Vext Science, Inc.

(formerly Vapen MJ Ventures Corporation)

Audited Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in U.S. Dollars)

Vext Science, Inc.

(formerly Vapen MJ Ventures Corporation)

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HARBOURSIDE CPA

INDEPENDENT AUDITORS' 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, 2020 and 2019, 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, 2020 and 2019, 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 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.

"Harbourside CPA LLP'

Vancouver, British Columbia	Harbourside CPA LLP
April 14, 2021	Chartered Professional Accountants

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

	Notes		December 31, 2020		December 31, 2019
ASSETS					
Current assets					
Cash		$	1,745,381	$	7,292,261
Accounts receivable	4		17,224,397		15,548,015
Inventory	5		857,317		-
Prepaid expenses, deposits, and other receivables	6		1,566,145		303,402
Notes receivable – current	7		1,853,573		1,130,587
Due from related parties	19		537,151		-
Advances to joint ventures and operation	9		69,013		440,830
Investment in sublease – current	17		144,601		122,027
			23,997,578		24,837,122
Non-current assets					
Notes receivable	7		7,024,110		2,020,182
Investment	8		350,000		350,000
Property, plant and equipment	12		12,457,565		8,526,628
Investment in sublease – non-current	17		432,287		576,887
Investment in Joint Ventures	10		1,282,598		-
Right-of-use asset	17		258,362		287,890
Due from related parties	19		1,644,634		2,181,785
Intangible assets	13, 14		7,545,775		-
Goodwill	13, 14		461,752		-
Total Assets		$	55,454,661	$	38,780,494
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Payables and accrued liabilities	15, 19	$	2,572,975	$	1,068,635
Due to Legacy Ventures	8		22,479		203,000
Notes payable – current portion	16, 19		920,828		920,414
Notes payable – from RDF acquisition	16		948,750		-
Lease liability – current portion	17		156,694		132,654
Loan payable	18		4,165,034		-
Income tax payable	26		45,633		45,728
Total current liabilities			8,832,393		2,370,431
Long-term liabilities					
Notes payable – non-current portion	16, 19		64,763		98,894
Notes payable – from RDF acquisitions	16		4,529,575		-
Lease liability – non-current portion	17		701,810		858,504
Long term loan payable	18		-		5,280,467
Deferred tax liabilities	26		5,013,000		4,499,000
Total liabilities			19,141,541		13,107,296
Shareholders' equity					
Subordinated and multiple voting shares	20		17,182,123		9,597,465
Reserves	20		1,998,273		733,781
Accumulated other comprehensive income			(283,558)		50,738
Retained earnings			17,416,282		15,291,214
Total shareholders' equity			36,313,120		25,673,198
Total liabilities and shareholders' equity		$	55,454,661	$	38,780,494

Nature of operations and going concern (Note 1)
Contingencies (Note 25)
Subsequent events (Note 27)

Approved on April 14, 2021 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, 2020	December 31, 2019
REVENUES			
Management fees		$ 4,100,000	$ 4,638,000
Professional services		8,081,670	6,458,297
Product sales		9,642,535	9,949,209
Equipment leasing		3,197,097	1,019,403
Property leasing	17	172,656	257,659
		25,193,958	22,322,568
COST OF SALES			
Cost of goods sold		7,126,813	6,607,533
Salaries, wages, and contractors	19	6,770,153	5,545,340
Property and equipment leasing, utilities, and property taxes	19	97,229	103,948
Amortization	12	1,295,976	697,899
		(15,290,171)	(12,954,720)
Gross Profit		9,903,787	9,367,848
OPERATING EXPENSES			
Accretion	18	125,619	-
Advertising and promotion		443,984	926,459
Amortization	12, 17	841,021	135,351
Bank charges and interest	17, 18	619,404	64,593
Consulting fees	19	575,686	763,342
Insurance		85,315	69,722
Office and general		368,646	606,351
Professional fees		961,217	840,248
Rent, property taxes, and utilities	17	108,271	182,293
Repairs and maintenance		444,827	325,311
Research and development		158,685	112,962
Share-based compensation	20	879,676	419,552
Salaries, wages, and commissions	20	1,436,977	909,995
Travel, training, and meals and entertainment		240,429	493,560
		(7,289,757)	(5,849,739)
Share of profit (loss) of Joint Ventures	10	(520,802)	-
Loss on asset disposal		(161,284)	(3,404)
Foreign exchange gain / (loss)		328,172	3,205
Gain on derecognition of ROU asset		-	38,129
Gain on settlement of debt		-	104,092
Interest income		378,952	8,098
Net income before taxes		2,639,068	3,668,229
Income tax expense		(514,000)	(874,905)
Net income after taxes		$ 2,125,068	$ 2,793,324
Unrealized gain on foreign exchange translation		(334,296)	46,647
Total comprehensive income		$ 1,790,772	$ 2,839,971
Basic earnings per common shares		$ 0.02	$ 0.04
Diluted earnings per common shares		$ 0.02	$ 0.04
Weighted average number of common share outstanding – basic		92,769,736	78,900,736
Weighted average number of common share outstanding - diluted		93,527,675	79,258,439

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, 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 special warrants	-	50,000	-	-	-	183,250	(183,250)	(50,000)-	-	-	-	-	-
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)	(101,718)
Cumulative catch-up adjustment of derecognition of right-of-use-assets	-	-	-	-	-	-	-	-	-	-	-	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**
Conversion of multiple voting shares to subordinated voting shares	781,600	-	(7,816)	-	-	-	-	-	-	-	-	-	-
Shares issued upon prospectus offering	19,166,665	5,213,573	-	-	-	-	-	-	-	-	-	-	5,213,573
Shares issued for settlement of debt	4,064,500	1,100,000	-	-	-	-	-	-	-	-	-	-	1,100,000
Repricing of warrants	-	-	-	-	-	-	-	-	132,100	-	-	-	132,100
Share issuance costs – noncash warrants	-	(258,815)	-	-	-	-	-	-	258,815	-	-	-	-
Share issuance costs – cash	-	(705,507)	-	-	-	-	-	-	-	-	-	-	(705,507)
Shares issued to acquire RDF & Firebrand	-	-	67,000	1,934,222	-	-	-	-	-	-	-	-	1,934,222
Share-based compensation	-	-	-	-	-	-	-	-	244,868	634,808	-	-	879,676
Shares issued from warrant exercised	859,000	301,185	-	-	-	-	-	-	(6,099)	-	-	-	295,086
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	(334,296)	-	123,212
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	2,125,068	2,125,068
Balance at December 31, 2020	**46,706,391**	**$15,247,882**	**684,471**	**$1,934,241**	**-**	**$ -**	**$ -**	**$ -**	**$ 1,182,426**	**$ 815,847**	**($283,558)**	**$ 17,416,282**	**$ 36,313,120**

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, 2020		December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the year	$	2,125,068	$	2,793,324
Items not affecting cash:				
Amortization		2,136,997		833,250
Accretion		125,619		104,655
Finance income on subleases		37,373		(77,659)
Deferred tax liabilities		514,000		874,905
Share-based compensation		879,676		419,552
Gain on settlement of debt		-		(104,092)
Gain on derecognition of ROU asset		-		(38,129)
Foreign exchange		(332,071)		43,375
Loss on asset disposal		161,284		3,404
Share of loss of Joint Ventures		520,802		-
Accrued interest income		-		(7,962)
Non-cash working capital item changes:				
Accounts receivable		(1,676,382)		(5,275,514)
Inventory		(857,317)		73,973
Prepaid expenses, deposits and other receivables		(1,260,243)		(39,895)
Payables and accrued liabilities		723,851		373,901
Subscription receivable		-		233,250
Income tax payable		(95)		(603,651)
Net cash (used in) provided by operating activities		3,098,562		(393,313)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash acquired from Acquisition		2,744		-
Cash paid on lawsuit settlement (RDF acquisition)		(1,570,457)		-
Notes Receivable		(5,726,914)		-
Investment in Legacy Ventures		(180,521)		(147,000)
Investment in Joint Ventures		(1,362,570)		-
Acquisition of property, plant and equipment		(4,063,465)		(5,259,715)
Net cash used in investing activities		(12,901,183)		(5,406,715)
CASH FLOWS FROM FINANCING ACTIVITIES				
Notes receivable		-		(208,850)
Advances to Joint Ventures		-		(440,830)
Advances to Joint Operations		(69,013)		-
Receipt of long-term debt		-		5,500,000
Private placement		5,213,573		4,585,134
Warrants exercised		295,086		568,030
(Repayment) issuance of notes payable		-		(241,121)
Lease payments made		(253,944)		(208,800)
Sublease payments received		205,944		177, 000
Notes payable		(33,717)		-
Notes payable - RDF		(396,681)		-
Cash Share Issuance Costs		(705,507)		(31,841)
Net cash (used in) provided by financing activities		4,255,741		9,698,722
Net change in cash during the year		(5,546,880)		3,898,694
Cash, beginning of the year		7,292,261		3,393,567
Cash, end of the year	$	1,745,381	$	7,292,261

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)

Non-cash investing and financing activities				
Shares issued in acquisition of RDF Management, LLC and Firebrand, LLC	$	1,934,222	$	-
Shares issued for convertible debt	$	1,100,000	$	-
Repricing of warrants	$	132,100	$	-
Acquisition of intangible asset patent included in payables	$	225,000	$	-
Cash paid for				
Interest	**$**	679,500	$	130,086
Taxes	**$**	-	$	597,527

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, 2020, the Company had working capital of $15,165,185 and retained earnings of $17,416,282. 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. 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 of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of Preparation

These 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 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 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
Subsidiaries:		
Vext Science, Inc.	BC, Canada	100%
New Gen Holdings, Inc.	Wyoming, USA	100%
Step 1 Consulting, LLC	Delaware, 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%
RDF Management, LLC	Arizona, USA	100%
Firebrand, LLC	Arizona, USA	100%
Joint Ventures:		
Vapen Kentucky, LLC	Kentucky, USA	50%
Vapen-Oklahoma, LLC	Oklahoma, USA	25%
Vapen Mass, LLC	Massachusetts, USA	50%
Joint Operations		
Happy Travels, LLC	California, USA	0%

d) Approval of the Consolidated Financial Statements

These financial statements for the twelve months ended December 31, 2020 and 2019 were approved and authorized for issue by the Board of Directors on April 14, 2021.

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.

2. BASIS OF PRESENTATION (*CONTINUED…*)

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

Critical Judgements

The preparation of these 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, 2020, the Company holds a 50% interest in two separate joint arrangements and a 25% interest in a joint arrangement. 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.

Furthermore, the Company holds nil interest in a joint arrangement, but has equal joint control in a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement on a proportionate basis. Those parties are called joint operators. None of the parties involved have unilateral control of a joint operation. The Company accounts for its interest in joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. This assessment is to be performed on a continuous basis.

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 and Intangible Assets

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.

COVID-19

Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge about COVID-19 and additional actions which may be taken to contain it. Such developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow, and exposure to credit risk. The Company is evaluating the situation and monitoring any impacts or potential impacts to its business.

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, 2020 and 2019, 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.

d) Intangible Assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. During the year the Company, as part of the business combination (note 14), acquired intangible assets in the form of a Management Service Agreement and the "Firebrand" brand name. Amortization rates are reviewed annually to ensure they are aligned with estimates of the remaining economic useful lives of the associated intangible assets. The useful life of the intangible assets are as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

d) Intangible Assets (*continued…)*

Asset	Amortization	Rate
Management Service Agreement	Straight line method	10 years
Brand Name	Straight line method	5 years

e) Business Combination and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement year adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of operations and comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, such as forecasted future net cash flows discounted to present value and the market approach method. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired property, plant and equipment, intangible assets and contingent consideration.

In certain situations, goodwill or a bargain purchase gain may result from a business combination.

Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash-generating unit ("CGU"), including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

f) Investments

The Company carries its investments at fair value as financial assets at fair value through profit and loss (“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.

g) 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.

h) 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 follows all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward looking “expected loss” impairment model.

The following is the Company’s 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

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

h) Financial Instruments (*continued…*)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

h) Financial Instruments (*continued…*)

Derecognition ***(continued…)***

Financial Liabilities:
The Company derecognizes a financial liability when its contractual obligations are discharged, 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 number 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

i) 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.

j) 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:

Management fees:
The Company provides monthly management fees at a fixed rate to its customers. This revenue is recorded monthly, when billed.

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

Product sales:
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 customers. 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.

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

k) 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…*)

l) 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.

m) 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…*)

n) 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.

o) 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.

p) 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 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.

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

q) 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.

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 consists of the following:

		December 31, 2020		December 31, 2019
Accounts receivable (Notes 22, 23)	$	17,193,313	$	15,374,508
Unbilled professional services		-		155,984
GST input tax credits		31,084		17,523
	$	17,224,397	$	15,548,015

5. INVENTORY

Inventory consists of consumable products utilized in the manufacture of consumer products. Primarily consisting of vaping cartridges, batteries & accessories, and packaging materials. There was a $86,271 adjustment to inventory during the year ended December 31, 2019, to write down the value of unsellable inventory.

The Company's inventory consists of the following:

		December 31, 2020		December 31, 2019
Batteries and accessories	$	102,580	$	-
Cartridges		309,866		-
Packaging and labels		47,438		-
Company's portion of Joint Operation Inventory		397,433		-
	$	857,317	$	-

(Expressed in U.S. Dollars)

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

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

	December 31, 2020	December 31, 2019
Vendor deposits	**$** 1,288,782	$ 226,314
Prepaid expense	196,478	71,046
Advance to joint operation partner	-	5,392
Interest receivable	79,364	-
Employee advances	1,521	650
	$ 1,566,145	$ 303,402

7. NOTE RECEIVABLE

As at December 31, 2020, the Company's notes receivables consist of the following:

	Current	Non-current	**Total**
Due from Herbal Wellness Center Inc. ("HWC"), incurring interest at 10% per annum, on December 31, 2022 (1) (2)	$ 1,000,779	$ 2,625,374	**$ 3,626,153**
Due from Organica Patient Group, Inc. ("Organica"), incurring interest as 10% per annum, due on March 20, 2023(3)	722,794	1,445,589	**2,168,383**
Due from an arm's length party, accruing interest at 10% per annum,	130,000	-	**130,000**
Due from Appalachian Pharm Processing, LLC, an arm's length party, accruing interest at 10% per annum (4)	-	2,953,147	**2,953,147**
	$ 1,853,573	$ 7,024,110	**$ 8,877,683**

(Expressed in U.S. Dollars)

7. NOTE RECEIVABLE *(CONTINUED…)*

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

	Current	Non-current	**Total**
Due from Herbal Wellness Center 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	137,962	-	**137,962**
Due from Organica Patient Group, Inc. This amount is non-interest bearing [(3)]	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. As at December 31, 2020, HWC has paid the Company $913,775 plus accrued interest pursuant to the note, and the remaining outstanding balance due by December 31, 2020 is $nil.

[(2)] As at December 31, 2020, $1,605,971 was drawn by HWC from a line of credit secured promissory note (Note 11).

[(3)] During the year ended December 31, 2020, $2,168,383 was included as part of the Organica line of credit (Note 11).

[(4)] On March 30, 2020, the Company's wholly owned subsidiary, Vapen, LLC ("Vapen"), entered into a non-binding letter of intent (the "LOI") with Appalachian Pharms Processing, LLC ("App Pharms") to form a joint venture in Ohio related to the manufacturing, production and sale of medical cannabis (marijuana) products in Ohio, pursuant, and subject to, applicable Ohio state law. In accordance with the terms of the LOI, on September 23, 2020; October 16, 2020; October 23, 2020; November 13, 2020 and December 1, 2020, Vapen loaned, pursuant to loan agreements (collectively, the "Loan Agreements" and individually, a "Loan Agreement"), $390,000, $750,000, $250,000, $610,000 and $300,000, respectively, to App Pharms. These loans accrue interest at 10% per annum, and are due 30 months from the date of advancement, being March 23, 2023; April 16, 2023; April 23, 2023; May 13, 2023 and June 1, 2023 respectively. The Loan Agreements are secured against the processing license held by App Pharms

Vapen advanced to App Pharms, a further $500,000 in two equal installments of $250,000 on April 1, 2020 and April 6, 2020, for the exclusive purpose of App Pharms acquiring biomass for the manufacturing and production of cannabis products as well as associated expenses (together, the "Biomass Loans" and individually, a "Biomass Loan"). The Biomass loans accrue interest at 10% per annum, and are due 30 months from the date of advancement, with $250,000 being due on October 1, 2022, and the other $250,000 being due on October 6, , 2022.

In addition to the Loan Agreements and the Biomass Loans, the Company loaned a further $153,147 in working capital to APP pursuant to the LOI. As of the date hereof, the Company has loaned to App Pharms an aggregate of $2,953,147. The Company intends to convert the amounts loaned to App Pharms into an equity investment, if all required regulatory approvals are received.

(Expressed in U.S. Dollars)

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, 2020, the Company had paid $327,521 (2019 - $147,000) with the remaining $22,479 (2019 - $203,000) still owing. In addition to the 350,000 units subscribed, 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 were issued on August 2, 2020, with the remaining 175,000 to be issued during the year ended December 31, 2021. As a result of the subscription and the units received for services, as at December 31, 2020, the Company had a 19.62% interest in Legacy.

9. ADVANCES TO JOINT VENTURES AND OPERATION

At December 31, 2019 the Company held 50% membership interest in Vapen 501 Lab, LLC ("Vapen 501"), with the remaining 50% held by Tree of Life Seeds, Inc. On March 26, 2020, Vapen 501 joint venture was terminated, and the advance given by the Company of $250,000 was refunded.

During the year ended December 31, 2020, the Company became 50% member to Vapen Kentucky, LLC ("Vapen KY"), 25% member to Vapen Oklahoma, LLC ("Vapen OK"), and 50% voting rights to Happy Travels, LLC ("Happy Travels"). Refer to Note 10 for further details.

The Company advanced the following amounts to the above joint ventures and operation:

	December 31, 2020	December 31, 2019
Vapen 501	$ -	$ 250,000
Vapen KY	-	5,250
Vapen OK	-	185,580
Happy Travels	69,013	-
	$ 69,013	$ 440,830

The amounts advanced to Vapen 501 as at December 31, 2019 were refunded to the Company during the year ended December 31, 2020 (Note 10).

The amounts advanced to Vapen KY and Vapen Ok as at December 31, 2029 were converted to contributions as at December 31, 2020 (Note 10).

(Expressed in U.S. Dollars)

10. JOINT ARRANGEMENTS

a) Joint Ventures

Vapen Kentucky, LLC

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 holds 50% membership ownership of Vapen KY with Emerald Pointe Hemp, LLC ("EPH") owning the other 50%. As at December 31, 2020, the Company contributed to Vapen KY $925,974 for working capital.

Vapen-Oklahoma, LLC

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 holding 25% membership ownership, whereas TPE is a majority member owning 75% membership ownership of Vapen-OK and both parties have equal voting rights. The terms of the initial joint venture will be five years, with automatic successive renewal terms of additional five-year periods each. As at December 31, 2020, the Company contributed to Vapen OK $877,426 for working capital.

Vapen Mass, LLC

At December 31, 2019 and December 31, 2020, the Company held 50% membership interest in Vapen Mass, LLC, with the remaining held by Caregiver Patient Connection, LLC. As at December 31, 2020, Vapen Mass was inactive and no investments were made in the joint venture.

Vapen 501 Lab, LLC

At December 31, 2019 the Company held 50% membership interest in Vapen 501 Lab, LLC ("Vapen 501"), with the remaining 50% held by Tree of Life Seeds, Inc. On March 26, 2020, Vapen 501 joint venture was terminated, and the advance given by the Company of $250,000 was refunded.

As at December 31, 2020, the balance of contributions in joint ventures comprised of the followings:

	Vapen KY	Vapen OK	Total
Balance as at December 31, 2019	$ -	$ -	$ -
Contributions	925,974	877,426	1,803,400
Share of loss of the joint ventures during the year	(286,719)	(234,083)	(520,802)
Balance as at December 31, 2020	$ 639,255	$ 643,343	$ 1,282,598

(Expressed in U.S. Dollars)

10. JOINT ARRANGEMENTS *(CONTINUED…)*

a) **Joint Ventures (*continued…)***

Summarized financial information for equity accounted investees for the year ended December 31, 2020, is as follows:

	Vapen KY	**Vapen OK**
Ownership %	50%	25%
Current assets	$ 1,629,824	$ 1,082,292
Non-current assets	12,774	402,972
Total assets	1,642,598	1,485,264
Total liabilities	(2,218,622)	(2,421,597)
Net assets	(576,024)	(936,333)
Revenue	181,387	417,944
Cost of goods sold	(135,544)	(466,047)
Expenses	(619,281)	(888,230)
Net loss	(573,438)	(936,333)

b) **Joint Operation**

Happy Travels, LLC

On June 10, 2020, the Company entered into a joint operation agreement with Green Goblin, Inc. ("GG") to operate Happy Travels, LLC ("Happy Travels"), which GG holds 100% membership interest. The Company and GG have equal voting rights. The terms of the initial joint arrangement will be three years, with automatic successive renewal terms of additional two-year period. As at December 31, 2020, the Company advanced $69,013 in the joint operation.

The Company advanced the following amounts to the above joint operation:

	December 31, 2020	**December 31, 2019**
Happy Travels	$ **69,013**	**-**
	$ 69,013	**$ -**

11. LINE OF CREDIT

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"). Any amounts advanced by the Company to HWC, including all interest accrued, will become due and payable 36 months from the effective date of the Promissory Note with an annual interest rate of 10%. As at December 31, 2020, $1,605,971 had been drawn from this line of credit by HWC (Note 7).

Upon closing of the Acquisition (Note 14), the Company entered into a $3,000,000 line of credit secured promissory note ("Promissory Note") with Organica Patient Group, Inc. ("Organica"). Any amounts advanced by the Company to Organica pursuant to the line of credit contains a 36-month term with one-third (1/3) of such advance to be paid each year of the balance at a 10% interest rate. As at December 31, 2020, Organica has drawn down a total of $2,168,383 pursuant to the line of credit (Note 7).

(Expressed in U.S. Dollars)

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Leasehold improvements	Construction in progress	Automobile	Total
Cost							
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
Disposals	-	-	(484,513)	-	-	(19,750)	(504,263)
Additions	-	112,700	4,168,725	165,201	1,138,720	11,800	5,597,146
Balance at December 31, 2020	$ 340,779	$ 1,436,069	$ 9,520,987	$ 2,911,204	$ 1,433,166	$ 90,796	$ 15,733,001
Accumulated Amortization							
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
Disposals	-	-	(323,994)	-	-	(6,304)	(330,298)
Amortization	-	87,196	967,589	418,946	-	18,513	1,492,244
Balance at December 31, 2020	$ -	$ 294,650	$ 1,413,817	$ 1,522,223	$ -	$ 44,746	$ 3,275,436
Net Book Value							
December 31, 2019	$ 340,779	$ 1,115,915	$ 5,066,553	$ 1,642,726	$ 294,446	$ 66,209	$ 8,526,628
December 31, 2020	$ 340,779	$ 1,141,419	$ 8,107,170	$ 1,388,981	$ 1,433,166	$ 46,050	$ 12,457,565

Of the total amortization expense during the twelve months ended December 31, 2020 - $1,295,976 (December 31, 2019 - $697,899) was included in the cost of sales and $196,268 (December 31, 2019 - $113,429) was included in operating expense.

(Expressed in U.S. Dollars)

13. INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets consist of the following:

	Management Service Agreement	Brand Name	Patent	Total
At December 31, 2019 and 2018	**$ -**	**$ -**	**$ -**	**$ -**
Additions	7,669,000	267,000	225,000	8,161,000
Amortization	(575,175)	(40,050)	-	(615,225)
At December 31, 2020	**$7,093,825**	**$226,950**	**$225,000**	**$7,545,775**

Goodwill consists of the following:

	Goodwill
At December 31, 2019 and 2018	**$ -**
Additions	461,752
At December 31, 2020	**$461,752**

There was no goodwill impairment as at December 31, 2020.

(Expressed in U.S. Dollars)

14. ACQUISITON

On April 6, 2020, the Company acquired 100% membership interest of RDF Management, LLC ("RDF") and Firebrand, LLC ("Firebrand"). RDF provides management services related to the administration, management and operation of the dispensary, cultivation facility, and kitchen facility on behalf of Organica Patient Group, Inc., an Arizona non-profit corporation ("Organica") pursuant to a management services agreement ("MSA"). Firebrand owns, holds and controls certain intellectual property in relation to Organica's operations.

The Company has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The closing date for the acquisition was April 6, 2020. Consideration of this acquisition is $9,183,508 in common shares of the Company and cash, payable as follows:

	Face value	Present Value	
	$	$	
Multiple voting shares	1,934,222	1,934,222	(a)
Promissory note	5,154,512	4,473,741	(b)
Cash	3,105,000	2,775,545	(c)
	10,193,734	9,183,508	

(a) Share Consideration: The Company issued 67,000 multiple voting shares.

(b) Promissory note: The Company issued a promissory note of $5,154,512 (the "Promissory Note"). The Promissory note shall bear no interest for the first 18 months following the closing date. Commencing 30 days following the effective date of the Promissory Note, the Company shall pay monthly payments of at least $30,000 towards the principal balance until the expiration of the interest free period. In the event there is any remaining balance on the note after the expiration of the interest free period, such balance will begin accruing interest at a rate of 10% per annum. The present value of the Promissory Note on April 6, 2020 is $4,473,741.

(c) Cash consideration: An undertaking to assist RDF in settling and resolving certain existing liabilities, allocating a total maximum of $3,105,000 in funds to settle such liabilities. A total of $2,415,545 present value was allocated for these liabilities. Other current liabilities allocated for are $360,000 (Note 16) per the 1st year promissory note payments for a total of $2,775,545.

(Expressed in U.S. Dollars)

14. ACQUISITON *(CONTINUED…)*

The allocation of the purchase price to the total fair value of net assets acquired is as follows:

	$
Fair value of net assets acquired	
Cash	2,744
Accounts receivable	2,500
Property, plant and equipment	1,521,000
	1,526,244
Current liabilities	(555,488)
Long-term liabilities	(185,000)
Identifiable net assets acquired	785,756
Management service agreement (Note 13)	7,669,000
Brand name (Note 13)	267,000
Goodwill	461,752
	9,183,508

The resulting goodwill represents the sales and growth potential of RDF and Firebrand in the cannabis industry and is not deductible for tax purposes.

Since the acquisition date and up to December 31, 2020, the Company has received gross revenue of $nil from RDF and Firebrand respectively due to the fact the MSA with Organica was transferred to New Gen Holdings, Inc., a wholly owned subsidiary of the Company, and recorded a loss of approximately $776,953, which was mainly from amortization of the intangibles and equipment, and $nil from operations from RDF and Firebrand respectively.

As part of the business combination described above the Company acquired an intangible asset in the form of the MSA, the "Firebrand" brand name, and goodwill. The Company will amortize the MSA on a straight-line basis over the next ten years and amortize the "Firebrand" brand name on a straight-line basis over the next five years. Goodwill will be tested for impairment on an annual basis.

Preliminary Fair Value Estimates

The purchase price allocations for the acquisition, as set forth in the tables above, reflect various preliminary fair value estimates and analyses that are subject to change within the measurement period. The primary areas of the preliminary purchase price allocations relate to the valuation of deferred tax liabilities, intangible assets acquired and residual goodwill.

The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected.

(Expressed in U.S. Dollars)

15. PAYABLES AND ACCRUED LIABILITIES

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

		December 31, 2020		December 31, 2019
Trade payables (Note 19)	**$**	**495,272**	**$**	322,089
Credit card payable		**94,461**		184,641
Interest payable		**19,269**		9,198
Sales tax payable		**32,961**		12,553
Payroll liabilities		**738,626**		8,920
Accrued liabilities (Note 19)		**1,192,386**		531,234
	$	**2,572,975**	**$**	1,068,635

16. NOTES PAYABLE

Current notes payable are made up of the following:

		December 31, 2020		December 31, 2019
Maturing on January 5, 2021 with an interest rate of 15% per annum	**$**	**175,000**	**$**	175,000
Maturing on February 1, 2021 with an interest rate of 12% per annum		**272,000**		272,000
Maturing on March 1, 2021 with an interest rate of 12% per annum		**280,000**		280,000
Maturing on October 1, 2021 with an interest rate of 12% per annum		**182,250**		182,250
Current portion of a loan, of which the total amount matures in December 2021 with an interest rate of 3.65% per annum		**11,578**		11,164
	$	**920,828**	**$**	920,414

Current notes payable from the acquisition of RDF are made up of the following:

		December 31, 2020		December 31, 2019
Current portion of promissory note from acquisition (1)	**$**	**360,000**	**$**	-
Current portion of liabilities settlement from acquisition (2)		**588,750**		-
	$	**948,750**	**$**	-

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

		December 31, 2020		December 31, 2019
Maturing on December 22, 2021 with an interest rate of 3.65% per annum	**$**		**$**	**11,578**
Maturing on March 31, 2023 with an interest rate of 13% per annum, from related parties (Note 19)		**-**		**21,594**
Maturing on December 31, 2026, with an interest rate of 13% per annum, from related parties (Note 19)		**64,763**		**65,722**
	$	**64,763**	**$**	**98,894**

(Expressed in U.S. Dollars)

16. NOTES PAYABLE (*CONTINUED…*)

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

		December 31, 2020		December 31, 2019
Promissory note from acquisition [1]	**$**	**3,727,060**	**$**	**-**
Liabilities settlement from acquisition [2]		**627,515**		**-**
Other notes payable with no maturing date and nil interest		**175,000**		**-**
	$	**4,529,575**	**$**	-

[1] On April 6, 2020, the Company acquired 100% of membership interest and assets in RDF Management, LLC and Firebrand, LLC from HSD Holdings, LLC ("HSD") (Note 14). In consideration for the acquisition, the Company issued a promissory note of $4,473,741 present value. The promissory note bears no interest for the first 18 months following the closing date (the "Interest Free Period"). The Company shall pay monthly payments of at least $30,000 to HSD, which will be accredited towards the principal balance until the expiration of the Interest Free Period. In the event there is any remaining balance on the promissory note after the expiration of the Interest Free Period, such balance will begin accruing interest at a rate of ten percent (10%) per annum.

[2] Furthermore, as part of the consideration, the Company will be settling and resolving certain existing liabilities of RDF Management, LLC. A total of $2,775,545 present value was allocated to settle such liabilities (Note 14).

17. 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:

		December 31, 2020
Right-of-use assets	$	970,458
Accumulated depreciation		(272,145)
Lease liability		(800,031)
Adjustment to retained earnings	$	(101,718)

(Expressed in U.S. Dollars)

17. LEASES (*CONTINUED…*)

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.

The two leases that were recognized as ROU assets on January 1, 2019 were subsequently subleased during the year and derecognized from the ROU assets.

During the year ended December 31, 2020, income of $39,440 from subleasing was included in property leasing.

Right-of-use assets as at December 31, 2020:

As at December 31, 2020, 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, 2020.

		ROU
Cost		
As at December 31, 2019 and December 31, 2020	$	295,272
Accumulated Amortization		
As at December 31, 2019	$	7,382
Amortization	$	29,528
As at December 31, 2020	$	36,910
Net book value		
December 31, 2019	$	287,890
December 31, 2020	$	258,362

(Expressed in U.S. Dollars)

17. LEASES (*CONTINUED…*)

Right-of-use assets as at December 31, 2020:

		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
Amortization		(29,528)
Balance at December 31, 2020	$	258,362

The total amortization expense during the year ended December 31, 2020 was included in operating expense.

Lease liability as at December 31, 2020:

The following table presents lease obligations for the Company as at December 31, 2020:

		Total lease liability
Opening balance as at January 1, 2019	$	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
Opening balance as at January 1, 2020		991,158
Lease payments		(253,944)
Interest expense (included in cost of sales – property and equipment leasing)		93,669
Interest expense (included in bank charges and interest in operating expenses)		27,621
At December 31, 2020		**858,504**
Less: current portion	**$**	**(156,694)**
Long-term lease liability	**$**	**701,810**

The following table discloses the undiscounted cash flow for lease obligations as at December 31, 2020:

Less than one year	$	259,216
One to five years		718,570
More than five years		222,303
Total undiscounted lease obligations	**$**	**1,200,089**

(Expressed in U.S. Dollars)

17. 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 related to short-term leases (included in rent, property taxes, and utilities in operating expenses)	$	27,169
Amortization (included in operating expenses)	$	21,922

The following table provides a summary of the lease expenses recognized in the statement of operations for the year ended December 31, 2020:

Interest expense (included in cost of sales – property and equipment leasing)	$	93,669
Interest expense (included in bank charges and interest in operating expenses)	$	27,621
Amortization (included in operating expenses)	$	29,528

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)	$	77,659
Interest expense (included in bank charges and interest in operating expenses)	$	98,353
Gain on derecognition of ROU	$	38,129

Net investment in subleases as at December 31, 2020:

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 twelve months ended December 31, 2020:

Opening balance as at January 31, 2019	$	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
Opening balance as at December 31, 2019	$	698,914
Lease payments received		(205,944)
Finance income (included in revenue from property leasing)		83,917
December 31, 2020	**$**	**576,888**
Short-term net investment in sub-lease	**$**	**144,601**
Long-term term net investment in sub-lease	**$**	**432,287**

(Expressed in U.S. Dollars)

17. LEASES (*CONTINUED…*)

The following table discloses the undiscounted cash flow for lease payments receivable as at December 31, 2019 and December 31, 2020:

		December 31, 2019
Less than one year	$	205,944
One to five years		714,276
Total undiscounted sublease payments receivable	**$**	**921,220**

		December 31, 2020
Less than one year	$	211,216
One to five years		504,060
Total undiscounted sublease payments receivable	**$**	**715,276**

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

		December 31, 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**

		December 31, 2020
Finance income (included in revenue from property leasing)	$	83,918
Interest expense (included in cost of sales – property and equipment leasing)		(93,669)
Income on sublease	**$**	**9,751**

(Expressed in U.S. Dollars)

18. CURRENT 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%.

On December 16, 2020, the Loan Warrants' exercise price of CAD$1.00 were amended to CAD$0.64. The fair value of the Loan Warrants increased by $131,902 and was determined by using the Black Scholes option pricing model and the following assumptions: Share Price: CAD$0.95; Exercise Price: CAD$0.64; Expected Life: 1.04 years; Annualized Volatility: 89.07%; Dividend yield: 0%; Discount Rate: 0.24%.

Gross proceeds received	$	5,500,000
Less: Transaction costs		(216,261)
Less: Loan discount		(3,272)
December 31, 2019	$	5,280,467
Less: Transaction costs		(232,265)
Less Loan Discount		(2,971)
Less Partial Conversion to shares		(1,100,000)
Effect of change in exchange rate		219,803
December 31, 2020	$	4,165,034

19. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these 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 consist of members of the Company's Board of Directors and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, President, Chief Financial Officer, and Corporate Secretary.

(Expressed in U.S. Dollars)

19. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

Remuneration attributed to key management personnel for the year ended December 31, 2020 and 2019 is summarized as follows:

	December 31, 2020	December 31, 2019
Share-based compensation (Note 20)	$ **291,322**	$ 101,955
Salaries and wages included in cost of sales		
Jason Nguyen, Executive Chairman	**438,995**	388,769
Robert Brilon, Former CFO, Corporate Secretary, President, and Director	**241,219**	277,345
Eric Offenberger, CEO, COO, and Director	**208,269**	71,250
Jonathan Shelton, Director	**3,800**	19,760
Other related parties		69,731
Salaries, wages and commissions included in operating expenses		
Jason Nguyen, Executive Chairman	**23,105**	20,462
Robert Brilon, Former CFO, Corporate Secretary, President, and Director	**580,595**	14,597
Eric Offenberger, CEO, COO, and Director	**10,962**	3,750
Jonathan Shelton, Director	**200**	1,040
Other related parties		3,670
Consulting fees included in operating expenses:		
Caroline Williams, Former Director	**4,000**	-
Denise Lok, Former CFO	**11,388**	-
Brian Cameron, Former Corporate Secretary	**100,000**	-
David Eaton, Director	**-**	19,785
	$ **1,813,855**	$ 992,114

Other related parties

Other related parties include close family members of the Company's Executive Chairman, former CFO, President, Corporate Secretary and Director and a company that is controlled by a Director.

Remuneration attributed to other related parties for the year ended December 31, 2020 and 2019 is summarized as follows:

	December 31, 2020	December 31, 2019
Salaries and wages included cost of sales	$ **47,299**	$ 148,466
Salaries, wages and commissions included in operating expenses	**2,489**	7,814
Rent expense included in operating expenses	**-**	27,169
Consulting fees included in operating expenses	**363,009**	-
	$ **412,797**	$ 183,449

Balances with related parties:

Due from related parties:

The current portion of balances due from related parties is as follows:

	December 31, 2020	December 31, 2019
Non-interest bearing, due on December 31, 2021 from Jason Nguyen, Executive Chairman	**$ 537,151**	$ -
	$ 537,151	$ -

(Expressed in U.S. Dollars)

19. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

he non-current portion of balances due from related parties is as follows:

		December 31, 2020		December 31, 2019
Non-interest bearing, due on December 31, 2021 from Jason Nguyen, Executive Chairman	**$**	**-**	$	537,151
Non-interest bearing, due on December 31, 2022 from Jason Nguyen, Executive Chairman		**316,251**		316,251
Non-interest bearing, due on December 31, 2023 from Jason Nguyen, Executive Chairman		**1,328,383**		1,328,383
	$	**1,644,634**	$	2,181,785

Due from other related parties:

		December 31, 2020		December 31, 2019
Non-interest-bearing advances to joint ventures and operation (Note 9 and 10)	**$**	**69,013**	$	440,830

Due to related parties:

Amounts due to related parties as at December 30, 2020 and December 31, 2019 included the following:

- Included in payables and accrued liabilities as at December 31, 2020 is $562,884 (2019 - $338,198) owing to Jason Nguyen, the Executive Chairman, companies controlled by him, and his close family members. Most of this amount is made up of accrued salary and a patent transfer fee (Note 15).
- Included in payables and accrued liabilities as at December 31, 2020 is $nil (2019 - $5,885) owing to a company controlled by David Eaton, a director, and $270,833 (2019 – $nil) owing to Robert Brilon, the former CFO, President, Corporate Secretary, and Director of the Company (Note 15).
- Included in the payables and accrued liabilities as at December 31, 2020 is $24,000, a performance bonus for Eric Offenberger, CEO.
- Included in the payables and accrued liabilities as at December 31, 2020 is $250,000 (2019 - $nil) due to Robert Brilon, the former CFO, President, Corporate Secretary, and Director of the Company. This obligation bears no interest and is due 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 no later than February 27, 2022 (Note 15). This liability was paid off in February 2021 (Note 27).
- Included in the long-term loans payable as at December 31, 2020 is $64,763 (2019 - $87,316) due to Jason Nguyen, 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 16).

20. 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 ("Multiple Voting Shares"), each convertible into 100 Subordinated Voting Shares.

Fiscal year ended December 31, 2020:

- On March 18, 2020, 4,885 Multiple Voting Shares were converted into 488,500 Subordinated Voting Shares.
- On April 6, 2020, the Company completed the acquisition of RDF Management, LLC and Firebrand, LLC and issued 67,000 Multiple Voting Shares as consideration shares (Note 14).
- On May 26, 2020, 2,931 Multiple Voting Shares were converted to 293,100 Subordinated Voting Shares.

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Fiscal year ended December 31, 2020:

- On November 2, 2020, the Company closed a public offering of 17,777,165 units of the Company (the "Units") at a price of CAD$0.36 per Unit for aggregate gross proceeds of $4,827,354 (CAD$6,399,779) (the "Offering"). Each Unit is comprised of one Subordinated Voting Share and one share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of CAD$0.45 until November 2, 2023. As compensation, the Company paid to the Agents a cash fee of $330,786 (CAD$438,534) and issued to the Agents an aggregate of 1,218,151 share purchase warrants (the "Agents' Warrants"). Each Agents' Warrant entitles the holder thereof to purchase one Subordinated Voting Share at an exercise price of CAD$0.36 per Subordinated Voting Share until November 2, 2023. The Agents' warrants were valued at $225,885 (CAD$287,606) using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.27%; dividend yield of 0%; expected volatility of 96.83% and expected life of three years.

  In addition, the Company closed a non-brokered private placement of units, with economic terms identical to the Units, pursuant to which the Company issued 4,064,500 units for gross proceeds of $1,100,000 (CAD$1,463,220) (the "Concurrent Private Placement"). Two holders of the 10% secured non-convertible debentures of the Company due December 31, 2021 (Note 18) redeemed 20% of the principal amount (an aggregate amount of $1,100,000) and used the proceeds to participate in the Concurrent Private Placement. Accordingly, the proceeds from the Concurrent Private Placement retired $1,100,000 (CAD$1,463,220) of the principal amount of the Loan.

  The fair values of the Warrants issued pursuant to the Offering and Concurrent Private Placement have been estimated at the issue date using the residual method valuation. Given the market price of the Company's Subordinated Voting Shares on the date of closing of the Offering and Concurrent Private Placements was in excess of the unit offering price, the residual value assigned to the Warrants is $nil.

20. SHARE CAPITAL (*CONTINUED…*)

(a) Share Capital (*continued…)*

- On December 1, 2020, further to the Offering of Units which closed on November 2, 2020, the agents have further exercised their over-allotment option (the "Over-Allotment Option") in full to purchase an additional 1,389,500 Units at a price of CAD$0.36 per Unit for gross proceeds of $386,220 (CAD$500,220). Each Unit is comprised of one common share (each, a "Subordinated Voting Share") and one share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of CAD$0.45 until November 2, 2023. The Company paid the Agents a cash fee of $32,930 (CAD$35,015) and issued to the Agents an aggregate of 97,265 share purchase warrants (the "Agents' Warrants"). Each Agents' Warrant entitles the holder thereof to purchase one Subordinated Voting Share at an exercise price of $0.36 per Subordinated Voting Share until November 2, 2023. The Agents' warrants were valued at $32,372 (CAD$41,928) using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.30%; dividend yield of 0%; expected volatility of 95.95% and expected life of 2.92 years.

  The fair values of the Warrants issued pursuant to the Offering have been estimated at the issue date using the residual method valuation. Given the market price of the Company's Subordinated Voting Shares on the date of closing of the Offering was in excess of the unit offering price, the residual value assigned to the Warrants is $nil.

- During the year ended December 31, 2020, 826,000 warrants and 33,000 warrants were exercised at CAD$0.45 and CAD$0.36 respectively for a total of $301,185 (CAD$383,580). In relation to the exercise of the 33,000 warrants, the proportionate fair value of $6,099 was relieved from reserves.

  In addition to the amounts above, a further $347,686 was incurred in share issuance costs for the above transactions.

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.

- 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.

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

(b) Special warrants

- As of March 31, 2019, the Company had 1,000,000 special warrants outstanding. These warrants were convertible into 1,000,000 units, with each unit consisting of one (1) subordinated voting share and one-half of one (1/2) subordinated voting share purchase warrant. Each whole purchase warrant entitles the holder to purchase one (1) additional subordinated voting share from the Company at an exercise price of CAD$0.25 per subordinated voting share for a period of one (1) year from issuance.

- 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 years ended December 31, 2020 and December 31, 2019:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2018	**4,500,000**	**CAD$0.58**
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**
Issued	24,546,581	CAD$0.43
Expired	(42,700)	CAD $1.30
Exercised	(859,000)	CAD$0.45
Outstanding, December 31, 2020	**24,667,791**	**CAD $0.47**

As at December 31, 2020 the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Weighted Average Remaining Life (Years)	Expiry Date
980,210	CAD$0.64	1.00	December 31, 2021
22,405,165	CAD$0.45	2.84	November 2, 2023
1,282,416	CAD$0.36	2.84	November 2, 2023
24,667,791	CAD$0.47		

On December 16, 2020, the Company repriced 980,210 warrants issued on December 31, 2019 from CAD $1.00 to CAD $0.64.

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

(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, 2020 is as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 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**
Granted	1,458,334	CAD $0.75
Cancelled	(66,000)	CAD $1.00
Outstanding, December 31, 2020	**2,435,334**	**CAD $0.85**

As at December 31, 2020 the Company had the following stock options outstanding:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Life (years)	Expiry Date
777,000	321,519	CAD$1.00	8.02	January 3, 2029
200,000	66,668	CAD$1.00	8.37	May 13, 2029
1,083,334	1,083,334	CAD$0.75	9.37	May 12, 2030
375,000	375,000	CAD$0.75	9.91	November 26, 2030
2,435,334	**1,846,521**	**CAD $0.85**	**8.95**	

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. During the year ended December 31, 2020, the Company recorded $106,510 as share-based compensation.

During the year ended December 31, 2020, the Company granted 1,458,334 stock options with a weighted average fair value of CAD$0.75 per option and $528,298 was recorded as a share-based compensation.

Total share-based compensation for the year ended December 31, 2020 for options was $634,808. Additionally, the Company recognized $244,868 of share-based compensation related to warrants, for a total of $879,676 share-based compensation.

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

(d) Stock options *(continued…)*

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, 2020	December 31, 2019
Expected volatility	113.86%-123.09%	111.80%-112.91%
Expected option life (years)	10	10
Risk-free interest rate	0.55%-0.69%	1.66%-1.92%
Expected dividend yield	0%	0%

(e) Restricted Share Units

The Company approved the implementation of a restricted share units (the "RSU") plan on November 12, 2020, which RSU is designed to provide certain directors, officers, consultants and other key employees of the Company and its related entities with the opportunity to acquire restricted share of the Company. RSU may be exercised by any holder of RSU to receive an award payout of either: (a) one common share of the Company for each whole vested RSU; or (b) a cash amount equal to the defined date value of such vested RSU.

As at December 31, 2020, there were no RSUs outstanding.

(f) 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. During the year ended December 31, 2020, the Company recorded $244,868 as share-based compensation for warrants. Additionally, the Company recognized $634,808 of share-based compensation related to options, for a total of $879,676 share-based compensation.

(g) Escrow Securities

As at December 31, 2020, the Company had 827,491 Subordinated Voting Shares (2019 – 1,379,151), 281,379 Multiple Voting Shares (2019 – 468,965), and 67,500 stock options (2019 – 150,000) held in escrow.

21. 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 year.

22. ECONOMIC DEPENDENCE

The Company had two main customers for the year ended December 31, 2020 which accounted for 93% of the Company's revenues, and 90% of the Company's accounts receivable as at December 31, 2020. 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 customers. Any significant disruption in the customers' businesses could result in a material adverse effect on the operations of the Company. The loss of these significant customers would adversely impact the operations of the Company.

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, current notes receivable, advances to joint ventures and operation, deposits and other receivables, payables, accrued liabilities, 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 17. The long-term loan payable is recorded at fair value as discussed in Note 18. 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.

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

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, 2020, the Company was dependent on two major customers from its consulting business segment (Note 24). The majority ($15,507,259) of the Company's accounts receivable are from these two customers.

The Company is of the opinion that it is not exposed to significant credit risk from these customers as at December 31, 2020 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 21. As at December 31, 2020, the Company had cash, accounts receivable and short-term notes receivable of $20,823,351 to settle its current liabilities of $8,832,393. 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.

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

Market risk *(continued…)*

c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As at December 31, 2020, the Company had approximately $500,000 net 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 $50,000 in other comprehensive income.

24. 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, 2020:

	Services and products relating to cannabis for medical purposes	Liquid gas sales	Total
Sales	$ 25,193,958	$ -	$ 25,193,958
Cost of Sales	(15,290,171)	-	(15,290,171)
Operating expenses	(7,326,132)	36,375	(7,289,757)
Other income and expenses	25,038	-	25,038
Income tax expense	(514,000)	-	(514,000)
Net income	$ 2,088,693	$ 36,375	$ 2,125,068
Assets	$ 55,454,661	$ -	$ 55,454,661
Liabilities	$ 19,141,541	$ -	$ 19,141,541

(Expressed in U.S. Dollars)

24. SEGMENT INFORMATION *(CONTINUED…)*

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

25. CONTINGENCIES

As part of the acquisition of RDF and Firebrand (Note 14), the Company agreed to assist in settling and fund the following lawsuits that were against RDF:

a) RDF was named as a defendant in a lawsuit in the Yavapai County Superior Court. The plaintiff alleged that he is an owner of RDF, and other entities. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit. During the year, the Company settled the claim for $340,000 on behalf of RDF and the case was dismissed.

b) RDF was named as a defendant in a lawsuit in Superior Court of Arizona, County of Pima for certain loan agreement and promissory note. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit and settled the claim for $425,000 on behalf of RDF. During the year, the Company paid $200,000 for the settlement and the Company entered a secured promissory note with the defendant for the remainder $225,000 with nil interest rate and due on October 10, 2021. $225,000 have been included in payables in relation to the consolidated financial statements for the claim.

(Expressed in U.S. Dollars)

26. 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, 2020		December 31, 2019
Net income for the year before taxes	$	**2,639,068**	$	3,668,229
Federal statutory tax rate - Canada		**27%**		27%
Federal statutory tax rate - US		**21%**		21%
State statutory tax rate		**4.9%**		4.9%
Expected income tax expense at statutory rate	$	**622,000**	$	887,000
Change in tax rates and other		**(108,000)**		(12,095)
Income tax expense	$	**514,000**	$	874,905
Income tax expense consists of:				
Current income tax expense				-
Deferred tax expense		**514,000**		874,905
	$	**514,000**	$	874,905

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, 2020		December 31, 2019
Deferred tax liabilities	**$**	**5,013,000**	$	4,499,000

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

27. SUBSEQUENT EVENTS

- On January 6, 2021, 140,000 RSUs were granted and expire on January 6, 2024.

- On January 6, 2021, 285,000 options were granted with an exercise price of CAD$1.22 and expire on January 6, 2031.

- On February 8, 2021, the Company closed a public offering of 18,515,000 units of the Company (the "Units") at a price of CAD$1.12 per Unit for aggregate gross proceeds of $16,259,725 (CAD$20,736,800) (the "Offering"). Each Unit is comprised of one Subordinated Voting Share and one-half of one share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of CAD$1.40 until February 8, 2024. As compensation, the Company paid to the Agents a cash fee of $1,113,530 (CAD$1,420,138) and issued to the Agents an aggregate of 1,357,980 share purchase warrants (the "Agents' Warrants"). Each Agents' Warrant entitles the holder thereof to purchase one Subordinated Voting Share at an exercise price of CAD$1.12 per Subordinated Voting Share until February 8, 2024.

- On February 8, 2021, the Company closed a non-brokered private placement of of 1,395,000 units (the "Units") at a price of CAD$1.12 per Unit for a total of $1,254,560 (CAD$1,600,000). Each Unit is comprised of one Subordinated Voting Share and one-half of one share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of CAD$1.40 until February 8, 2024.

- On February 10, 2021, the Company settled the remaining balance of $250,000 that was owed to Robert Brilon, the former CFO, Corporate Secretary, President and Director.

- On February 19, 2021, 500,000 options were granted with an exercise price of CAD$1.43 and expire on February 19, 2031.

- On March 9, 2021, 100,000 options were granted with an exercise price of CAD$0.96 and expire on March 08, 2031.

- On March 15, 2021, the Company announced that it has entered into an LOI in the state of Ohio. The LOI will move towards establishing a footprint in the state. The LOI contemplates a subsidiary of VEXT acquiring a 50% economic interest (48% voting interest) (the "Equity Interests") in the JV Co., which has signed various agreements to acquire 100% of the membership interests of the Ohio entity holding the Provisional License (the "License Co."). The contemplated change in ownership is subject to approval by the State of Ohio's Board of Pharmacy (the "Board") and cannot occur until License Co. has received a certificate of operation and been operational for 12 months.

- On April 6, 2021, the Company announced that is has entered three separate purchase and sales agreements to acquire: a vacant industrial facility located in Eloy, Arizona; the Company's managed indoor cultivation facility in Phoenix; and its managed indoor cultivation facility in Prescott Valley. The Company will pay approximately $6.55 million in aggregate cash consideration upon closing of the Transactions, representing the outright purchase of the Eloy facility, and deposits on the Phoenix and Prescott Valley facilities. The Company will enter vendor financing arrangements for the balance of the Phoenix and Prescott Valley facilities.

27. SUBSEQUENT EVENTS *(CONTINUED…)*

- Subsequent to the year ended December 31, 2020, 250,000 stock options were exercised at CAD$0.75 each for a total of $146,681, 10,000 RSUs were cancelled, 419,200 warrants were exercised at CAD$0.45 each for a total of $147,989, and 979,933 brokers' warrants were exercised at CAD$0.36 each for a total of $249,461.