors, officers, employees, and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting installment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

o) Warrants issued in equity financing transactions

The Company engages in equity financing transactions. These equity financing transactions may involve issuance of subordinated voting shares or units. A unit comprises a certain number of subordinated voting shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional subordinated voting shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are valued based on the residual value method and included in share capital with the subordinated voting shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share based payments.

p) New accounting policies: IFRS 16, Leases

The Company adopted all of the requirements of IFRS 16 Leases ("IFRS 16") as of January 1, 2019. IFRS 16 replaces IAS 17 Leases. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The Company choose to apply the effect of changes retrospectively with the cumulative effect of initially applying the standards recognized to retained earnings at the date of initial application which is January 1, 2019 (Note 13).

The following is the Company's new accounting policy for leases under IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right of use asset and lease liability is recognized at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, including periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

If a right-of-use asset is re-leased, the corresponding right-of-use asset is derecognized and an investment asset is recorded at the present value of the lease income not paid at the commencement date discounted using the implicit rate in the lease or the Company's incremental rate of borrowing.

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

p) New accounting policies: IFRS 16, Leases *(Continued…)*

The Company has elected not to recognize right of use assets and lease liabilities for leases for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

q) Standards issued but not yet effective

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consist of the following:

		December 31, 2019		December 31, 2018
Accounts receivable (Notes 19, 20)	**$**	**15,374,508**	$	27,579,457
Allowance for doubtful accounts		**-**		(14,372,999)
Unbilled revenues		**155,984**		-
GST input tax credits		**17,523**		-
	$	**15,548,015**	$	13,206,458

5. INVENTORY

Inventory consists of various types of low-pressure liquid gas held in X-Tane, LLC. There was a $86,271 adjustment to X-Tane inventory during the year ended December 31, 2019, to write down the value of unsalable inventory. The inventory balance as at December 31, 2019 was $nil (2018 - $73,973).

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

The Company's prepaid deposits and other receivables consist of the following:

		December 31, 2019		December 31, 2018
Vendor deposits	**$**	**226,314**	$	255,914
Prepaid expense		**71,046**		-
Advances Appalachian Pharm Processing, LLC (Note 24)		**5,392**		-
Employee advances		**650**		7,593
	$	**303,402**	$	263,507

(Expressed in U.S. Dollars)

7. NOTE RECEIVABLE

As at December 31, 2019, the Company's notes receivables consist of the following:

	Current	Non-current	Total
Due from Herbal Wellness Centre Inc. ("HWC"), incurring interest at 10% per annum, on December 31, 2022 [(1)]	$ 913,775	$ 2,020,182	**$ 2,933,957**
Due from an arm's length party, accruing interest at 10% per annum, and due on demand	137,962	-	**137,962**
Due from Organica Patient Group, Inc. This amount is non-interest bearing, and due on demand (Note 24)	78,850	-	**78,850**
	$ 1,130,587	$ 2,020,182	**$ 3,150,769**

[(1)]On December 31, 2019, the Company and HWC entered into a promissory note, whereby $2,933,957 was re-classified from accounts receivable into an interest-bearing note. The note bears an interest rate of 10% per annum, beginning on January 1, 2020, and is payable as follows: $913,775, as well as accrued interest due on or before December 31, 2020; $1,000,779 as well as accrued interest due on or before December 31, 2021; and $1,019,403, as well as accrued interest due on or before December 31, 2022.

The Company had no notes receivable as at December 31, 2018.

8. INVESTMENT

On August 2, 2019, the Company entered into Restricted Unit Grant Agreement with Legacy Ventures Hawaii, LLC ("Legacy"), whereby the Company subscribed for 350,000 units of Legacy for $350,000. As at December 31, 2019, the Company had paid $147,000, with the remaining $203,000 still owing. Subsequent to the year ended December 31, 2019, the Company paid $96,000 of the amount outstanding. As a result of this subscription, as at December 31, 2019, the Company had a 12.28% interest in Legacy.

In addition to the 350,000 units subscribed for above, the Company will be granted an additional 350,000 units for services to be provided by the Company to Legacy. 175,000 of these units will be issued in the fiscal year ending December 31, 2020, with the remaining 175,000 to be issued during the year ended December 31, 2021.

(Expressed in U.S. Dollars)

9. ADVANCES TO JOINT VENTURES

At December 31, 2019, the Company holds 50% membership interest in both Vapen Mass, LLC (“Vapen Mass”) and Vapen 501 Lab, LLC (“Vapen 501”), with the remaining 50% held by Caregiver Patient Connection, LLC and Tree of Life Seeds, Inc. respectively. Subseqent to year end, the Vapen 501 joint venture was terminated (Note 24).

Subsequent to the year ended December 31, 2019, the Company became 50% member to Vapen Kentucky, LLC (“Vapen KY”), and a 25% member of Vapen Oklahoma, LLC (“Vapen-OK). Refer to Note 24 for further details.

During the year ended December 31, 2019, the Company advanced the following amounts to the above joint ventures:

		December 31, 2019
Vapen 501	$	**250,000**
Vapen KY		**5,250**
Vapen-OK		**185,580**
	$	**440,830**

These advances are non-interest bearing, and due on demand.

As at December 31, 2019, Vapen Mass and Vapen 501 were inactive and no investments were made in the joint ventures.

(Expressed in U.S. Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Leasehold improvements	Construction in progress	Automobile	Total
Cost							
Balance at December 31, 2017	$ 340,779	$ 1,074,961	$ 1,231,038	$ 1,495,691	$ -	$ 63,885	$ 4,206,354
Additions	-	136,235	220,139	804,762	-	17,900	1,179,036
Balance at December 31, 2018	340,779	1,211,196	1,451,177	2,300,453	-	81,785	5,385,390
Disposals	-	-	-	-	-	(4,750)	(4,750)
Additions	-	112,173	4,385,598	445,550	294,446	21,711	5,259,478
Balance at December 31, 2019	$ 340,779	$ 1,323,369	$ 5,836,775	$ 2,746,003	$ 294,446	$ 98,746	$ 10,640,118
Accumulated Amortization							
Balance at December 31, 2017	$ -	$ 44,603	$ 269,682	$ 422,315	$ -	$ 327	$ 736,927
Amortization	-	80,016	185,959	286,056	-	14,787	566,818
Balance at December 31, 2018	-	124,619	455,641	708,371	-	15,114	1,303,745
Disposals	-	-	-	-	-	(1,583)	(1,583)
Amortization	-	82,835	314,581	394,906	-	19,006	811,328
Balance at December 31, 2019	$ -	$ 207,454	$ 770,222	$ 1,103,277	$ -	$ 32,537	$ 2,113,490
Net Book Value							
December 31, 2018	$ 340,779	$ 1,086,577	$ 995,536	$ 1,592,082	$ -	$ 66,671	$ 4,081,645
December 31, 2019	$ 340,779	$ 1,115,915	$ 5,066,553	$ 1,642,726	$ 294,446	$ 66,209	$ 8,526,628

Of the total amortization expense during the twelve months ended December 31, 2019 - $697,899 (2018 - $480,603) was included in the cost of sales and $113,429 (2018 - $86,215) was included in operating expense.

(Expressed in U.S. Dollars)

11. PAYABLES AND ACCRUED LIABILITIES

The Company's payables and accrued liabilities consist of the following:

	December 31, 2019	December 31, 2018
Trade payables (Note 15)	**$ 322,089**	$ 214,998
Credit card payable	**184,641**	203,604
Interest payable	**9,198**	2,931
Sales tax payable	**12,553**	3,859
Insurance payable	**-**	9,251
Payroll liabilities	**8,920**	5,406
Finder's fee payable	**-**	18,325
Accrued liabilities (Note 15)	**531,234**	441,333
	$ 1,068,635	$ 899,707

12. NOTES PAYABLE

Current notes payable are made up of the following:

	December 31, 2019	December 31, 2018
Loan from related parties with an interest rate of 13% per annum (Note 15)	**$ -**	$ 14,445
Maturing on October 1, 2020 with an interest rate of 12% per annum	**182,250**	182,250
Maturing on January 5, 2020 with an interest rate of 15% per annum[(1)]	**175,000**	350,000
Maturing on February 1, 2020 with an interest rate of 12% per annum[(2)]	**272,000**	272,000
Maturing on March 1, 2020 with an interest rate of 12% per annum[(3)]	**280,000**	280,000
Current portion of a loan, of which the total amount matures in December 2021 with an interest rate of 3.65% per annum	**11,164**	-
	$ 920,414	$ 1,098,695

(1) Subsequent to the year ended December 31, 2019, the maturity date was extended to January 5, 2021 (refer to Note 24).

(2) Subsequent to the year ended December 31, 2019, the maturity date was extended to February 1, 2021. In connection with the extension, the Company will pay a fee of 1.5% of the loan principal (refer to Note 24).

(3) Subsequent to the year ended December 31, 2019, the maturity date was extended to March 1, 2021 (refer to Note 24).

Non-current notes payable are made up of the following:

	December 31, 2019	December 31, 2018
Maturing in December 2021 with an interest rate of 3.65% per annum	**$ 11,578**	$ 33,506
Maturing on September 20, 2022 with an interest rate of 13% per annum, from related parties (Note 15)	**-**	3,171
Maturing on March 31, 2023 with an interest rate of 13% per annum, from related parties (Note 15)	**21,594**	54,434
Maturing in 2024, with an interest rate of 13% per annum, from related parties (Note 15)	**-**	776
Maturing in 2026, with an interest rate of 13% per annum, from related parties (Note 15)	**65,722**	69,847
	$ 98,894	$ 161,734

(Expressed in U.S. Dollars)

13. LEASES

Leases on transition:

On January 1, 2019, the Company adopted IFRS 16, Leases. At this date, the Company had two building leases affected by the transition to IFRS 16, Leases. Of the two building leases held at January 1, 2019, one was being subleased by the Company. The second lease was subsequently subleased after transition, during the year ended December 31, 2019, and derecognized from the ROU assets.

The adjustments to record the cumulative effect of the initial application of the new accounting policy on January 1, 2019 are as follows:

a) Set up of Right of use asset ("ROU") and lease liability:

Right-of-use assets	$	970,458
Accumulated depreciation		(272,145)
Lease liability		(800,031)
Adjustment to retained earnings	$	(101,718)

b) Adjustment to recognize the cumulative effect of the derecognition of the ROU for the property that was being subleased as of January 1, 2019:

Net Investment in sub-lease	$	619,561
Right-of use asset derecognized		(766,881)
Accumulated depreciation derecognized		223,673
Adjustment to retained earnings	$	76,353

The fair value of the lease liability was estimated using level 2 inputs on the date of the lease agreements using the Company's incremental borrowing rate of 13% and a weighted average lease term of 8.31 years.

Right-of-use assets as at December 31, 2019:

As at December 31, 2019, the Company has three lease agreements for its leased premises, consisting of office and warehouse space. Of these three leases, two have terms expiring April 30, 2024, while the third expires September 30, 2029. The two leases ending April 30, 2024 are being subleased by the Company as at December 31, 2019.

Lease entered into during the year ended December 31, 2019:

		ROU
At December 31, 2019		
Cost	$	295,272
Accumulated depreciation	$	(7,382)
Net book value	**$**	**287,890**

(Expressed in U.S. Dollars)

13. LEASES (*CONTINUED…*)

Right-of-use assets as at December 31, 2019: ***(continued…)***

Total right-of-use asset consists of:

		Total ROU
Total ROU at January 1, 2019	$	970,458
Less accumulated amortization at January 1, 2019		(272,145)
Derecognition of subleased ROU at January 1, 2019		(766,881)
Derecognition of amortization of subleased ROU at January 1, 2019		223,673
Opening book value of ROU upon adoption of IFRS 16 on January 1, 2019		155,105
Additions		295,272
Amortization		(21,922)
Derecognition of ROU for the recognition of net investment in sublease		(140,565)
At December 31, 2019	**$**	**287,890**

The total amortization expense during the year ended December 31, 2019 was included in operating expense.

Lease liability as at December 31, 2019:

The following table presents lease obligations for the Company for the year ended December 31, 2019:

		Total lease liability
Year ended December 31, 2019		
Opening balance	$	800,031
Additions		295,272
Lease payments		(208,800)
Interest expense (included in cost of sales – property and equipment leasing)		98,353
Interest expense (included in bank charges and interest in operating expenses)		6,302
At December 31, 2019	**$**	**991,158**
Less: current portion	**$**	**(132,654)**
Long-term lease liability	**$**	**858,504**

The following table discloses the undiscounted cash flow for lease obligations as of December 31, 2019:

Less than one year	$	253,944
One to five years		1,033,180
More than five years		222,303
Total undiscounted lease obligations	**$**	**1,509,427**

(Expressed in U.S. Dollars)

13. LEASES (*CONTINUED…*)

The following table provides a summary of the lease expenses recognized in the statement of operations for the year ended December 31, 2019

Interest expense (included in cost of sales – property and equipment leasing)	$	98,353
Interest expense (included in bank charges and interest in operating expenses)	$	6,302
Expenses relating to short-term leases (included in rent, property taxes, and utilities in operating expenses) (Note 15)	$	27,169
Amortization (included in operating expenses)	$	21,922

Net investment in subleases as at December 31, 2019:

The Company has two sublease arrangements with its main customer, for office and warehouse space. Both subleases expire on the same day the head lease expires, which is on April 30, 2024.

The following table presents sublease payments receivable for the Company for the year ended December 31, 2019:

Year ended December 31, 2019		
Opening balance	$	619,561
Additions		178,694
Lease payments		(177,000)
Finance income (included in revenue from property leasing)		77,659
At December 31, 2019	**$**	**698,914**
Less: Current Portion	**$**	**(122,027)**
Long-term Lease Liability	**$**	**576,887**

The following table discloses the undiscounted cash flow for lease payments receivable as of December 31, 2019:

		2019
Less than one year	$	205,944
One to five years		715,276
Total undiscounted sublease payments receivable	**$**	**921,220**

The following table discloses the profit and loss on the sublease:

		2019
Finance income (included in revenue from property leasing)	$	77,659
Interest expense (included in cost of sales – property and equipment leasing)		(98,353)
Gain on derecognition of ROU		38,129
Income on sublease	**$**	**17,435**

(Expressed in U.S. Dollars)

14. LOAN PAYABLE

On December 31, 2019, the Company completed a financing comprising of secured non-convertible debentures (the "Loan") of $5,500,000. The Loan is secured by a security interest in all of the Company's assets. The Loan accrues interest at an annual rate of 10%, payable quarterly beginning July 1, 2020 and matures on December 31, 2021. The lenders also received warrants to purchase 980,210 subordinated voting shares of the Company at an exercise price of CAD$1.00 (the "Loan Warrants") as an incentive. The Loan Warrants can be exercised for two years after closing, subject to the Company's right to accelerate the expiry of the Loan Warrants if the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange is greater than CAD$3.35 for the any five 5 consecutive trading days.

The fair value of the Loan was determined to be $5,496,728 using an annual effective interest rate of 10%. The fair value of the Loan Warrants was determined to be $216,261 using the Black Scholes option pricing model and the following assumptions: Share Price: CAD$0.70; Exercise Price: CAD$1.00; Expected Life: 2 years; Annualized Volatility: 93.50%; Dividend yield: 0%; Discount Rate: 1.69%.

Gross proceeds received	$	5,500,000
Less: Transaction costs		(216,261)
Less: Loan discount		(3,272)
December 31, 2019	$	5,280,467

15. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these consolidated financial statements are summarized below and include transactions with the following individuals or entities:

<u>Key management personnel</u>

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, and President and Chief Financial Officer.

Remuneration attributed to key management personnel as of December 31, 2019 and 2018 is summarized as follows:

		December 31, 2019		December 31, 2018
Share-based compensation (Note 16)	$	**101,955**	$	-
Salaries and wages included in cost of sales		**826,855**		595,668
Salaries, wages and commissions included in operating expenses		**43,519**		31,351
Consulting fees included in operating expenses		**19,785**		-
	$	**992,114**	$	627,019

(Expressed in U.S. Dollars)

15. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

Other related parties

Other related parties include close family members of the Company's Executive Chairman and former CFO and President.

Remuneration attributed to other related parties as of December 31, 2019 and 2018 is summarized as follows:

	December 31, 2019	December 31, 2018
Salaries and wages included cost of sales	$ **148,466**	$ 118,898
Salaries, wages and commissions included in operating expenses	**7,814**	6,258
Rent expense included in operating expenses (Note 13) (1)	**27,169**	-
	$ **183,449**	$ 125,156

(1)This consists of short-term lease payments made to a company owned by a close family member of the Company's Executive Chairman for the temporary usage of office space.

Balances with related parties:

Due from related parties:

	December 31, 2019	December 31, 2018
Non-interest bearing, due on December 31, 2021 from the Executive Chairman	**$ 537,151**	$ 537,151
Non-interest bearing, due on December 31, 2022 from the Executive Chairman	**316,251**	316,251
Non-interest bearing, due on December 31, 2023 from the Executive Chairman	**1,328,383**	1,328,383
	$ 2,181,785	$ 2,181,785

Due from other related parties:

	December 31, 2019	December 31, 2018
Non-interest bearing advances to Joint Ventures (Note 9)	**$ 440,830**	$ -

15. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

Due to related parties:

Amounts due to related parties as at December 31, 2019 and 2018 included the following:

- Included in payables and accrued liabilities as at December 31, 2019 is $338,198 (2018 - $290,167) owing to the Executive Chairman, companies controlled by him, and his close family members. The majority of this amount is made up of accrued salary (Note 11).
- Included in payables and accrued liabilities as at December 31, 2019 is $5,885 (2018 - $ nil) owing to the Chief Executive Officer, a director, and the former CFO and President of the Company (Note 11).
- Included in short-term loans payable as at December 31, 2019 is $nil (2018 - $14,445) owing to a company controlled by the Executive Chairman of the Company. This amount bears interest of 13% per annum, and is due on demand (Note 12).
- Included in the long-term loans payable as at December 31, 2019 is $87,316 (2018 - $128,228) due to the Executive Chairman of the Company, his spouse, and a company controlled by him. These loans bear interest of 13% per annum, and are due between 2022 – 2026 (Note 12).

16. SHARE CAPITAL

(a) Share Capital

The Company is authorized to issue the following shares:

- Unlimited subordinated voting common shares (“Subordinated Voting Shares” or “Common Shares”) without par value; and
- Unlimited super voting shares with multiple voting rights, each convertible into 100 Subordinated Voting Shares.

Fiscal year ended December 31, 2019:

- The Company received $50,000 for Subordinated Voting Shares that were issued during the year ended December 31, 2018.

- The Company received $183,250 for special warrants from a private placement that closed on December 24, 2018. These special warrants were converted during the year, which resulted in the issuance of 1,000,000 Common shares and 500,000 warrants. The warrants were exercisable at CAD$0.25 with an expiry date of December 24, 2019, and were exercised during the year ended December 31, 2019.

- On May 22, 2019, the Company closed a private placement of 6,148,665 Common Shares at a price of CAD$1.00 per share for a total of $4,585,134 (CAD$6,148,665). The Company paid $31,841 and issued 42,700 finder’s warrants with an exercise price of CAD$1.30 per share of a period of one year as finder’s fees. The finder’s warrants were valued at $8,340 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 1.69%; dividend yield of 0%; expected volatility of 87.93% and expected life of one year.

16. SHARE CAPITAL (*CONTINUED…*)

(a) Share Capital (*continued…*)

- On October 8, 2019, the Company issued 150,000 Common Shares valued at CAD$0.84 per share, for a total value of $100,881 to settle debt valued at $204,973 with arm's length creditors, resulting in the Company recognizing a $104,092 gain on the statements of operations and comprehensive income.

- 3,000,000 warrants were exercised at CAD$0.25 each for a total of $568,030.

Fiscal year ended December 31, 2018:

- The Company approved the creation of an unlimited number of Class A Shares, which are convertible into 100 Subordinated Voting Shares of the Company.

- On April 19, 2018, the Company repurchased 1,000,000 Common Shares at a price of CAD$0.05 per share for aggregate amounts of $37,498 (CAD$50,000).

- On December 10, 2018, the Company completed a private placement of an aggregate of 1,000,000 Common Shares at a price of CAD$0.05 per share for aggregate gross proceeds of $36,650 (CAD$50,000).

- On December 17, 2018, the Company completed a private placement of an aggregate of 2,500,000 units at a price of CAD$0.05 per unit for aggregate gross proceeds of $91,625 (CAD$125,000). Each unit consists of one (1) Common Share and one (1) share purchase warrant. Each whole warrant entitles the holder to purchase one (1) additional Common Share of the Company at a price of CAD$0.25 per share for a period of one (1) years from the closing date of the private placement. The value of the warrants was determined to be $Nil, using the residual value method of valuation.

- On December 24, 2018, the Company completed a non-brokered private placement of a gross proceeds of $183,250 (CAD$250,000), which consist of 1,000,000 of Special Warrants (each a "Special Warrant") whereby each Special Warrant will automatically convert into one (1) Unit on the earlier of the third business day after the date on which the Company obtains the final receipt of a non-offering prospectus by the British Columbia Securities Commission, or the date that is four months and a day from closing of the private placement. Each Unit will consist of one (1) Subordinated Voting Share and one-half of one (½) Subordinated Voting Share purchase warrant (each a "Warrant"). Each whole Warrant will entitle the holder to purchase one (1) additional Subordinated Voting Share from the Company at an intended exercise price of CAD$0.25 per share for a period of one (1) year. The value of the warrants was determined to be $Nil, using the residual value method of valuation. As at December 31, 2018, this amount was included in subscriptions receivable and it was received subsequent to December 31, 2018.

(Expressed in U.S. Dollars)

16. SHARE CAPITAL (*CONTINUED…*)

(a) Share Capital (*continued…*)

- On December 31, 2018, the Company acquired 100% of the issued and outstanding Subordinated Voting Shares and Class A super voting shares of New Gen Holdings, Inc. ("New Gen"), a company located in Phoenix, Arizona, U.S.A for an aggregate of 7,395,461 Common Shares of the Company and 625,287 of Class A super voting shares of the Company. In connection with the acquisition, the Company accrued $18,325 in finders' fees and issued 2,000,000 finders' warrants valued at $89,628 recorded as share issuance costs. The warrants were exercisable at CAD$1.00 until December 31, 2019. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model, with a volatility of 150%, risk free interest rate of 1%, and expected life of 1 year (Note 22).

- New Gen re-organized its share structure, by cancelling the 2,000 common shares outstanding, and issuing in their place 2,596,300 subordinated voting shares, and 625,287 Class A super voting shares. Each Class A super voting share can be converted into 100 subordinated voting shares. All share and per share amounts have been retroactively restated to show this share re-organization.

- New Gen completed a private placement of 4,799,161 shares for total proceeds of $3,551,370. Of this amount, $50,000 was recovered as a subscription receivable, and was received subsequent to December 31, 2018.

(b) Special warrants

- On April 25, 2019, the Company converted 1,000,000 Special Warrants into 1,000,000 Subordinated Voting Shares and 500,000 share purchase warrants at an exercise price of CAD$0.25 per Subordinated Voting Share, which were all exercised before the expiration on December 24, 2019.

(c) Share purchase warrants

The following table reflects the continuity of warrants for the year ended December 31, 2019 and 2018:

	Number of warrants	**Weighted average exercise price**
Outstanding, December 31, 2017	-	CAD$ -
Issued	4,500,000	CAD$0.58
Outstanding, December 31, 2018	4,500,000	
Issued	1,522,910	CAD $0.76
Expired	(2,000,000)	CAD $1.00
Exercised	(3,000,000)	CAD $0.25
Outstanding, December 31, 2019	**1,022,910**	**CAD $1.01**

(Expressed in U.S. Dollars)

16. SHARE CAPITAL (*CONTINUED…*)

(c) Share purchase warrants (*continued…*)

As at December 31, 2019, the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
42,700	CAD$1.30	0.39	May 22, 2020
980,210	CAD$1.00	2.00	December 31, 2021
1,022,910	**CAD $1.01**	**1.94**	

(d) Stock options

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding Common Shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the Common Shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the year ended December 31, 2019 and 2018 is as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2017 and 2018	-	CAD $ -
Granted	1,109,000	CAD $1.00
Cancelled	(66,000)	CAD $1.00
Outstanding, December 31, 2019	**1,043,000**	**CAD $1.00**

As at December 31, 2019 the Company had the following stock options outstanding:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Life (years)	Expiry Date
843,000	100,000	CAD$1.00	9.02	January 3, 2029
200,000	-	CAD$1.00	9.37	May 13, 2029
1,043,000	**100,000**	**CAD$1.00**	**9.09**	

(Expressed in U.S. Dollars)

16. SHARE CAPITAL (*CONTINUED…*)

(d) Stock options (*continued…*)

During the year ended December 31, 2019, the Company granted 1,109,000 stock options with a weighted average fair value of CAD$0.42 per option, of which $181,039 was recorded as a share-based compensation during the year ended December 31, 2019 for options vested. The fair value of the options granted during the period was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2019	December 31, 2018
Expected volatility	111.80%-112.91%	-
Expected option life (years)	10	-
Risk-free interest rate	1.66%-1.92%	-
Expected dividend yield	0%	-

(e) Special Advisory Warrants

On May 13, 2019, the Company granted 1,000,000 special advisory warrants (the "Advisory Warrants") to consultants of the Company. The Advisory Warrants are exercisable at CAD$1.00 and expire on December 31, 2024. The fair value of the special advisory warrants was calculated to be CAD$0.82 per warrant. The Company recorded a share-based compensation expense of $238,513 during the year ended December 31, 2019 for warrants vested. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the Advisory Warrants using the following assumptions: risk free interest rate of 1.54%; dividend yield of 0%; expected volatility of 111.51%; and expected life of 5.5 years.

(f) Escrow Securities

As at December 31, 2019, the Company had 1,379,151 Subordinated Voting Shares (2018 – nil), 468,965 super voting shares (2018 – nil), and 150,000 stock options (2018 - nil) held in escrow.

17. NON-CASH INVESTING AND FINANCING ACTIVITIES

Supplementary disclosure of non-cash investing and financing activities during the years ended December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Shares issued for debt settlement	$ 100,881	$ -
Warrants issued as transaction costs for the long-term loan	$ 216,261	$ -
Fair value of finder's fee warrants	$ 8,340	$ 89,628
Shares issued in acquisition of New Gen	$ -	$ 756,914
Shares issued from Special Warrant conversion	$ 183,350	$ -
Transfer of accounts receivable to notes receivable	$ 2,933,957	$ -

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to support the growth and development of its operations and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of equity.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

19. ECONOMIC DEPENDENCE

The Company had one main customer for the year ended December 31, 2019 which accounted for 94% of the Company's revenues, and 97% of the Company's accounts receivable as at December 31, 2019. As the majority of the Company's income is derived from the sale of services and products, its ability to continue operations is dependent upon the relationship with and the sustainability of the customer. Any significant disruption in the customer's business could result in a material adverse effect on the operations of the Company. The loss of this significant customer will adversely impact the operations of the Company.

20. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, current notes receivable, advances to joint ventures, deposits and other receivables, payables, and amount due to Legacy Ventures Hawaii, LLC, approximate carrying value, due to their short-term nature. The carrying amounts of the long-term notes receivable and amount due from related parties approximate fair value. The fair values of the investment in sublease, right of use asset, and lease liability have been recorded as discussed in Note 13. The long-term loan payable is recorded at fair value as discussed in Note 14. The Company's cash and investment in Legacy are measured at fair value under the fair value hierarchy based on Level 1 quoted prices in active markets for identical assets or liabilities.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, price risk, and currency risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its receivables. As at December 31, 2019, the Company was dependent on one major customer from its consulting business segment (Note 19). The majority ($15,066,523) of the Company's accounts receivable are from this customer.

20. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (*CONTINUED…*)

Credit risk (continued…)

The Company is of the opinion that it is not exposed to significant credit risk from this customer as at December 31, 2019 as it continues to collect accounts receivable routinely. The Company has no investments in asset-backed commercial paper.

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customer, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 18. As at December 31, 2019, the Company had cash, accounts receivable and short-term notes receivable of $23,970,863 to settle its current liabilities of $2,370,431. Subsequent to year end, the maturity dates of $727,000 of current loans were extended for an additional year to help reduce liquidity risk. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

Market risk

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

a) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not hold any financial instruments with variable interest rates, and as a result, is subject to insignificant interest rate risk.

b) Price risk

The Company is not exposed to significant price risk as it does not hold investments in publicly traded securities.

c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in U.S. dollars. As at December 31, 2019, the Company had CAD$467,300 financial assets denominated in Canadian currencies. A 10% change in the foreign exchange rate between the U.S. dollar and the Canadian dollar would result in a change on approximately $35,978 in other comprehensive income.

(Expressed in U.S. Dollars)

21. SEGMENT INFORMATION

The Company operates in the United States, and has two major segments of operations, being its management and advisory services to non-for-profit entities in the medical cannabis field, and its sale of various types of low-pressure liquid gas.

Segment information over these two operating segments is as follows:

As at, and for the year ended December 31, 2019:

	Services and products relating to cannabis for medical purposes	Liquid gas sales	Total
Sales	$ 22,229,719	$ 92,849	$ 22,322,568
Cost of Sales	(12,775,074)	(179,646)	(12,954,720)
Operating expenses	(5,666,792)	(182,947)	(5,849,739)
Other income and expenses	150,120	-	150,120
Income tax expense	(874,905)	-	(874,905)
Net income	$ 3,063,068	$ (269,744)	$ 2,793,324
Assets	$ 38,780,494	$ -	$ 38,780,494
Liabilities	$ 13,070,921	$ 36,375	$ 13,107,296

As at, and for the year ended December 31, 2018:

	Services and products relating to cannabis for medical purposes	Liquid gas sales	Total
Sales	$ 17,506,133	$ 970,136	$ 18,476,269
Cost of Sales	(8,640,156)	(661,762)	(9,301,918)
Operating expenses	(3,465,759)	(138,562)	(3,604,321)
Interest income	12,000	-	12,000
Loss from acquisition	(702,036)	-	(702,036)
Income tax expense	(1,131,432)	-	(1,131,432)
Net income	$ 3,578,750	$ 169,812	$ 3,748,562
Assets	$ 23,066,756	$ 367,429	$ 23,434,185
Liabilities	$ 6,414,052	$ 19,558	$ 6,433,610

(Expressed in U.S. Dollars)

22. ACQUISITION

On December 31, 2018, the Company completed a share exchange agreement with New Gen Holdings, Inc. ("New Gen") whereby the Company acquired 100% of the issued and outstanding shares of New Gen, for an aggregate of 7,395,461 subordinated voting shares of the Company and 625,287 of Class A super voting share of the Company (the "Transaction"). New Gen provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical cannabis field.

The Company issued 2,000,000 finder's warrants valued at $89,628 and incurred $18,325 as finder's fees in connection with the completion of the Transaction. The warrants were exercisable at CAD$1.00 and expired on December 31, 2019.

The acquisition of New Gen by the Company constitutes a reverse asset acquisition ("RTO"). The acquisition of the net assets of the Company is accounted for as a share-based payment as follows:

Net asset acquired:		
Cash and cash equivalents	$	79,524
Subscription receivable		183,250
GST receivable		746
Accounts payable and accrued liabilities		(21,301)
Total net asset acquired	$	242,219
Consideration paid:		
Fair value of the Company's 4,130,500 subordinated voting shares	$	756,914
Fair value of the Company's 1,000,000 Special Warrants		183,250
Finder's fees in cash		18,325
Finder's fees in warrants		89,628
Total consideration paid:	$	1,048,117

Costs Attributable to Obtaining a Listing Status:

Total consideration paid	$	1,048,117
Net assets acquired		(242,219)
Foreign exchange translation		4,091
Share issuance costs – warrants		(89,628)
Share issuance costs – cash		(18,325)
Listing costs:	$	702,036

Under RTO accounting, the existing share capital and deficit balances of the Company before the transaction date are eliminated.

(Expressed in U.S. Dollars)

23. INCOME TAXES

The following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

		December 31, 2019		December 31, 2018
Net income for the year before taxes	$	**3,668,229**	$	4,879,994
Federal statutory tax rate		**21%**		21%
State statutory tax rate		**4.9%**		4.9%
Expected income tax expense at statutory rate	$	**887,000**	$	1,263,918
Change in tax rates and other		**(12,095)**		(132,486)
Income tax expense	$	**874,905**	$	1,131,432
Income tax expense consists of:				
Current income tax expense		**-**		161,636
Deferred tax expense		**874,905**		969,796
	$	**874,905**	$	1,131,432

Significant components of the Company's future tax liabilities, after applying enacted corporate income tax rates, are as follows: The majority of the deferred tax liability is related to cash accounting method for tax purposes.

		December 31, 2019		December 31, 2018
Deferred tax liabilities	**$**	**4,499,000**	$	3,624,095

Tax attributes are subject to review and potential adjustment by taxation authorities.

24. SUBSEQUENT EVENTS

- On January 1, 2020, the Company entered into a $5,000,000 line of credit secured promissory note (“Promissory Note”) with Herbal Wellness Center, Inc. (“HWC”) whereby HWC promises to pay the Company the principal and 10% interest per annum. As at the date of the financial statements, no money had been drawn from this line of credit by HWC.

- On January 8, 2020, the Company extended three notes payable of a total of $727,000 for one year (Note 12).

- On January 23, 2020, Robert J. Brilon resigned as President, CFO, Corporate Secretary and a Director of the Company. Mr. Brilon received $125,000 upon his departure and will receive a total of $125,000 in monthly installment payments of $10,417 per month commencing March 2020 through February 2021, and a final lump sum amount of $250,000 upon the earlier of any change of control of the Company, a debt or equity financing greater than $10 million of the Company on or after February 7, 2020, or February 27, 2022.

- On February 1, 2020, an operating agreement of Vapen Kentucky, LLC (“Vapen KY”) was signed for the purpose of being engaged in commercial hemp processing, manufacturing, extraction, and distribution activities. The Company owns 50% of Vapen KY with Emerald Pointe Hemp, LLC (“EPH”) owning the other 50%.

- On February 12, 2020, the Company entered into a joint venture term sheet with Texoma Processing and Extraction, LLC (“TPE”) regarding Vapen-Oklahoma, LLC (“Vapen-OK”). The Company is a minority member of Vapen-OK owning 25%, whereas TPE is a majority member owning 75% of Vapen-OK. The terms of the initial joint venture will be five years, with automatic successive renewal terms of additional five-year periods each. Both TPE and the Company will contribute equal amounts of capital to cover the initial expenses and assist in operations.

- On March 18, 2020, 4,885 multiple voting shares were converted into 488,500 subordinated voting shares.

- On March 26, 2020, the Company entered into a release and mutual settlement agreement (the “Release”) with Tree of Life Seeds, Inc. to terminate the joint venture operating agreement in relation to Vapen 501 Labs, LLC.

- On March 30, 2020, the Company entered into a loan agreement with Appalachian Pharm Processing, LLC (“APP)”, an Ohio limited liability company. The Company agreed to advance APP the aggregate principal sum of $500,000 in two equal installments of $250,000 each for the exclusive purpose of acquiring biomass for the manufacturing and production of cannabis products as well as associated expenses related to this.

24. SUBSEQUENT EVENTS *(CONTINUED…)*

- On April 6, 2020, the Company acquired RDF Management, LLC and Firebrand, LLC, Arizona based companies, in order to provide exclusive services for the management, administration and operation of Organica Patient Group, Inc., an Arizona not for profit corporation, which was issued and holds in good standing, a Medical Marijuana Dispensary Registration Certificate, by the Arizona Department of Health Services in the State of Arizona and certain intangible assets (collectively the "Transaction").

  In consideration for the Transaction, the Company issued:
  (i) 67,000 multiple voting shares;
  (ii) a promissory note of $5,500,000 for a period of 18 months. No interest will accrue on the promissory note during the 18-month period, and thereafter, interest will accrue at 10% per annum; and
  (iii) an undertaking to assist RDF Management, LLC in settling and resolving certain existing liabilities, allocating a total maximum of $3,500,000 in funds to settle such liabilities.

- The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the recent outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Company may be affected if such a pandemic persists for an extended period of time, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. Although the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it operates during the pendency of the COVID-19 pandemic, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which the Company cannot estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods.