

XPHYTO THERAPEUTICS CORP.

Consolidated Financial Statements

For the year ended December 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
XPhyto Therapeutics Corp.

Opinion

We have audited the accompanying consolidated financial statements of XPhyto Therapeutics Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has working capital of \$1,563,741 as at December 31, 2020 and incurred a loss of \$16,889,762 for the year then ended. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "Davidson & Coysany LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 27, 2021

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash		\$ 2,584,943	\$ 295,014
Amounts receivable		305,671	292,858
Prepaid expenses		139,215	126,255
		3,029,829	714,127
Non-current assets			
Equipment	5	1,037,537	1,089,182
Intangible assets	6	14,759	386,873
Right-of-use asset	7	4,202,052	4,830,846
Goodwill	6	-	1,634,859
Total assets		\$ 8,284,177	\$ 8,655,887
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 965,504	\$ 772,064
Lease liability	7	146,842	131,434
Convertible debt	9	353,742	477,485
		1,466,088	1,380,983
Non-current liabilities			
Lease liability	7	791,958	788,280
Convertible debt	9	2,020,478	-
Deferred tax liability	18	-	163,000
Total liabilities		4,278,524	2,332,263
Equity			
Shareholders' equity			
Share capital	10	24,585,364	12,249,855
Share-based payments reserve		4,030,006	2,576,147
Equity component of convertible debt	9	265,115	43,230
Accumulated other comprehensive income (loss)		51,606	(11,811)
Accumulated deficit		(24,926,438)	(8,533,797)
Total shareholders' equity		4,005,653	6,323,624
Total liabilities and shareholders' equity		\$ 8,284,177	\$ 8,655,887

Approved by the Directors on April 27, 2021

Hugh Rogers (signed)

Wolfgang Probst (signed)

Nature and continuance of operations (Note 1)
 Commitments (Note 15)
 Subsequent events (Note 19)

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Year Ended December 31,	
	2020	2019
Revenues	\$ 345,654	\$ 208,119
Operating Expenses		
Depreciation and amortization (Note 5, 6, and 7)	896,470	945,281
Professional fees (Note 12)	443,206	600,642
Consulting fees (Note 12)	1,844,724	1,063,723
Salaries and benefits (Note 12)	740,169	920,244
Share-based compensation (Note 11)	2,592,914	1,773,281
Regulatory fees	100,814	30,716
Marketing and advertising	4,645,027	924,742
Office and miscellaneous	480,842	284,399
Travel and related	57,863	160,344
Rent	105,589	105,180
Research and lab fees (Note 12)	3,241,734	515,819
Foreign exchange (gain)	168,481	48,096
Total operating expenses	15,317,833	7,372,467
Operating Loss	(14,972,179)	(7,164,348)
Finance costs (Note 7 and 9)	(297,077)	(105,061)
Impairment of intangible assets and goodwill (Note 6)	(1,958,219)	(444,324)
Loss on disposal of equipment	(19,776)	-
Loss before income taxes	(17,247,251)	(7,713,733)
Deferred tax recovery (Note 18)	357,489	45,021
Loss for the year	(16,889,762)	(7,668,712)
Cumulative translation adjustment	63,417	(11,811)
Comprehensive loss for the year	(16,826,345)	(7,680,523)
Loss Per Share – Basic and Diluted	\$ (0.30)	\$ (0.17)
Weighted Average Number of Common Shares Outstanding	57,217,356	45,252,733

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31,	
	2020	2019
Operating Activities		
Loss for the year	\$ (16,889,762)	\$ (7,668,712)
Adjustments for:		
Depreciation and amortization	896,470	945,281
Share-based compensation	2,592,914	1,773,281
Shares issued per consulting and marketing agreements	572,550	–
Shares issued per a development agreement	251,500	–
Non-cash consulting fees	–	614,000
Non-cash marketing and advertising costs	355,935	–
Finance costs	297,077	105,061
Foreign exchange	71,584	(38,211)
Deferred tax recovery	(357,489)	(45,021)
Loss on disposal of equipment	19,776	–
Impairment of intangible asset and goodwill	1,958,219	–
Changes in non-cash working capital items		
Amounts receivable	(175,874)	(14,728)
Prepaid expenses	(12,960)	(104,670)
Accounts payable and accrued liabilities	215,123	299,106
Cash Used in Operating Activities	(10,204,937)	(3,690,289)
Investing Activities		
Equipment acquisitions	(156,472)	(98,277)
Intangible asset additions	–	(21,031)
Vektor business acquisition, net of cash acquired	–	(342,972)
Cash Used in Investing Activities	(156,472)	(462,280)
Financing Activities		
Proceeds from issuance of shares	–	811,282
Share issue costs	–	(76,440)
Proceeds from issuance of convertible debenture, net of cash costs	4,629,706	–
Proceeds from special warrants	–	448,000
Proceeds from exercise of warrants	6,694,739	1,001,063
Proceeds from exercise of options	1,730,000	–
Convertible debenture payments	(266,936)	(15,850)
Repayment of lease liabilities	(136,743)	(88,995)
Cash Provided by Financing Activities	12,650,766	2,079,060
Effect of exchange rate on cash	572	2,926
Change in cash	2,289,929	(2,070,583)
Cash, beginning of year	295,014	2,365,597
Cash, end of year	\$ 2,584,943	\$ 295,014

Supplemental disclosure with respect to cash flows (Note 16)

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

XPHYTO THERAPEUTICS CORP.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital \$	Special Warrants \$	Reserves \$	Equity component of convertible debt \$	Accumulated other comprehensive income (loss) \$	Accumulated Deficit \$	Total Shareholder's equity \$
Balance, January 1, 2019	39,464,000	6,590,003	1,778,200	259,207	-	-	(865,085)	7,762,325
Share issuances, financings	2,028,205	811,282	-	-	-	-	-	811,282
Issue costs	-	(76,440)	-	-	-	-	-	(76,440)
Finders warrants	-	(31,581)	-	31,581	-	-	-	-
Shares issued per consultant agreements	320,000	354,000	-	-	-	-	-	354,000
Shares issued per corporate advisory agreement	200,000	260,000	-	-	-	-	-	260,000
Share based compensation	-	-	-	1,773,281	-	-	-	1,773,281
Shares issued to acquire Vektor	837,064	1,088,183	-	-	-	-	-	1,088,183
Warrants issued to acquire Vektor	-	-	-	539,223	-	-	-	539,223
Issuance of convertible debt	-	-	-	-	43,230	-	-	43,230
Issuance of shares on exercise of warrants	1,760,500	1,028,208	-	(27,145)	-	-	-	1,001,063
Special warrant financing	-	-	448,000	-	-	-	-	448,000
Special warrant conversion	5,565,500	2,226,200	(2,226,200)	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	(11,811)	-	(11,811)
Loss for the year	-	-	-	-	-	-	(7,668,712)	(7,668,712)
Balance, December 31, 2019	50,175,269	12,249,855	-	2,576,147	43,230	(11,811)	(8,533,797)	6,323,624
Issuance of convertible debt	-	-	-	340,533	341,529	-	-	682,062
Issuance of shares on conversion of convertible debt	2,193,532	1,885,758	-	-	(94,023)	-	-	1,791,735
Reclass on settlement of convertible debt for cash	-	-	-	25,621	(25,621)	-	-	-
Warrants issued per a supply agreement	-	-	-	355,935	-	-	-	355,935
Shares issued per a consultant agreement	240,000	555,600	-	-	-	-	-	555,600
Shares issued per a development, technology purchase and license agreement	100,000	251,500	-	-	-	-	-	251,500
Shares issued per marketing agreement	7,212	16,950	-	-	-	-	-	16,950
Share based compensation	-	-	-	2,592,914	-	-	-	2,592,514
Issuance of shares on exercise of warrants	8,731,744	7,429,387	-	(734,648)	-	-	-	6,694,739
Issuance of shares on exercise of options	1,050,000	2,359,375	-	(629,375)	-	-	-	1,730,000
Settlement of amounts receivable with return of shares	(148,733)	(163,061)	-	-	-	-	-	(163,061)
Expired and forfeited options	-	-	-	(497,121)	-	-	497,121	-
Cumulative translation adjustment	-	-	-	-	-	63,417	-	63,417
Loss for the year	-	-	-	-	-	-	(16,889,762)	(16,889,762)
Balance, December 31, 2020	62,349,024	24,585,364	-	4,030,006	265,115	51,606	(24,926,438)	4,005,653

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

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2020
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

XPhyto Therapeutics Corp. (the “Company” or “XPhyto”) was incorporated under the Business Corporations Act (British Columbia) on December 12, 2017. The principal business of the Company is to focus on strategic assets and investments in the field of rapid pathogen screening systems and next generation drug delivery, as well as medical cannabis opportunities focused on emerging European markets. The Company’s shares are trading on the Canadian Securities Exchange (“CSE”).

The Company’s head office is located at Suite 270 – 1820 Fir Street, Vancouver, British Columbia, Canada, V6J 3B1. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available or that it will be on terms that are acceptable to the Company. The Company has working capital of \$1,563,741 as at December 31, 2020 and incurred a loss of \$16,889,762 for the year then ended. The Company anticipates it will need further funding to maintain its operations and activities for the next 12 months. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments related to the recoverability of assets and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company’s. This outbreak could decrease spending, adversely affect and harm our business and results of operations. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

2. BASIS OF PRESENTATION

a) Statement of compliance to International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized by the Company’s Directors on April 27, 2021.

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2020
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2. BASIS OF PRESENTATION (cont'd)

b) Basis of Consolidation

The following entities have been consolidated within these consolidated financial statements:

Entity	Registered	Holding
XPhyto Therapeutics Corp.	British Columbia, Canada	Parent company
XPhyto Laboratories Inc.	Alberta, Canada	100% owned
Bunker Pflanzenextrakte GmbH	Germany	100% owned
XP Diagnostics GmbH (formerly Bunker Biopharma GmbH)	Germany	100% owned
Vektor Pharma TF GmbH	Germany	100% owned
SCUR-Alpha 1108 GmbH	Germany	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

c) Basis of measurement

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs except for financial instruments measured at fair value. The financial statements are presented in Canadian dollars.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

Key sources of estimation uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (cont'd)

d) Use of estimates and judgments (cont'd)

i) Share-based compensation

Share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate.

ii) Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

iii) Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in the scope of IFRS 16, determining the contract term and determining the interest rate used for the discounting of cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that options.

The present value of the lease payment is determined using a discount rate representing the rate of its loan payable observed in the period when the lease agreement commences or is modified.

iv) Intangible assets and goodwill

Management has determined that capitalized intangible asset costs may have future economic benefits and may be economically recoverable. Management uses estimates in determining the recoverable amount of intangible assets and goodwill. The determination of the recoverable amount for the purposes of impairment testing requires the use of estimates, such as anticipated future cash flows and discount rates.

The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.

Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (cont'd)

d) Use of estimates and judgments (cont'd)

i) Business combinations

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Vektor Pharma TF GmbH was determined to constitute a business acquisition.

ii) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

b) Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Amounts receivable are measured at amortized cost with subsequent impairments recognized in profit or loss. Cash is classified as FVTPL.

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) Financial instruments (cont'd)

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted as the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities, lease liability and convertible debt are classified at amortized cost.

c) Intangible assets

Intangible assets consist of website design, acquired exclusivity rights to a license issued pursuant to the Canadian Controlled Drugs and Substances Act and related research and intellectual property, as well as several narcotic licenses and permits pursuant to European Union good manufacturing practices ("EU GMP") certification and other governing regulations as part of the Vektor business combination (Note 4).

Intangible assets with finite useful lives are measured at cost less accumulated amortization and impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful life being the exclusivity period of approximately three years. Website design is amortized over three years. Narcotic licenses and permits pursuant to EU GMP certification are amortized on a straight-line basis over five years.

d) Right-of-use assets and lease liability

The Company assesses whether a contract is or contains a lease at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term unless another systematic basis is more representative of the usage of the economic benefits from the leased asset.

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2020
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrow rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, payments made on or before the lease commencement and any direct costs. They are subsequently measured at cost less depreciation and any impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

During the year ended December 31, 2020, the Company incurred \$53,782 (2019- \$64,104) for short-term leases not included in lease liabilities.

e) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated annually on a straight-line basis over the estimated useful life of the assets. Both office equipment and computer hardware are depreciated over a useful life of 3 years. Testing, lab equipment and machines are depreciated over useful lives ranging up to 15 years.

An item of equipment is derecognized 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 profit or loss.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

f) Impairment of non-current assets

At each reporting date, the carrying amounts of the Company's non-current assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

XPHYTO THERAPEUTICS CORP.
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, to the extent the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss.

g) Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in profit or loss immediately. Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their correspondence tax bases, with the corresponding offset recorded as goodwill.

h) Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition less accumulated impairment losses, if any. Goodwill is allocated to each of the Company's cash-generating units that is expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

i) Convertible debt

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

j) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new or technical knowledge and understanding, are recognized in profit or loss as incurred.

XPHYTO THERAPEUTICS CORP.
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized include the costs of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred.

k) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Service revenues are recognized over a period of time as performance obligations are completed. The Company is engaged with contract development services and consulting services in the German market.

l) Share capital

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

The value of common shares and warrants issued as private placement units is measured using the residual value method, which first allocated value to the more easily measurable component based on fair value (common shares in the private placements) and then the residual value, if any, to the less easily measurable component (warrants in the private placements). Warrants that are issued as agency compensation or other transaction costs are accounted for as share issue costs.

m) Share-based payments

The Company grants stock options to directors, officers, employees and/or consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

For vested options that have expired or were cancelled unexercised, the Company reverses the share-based payment reserve against deficit.

n) Reserves

Reserve records items recognized as share-based compensation until such time that the options or compensatory warrants are exercised, at which time the corresponding amount is reallocated to share capital. Amounts recorded for forfeited or expired options or warrants are transferred to deficit.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the options or compensatory warrants, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option or warrant.

XPHYTO THERAPEUTICS CORP.
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

o) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also directly recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided for using temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset, and they relate to the income taxes levied by the same tax authority and the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and tax liabilities will be realized simultaneously.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

p) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as finance costs in profit or loss.

q) Loss per share

Basic and diluted loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. For all years presented, the loss available to common shareholders equals the reported loss. Diluted loss per share does not adjust the loss attributable to common shareholders when the effect is anti-dilutive. Contingently returnable shares are not considered outstanding for loss per share calculations.

As the Company incurred net losses for the years presented, outstanding options and warrants were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

XPHYTO THERAPEUTICS CORP.
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

r) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations.

s) Foreign currency translation

The functional currency of XPhyto Therapeutics Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currencies for the subsidiaries of XPhyto are as follows:

- Canadian dollars for XPhyto Laboratories Inc., Bunker Pflanzenextrakte GmbH, Bunker Biopharma GmbH, and SCUR-1108 Alpha GmbH.
- Euros for Vektor Pharma TF GmbH.

Transactions in currencies other than the functional currency of an entity are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Where applicable, the functional currency of an entity is translated into the presentation currency using the period-end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

t) Reclassification of prior year presentation

Certain prior year amounts on the statement of loss and comprehensive loss have been reclassified to conform with the current year presentation.

u) New standards not yet adopted

Certain new accounting standards and interpretation have been issued that are not mandatory for reporting periods ending December 31, 2020 and have not been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
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4. BUSINESS COMBINATION

Vektor Pharma TF GmbH

On August 26, 2019, the Company entered into a definitive share purchase agreement to acquire all the issued and outstanding shares of Vektor Pharma TF GmbH (“Vektor”). As consideration, the Company shall issue the following; 1) 350,000 € cash due upon closing; 2) 200,000 common shares due upon closing; 3) 400,000 € worth of units in the capital of the Company at \$1.00 per unit (the “Payment Units”) due upon closing. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares are subject to a three-year escrow matrix. The warrants are exercisable into one common share of the Company at an exercise price of \$1.00 per share for a period of three years from closing; and 4) 200,000 € (\$293,532) convertible debenture with a maturity date that is six months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at \$293,532 and is convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR.

The Company closed the share purchase agreement on September 13, 2019 and paid 350,000 € (\$517,170) and issued 787,064 shares at a value of \$1,023,183 to the Vektor shareholders of which 587,064 shares are subject to escrow and will be released in tranches over 36 months. The Company also issued 587,064 share purchase warrants as part of the Payment Units with a value of \$496,902. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years. The Company also issued a convertible debenture in the amount of \$293,532 (Note 11).

The Company also issued 50,000 common shares at a value of \$65,000 and 50,000 share purchase warrants at a value of \$42,321. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years.

Separate from the Vektor business combination, the Company also entered into an equipment purchase agreement with an affiliated company of Vektor to purchase certain equipment. As consideration, the Company issued a convertible debenture in the amount of 150,000 € (\$220,149) with a maturity date that is twelve months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at \$220,149 and convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR. The Company incurred acquisition related costs of \$239,699 for professional fees and \$260,000 for consulting fees that have been expensed.

XPHYTO THERAPEUTICS CORP.
Notes to the Consolidated Financial Statements
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4. BUSINESS COMBINATION (cont'd)

The acquisition has been accounted for as a business combination as at the time of the transaction, as Vektor met the definition of a business. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price	
Cash	\$ 517,170
Fair value of common shares issued	1,088,183
Fair value of convertible debenture issued	275,923
Equity component of convertible debenture issued	17,609
Fair value of warrants issued	539,223
	\$2,438,108
<hr/>	
Cash	\$ 174,198
Amounts receivable	182,816
Prepaid expenses	12,736
Equipment	309,627
Right-of-use asset	125,514
Intangible assets	389,772
Goodwill	1,643,779
Accounts payable and accrued liabilities	(63,449)
Lease liability	(127,729)
Deferred tax liability	(209,156)
	\$2,438,108

The above acquisition contributed revenue of \$208,119 and a net loss of \$154,227 to the Company's consolidated results since the date of acquisition. If the acquisition had occurred on January 1, 2019, management estimates that the Company's consolidated revenue would have increased by \$498,984 and the net loss would have increased by \$128,539 for the year ended December 31, 2019.

Goodwill arising from the acquisition represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

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5. EQUIPMENT

	Office equipment & Fixtures	Computer hardware	Testing, Lab equipment & machines	Total
Cost				
Balance at January 1, 2019	\$ 4,626	\$ 5,628	\$ -	\$ 10,254
Additions	2,510	14,848	866,104	883,462
Additions from acquisition	46,851	-	262,776	309,627
Cumulative translation adjustment	(264)	(19)	(2,592)	(2,875)
Balance at December 31, 2019	53,723	20,457	1,126,288	1,200,468
Additions	20,800	7,678	369,694	398,172
Dispositions	-	-	(413,258)	(413,258)
Cumulative translation adjustment	3,453	241	35,138	38,832
Balance at December 31, 2020	\$ 77,976	\$ 28,376	\$ 1,117,862	\$ 1,224,214
Accumulated Depreciation				
Balance at January 1, 2019	\$ 27	\$ 714	\$ -	\$ 741
Depreciation	3,172	4,711	103,183	111,066
Cumulative translation adjustment	(33)	(11)	(477)	(521)
Balance at December 31, 2019	3,166	5,414	102,706	111,286
Depreciation	8,255	9,094	183,382	200,731
Dispositions	-	-	(130,099)	(130,099)
Cumulative translation adjustment	(24)	88	4,695	4,759
Balance, December 31, 2020	\$ 11,397	\$ 14,596	\$ 160,684	\$ 186,677
Carrying amounts				
As at January 1, 2019	\$ 4,599	\$ 4,914	\$ -	\$ 9,513
As at December 31, 2019	\$ 50,557	\$ 15,043	\$ 1,023,582	\$ 1,089,182
As at December 31, 2020	\$ 66,579	\$ 13,780	\$ 957,178	\$ 1,037,537

6. INTANGIBLE ASSETS AND GOODWILL

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the license issued pursuant to the Canadian Controlled Drugs and Substance Act held by Loebenberg and Loebenberg's cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from the exercise of Loebenberg's rights under the license. The exclusivity period expires on the earlier of (i) termination of the agreement, and (ii) the date that the last shares are released from escrow.

As part of the Vektor business acquisition in 2019, the Company acquired several narcotic licences and permits pursuant to EU GMP certification and other governing regulations.

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6. INTANGIBLE ASSETS AND GOODWILL (cont'd)

	Right-to- use License	Web Design & Software	Licenses & Permits	Total
Cost				
Balance at January 1, 2019	\$ 717,759	\$ 4,811	\$ -	\$722,570
Additions	-	21,031	-	21,031
Additions from acquisition	-	772	389,000	389,772
Cumulative translation adjustment	-	(4)	(2,111)	(2,115)
Impairment	(717,758)	-	-	(717,758)
Balance at December 31, 2019	1	26,610	386,889	413,500
Additions	-	-	-	-
Cumulative translation adjustment	-	54	2,111	2,165
Impairment	-	-	(388,999)	(388,999)
Balance at December 31, 2020	\$ 1	\$ 26,664	\$ 1	\$ 26,666
Accumulated Depreciation				
Balance at January 1, 2019	\$ 68,358	\$ 1,109	\$ -	\$ 69,467
Amortization	205,076	3,228	22,692	230,996
Cumulative translation adjustment	-	(11)	(391)	(402)
Impairment	(273,434)	-	-	(273,434)
Balance at December 31, 2019	-	4,326	22,301	26,627
Amortization	-	7,532	51,867	59,399
Cumulative translation adjustment	-	49	391	440
Impairment	-	-	(74,559)	(74,559)
Balance, December 31, 2020	\$ -	\$ 11,907	\$ -	\$ 11,907
Carrying amounts				
As at January 1, 2019	\$ 649,401	\$ 3,702	\$ -	\$ 653,103
As at December 31, 2019	\$ 1	\$ 22,284	\$ 364,588	\$ 386,873
As at December 31, 2020	\$ 1	\$ 14,757	\$ 1	\$ 14,759

The net change in goodwill is as follows:

As at December 31, 2018	\$ -
Additions from acquisition of Vektor (Note 4)	1,643,779
Cumulative Translation Adjustment	(8,920)
As at December 31, 2019	1,634,859
OCI Adjustment	8,920
Impairment	(1,643,779)
As at December 31, 2020	\$ -

During the year ended December 31, 2019, the Company performed an impairment assessment on the right-to-use license and determined the license is impaired. Accordingly, the Company recorded an impairment charge of \$444,324.

XPHYTO THERAPEUTICS CORP.
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6. INTANGIBLE ASSETS AND GOODWILL (cont'd)

During the year ended December 31, 2020, the Company performed an annual impairment test for goodwill related to the Vektor business combination by comparing the carrying value of the cash-generating unit ("CGU") allocated the goodwill to its recoverable amount. The recoverable amount of the Vektor CGU of \$393,000 was determined based on fair value less costs of disposal using level 3 inputs in a discounted cash flow analysis. As a result, the Company recognized an impairment charge of \$1,643,779 for goodwill and \$314,440 for licences and permits.

7. RIGHT OF USE ASSET AND LEASE LIABILITY

The Company and its wholly owned subsidiaries have various property rental lease agreements in place ranging from 3 to 10 years in length of term. Right-of-use assets consist of corporate office spaces, the Bunker facility and lab and operational space for Vektor.

	December 31, 2020	December 31, 2019
Right-of-Use Asset		
Opening balance	\$ 4,830,846	\$ 5,256,408
Additions from acquisition (Note 4)	-	125,514
Additions	-	52,677
Depreciation	(636,340)	(603,219)
Cumulative translation adjustment	7,546	(534)
	\$ 4,202,052	\$ 4,830,846
Lease Liability		
Opening balance	\$ 919,714	\$ 781,986
Additions from acquisition (Note 4)	-	127,729
Additions	-	52,677
Payments	(136,743)	(88,995)
Accrued interest	94,290	82,177
Cumulative translation adjustment	7,886	(574)
Foreign exchange adjustment	53,653	(35,286)
	\$ 938,800	\$ 919,714
Current portion	\$ 146,842	\$ 131,434
Non-current portion	\$ 791,958	\$ 788,280

Using the December 31, 2020 period end exchange rate, the estimated annual commitment over the term of the leases is as follows:

2021	\$ 146,842
2022	162,176
2023	237,064
2024	201,251
2025	205,001
2026 and beyond	367,659

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Trade payables	\$ 565,482	\$ 257,707
Accrued liabilities	400,022	514,357
	\$ 965,504	\$ 772,064

9. CONVERTIBLE DEBT

On September 13, 2019, the Company issued two (2) unsecured convertible debentures in accordance with the Vektor acquisition and equipment purchase agreement.

The principal amount of the first debenture of \$293,532 matures six (6) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date. The principal amount of the second debenture of \$220,149 matures twelve (12) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date. The first debenture was converted by the holder on March 13, 2020. The second debenture was repaid to the holder in full with interest.

The principal amounts of the debentures are convertible into Payment Units, at a conversion price of \$1.00 per Payment Unit, at the option of the holder, at any time prior to the maturity date. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares will be subject to three-year escrow. The warrants are exercisable into one common share of the Company at an exercise price of \$1.00 per share for a period of three years from closing.

The debentures are compound instruments and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be \$470,542 with the residual portion of \$43,230 allocated to equity.

On January 22, 2020, the Company signed a three-year definitive supply, import and distribution agreement (the "Agreement") with PharmaCielo Ltd. ("PharmaCielo"). Pursuant to the Agreement, the Company closed a subscription receipt whereby PharmaCielo agreed to purchase \$500,000 of convertible debentures units of the Company. The convertible debentures were issued on January 31, 2020 as part of the non-brokered private placement described below. The Company also issued PharmaCielo an additional 500,000 share purchase warrants exercisable by the holder into common shares of the Company at a price of \$2.00 per common share for a period of two years. The warrants which were expensed as marketing and advertising costs had a fair value of \$355,935 estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.43%, dividend rate of 0% and expected life of 2 years.

On January 31, 2020, the Company closed the sale of 2,000 convertible debenture units for gross proceeds of \$2,000,000 pursuant to a non-brokered private placement. Each debenture unit consists of: (i) \$1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debentures bear interest at 8.0% per annum, calculated and payable semi-annually and mature two years following the date of issuance. The debentures are convertible at the option of the holder into common shares of the Company at a conversion price of \$1.00 per common share. Conversion of the debentures may be forced in part or in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds \$2.50 per share.

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9. CONVERTIBLE DEBT (cont'd)

Each warrant is exercisable to acquire one common share at an exercise price of \$1.50 per share until January 31, 2022. In connection with the offering, the Company paid a cash fee of \$120,000 and issued 120,000 finder warrants to a finder. Each finder warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.00 per share until January 31, 2022. The finders' warrants had a fair value of \$118,037 estimated using the Black-Scholes option pricing model with a volatility of 95%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years. (see Note 10(b)).

The debentures are compound instruments and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be \$1,709,444 with the residual portion of \$290,556 allocated to both equity (\$132,769) and the warrants (\$157,787). Transaction costs totalled \$248,331 of which \$212,254 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transaction costs of \$16,485 were charged to the equity component and \$19,592 were charged to the warrant component. In addition, the resulting deferred tax amount of \$78,451 has been charged to both the equity (\$35,848) and warrant components (\$42,603).

On December 8, 2020, the Company issued a \$3,000,000 unsecured unconvertible debenture pursuant to a non-brokered private placement. The convertible debenture accrues interest at 8.0% per annum, calculated and payable semi-annually on June 30 and December 31 of each calendar year, and matures two years from the date of issue, on December 8, 2022. The principal amount of the debenture is convertible into common shares of the Company at the election of the holder, in whole or in part, at any time prior to the maturity date at a conversion price of \$1.77. Conversion of the debentures may be forced in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds \$4.425 per share. In connection with the offering, the Company paid a cash fee of \$240,000 and issued 135,593 finder warrants to a finder. Each finder warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.77 per share until December 8, 2022. The finders' warrants had a fair value of \$126,905 estimated using the Black-Scholes option pricing model with a volatility of 81%, risk-free interest rate of 0.27%, dividend rate of 0% and expected life of 2 years. (see Note 10(b)). The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be \$2,570,231 with the residual portion of \$429,769 allocated to equity. Transaction costs totalled \$367,440, of which \$314,802 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transaction costs of \$52,638 and the resulting deferred tax amount of \$116,038 have both been charged to the equity component.

Debentures with a principal amount of \$1,650,000 were converted by the holders on June 3, 2020 with the debt having a value of \$1,312,983 at the date of conversion.

Debentures with a principal amount of \$250,000 was converted by the holder on July 9, 2020 with the debt having a value of \$185,220 at the date of conversion.

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9. CONVERTIBLE DEBT (cont'd)

	December 31, 2020	December 31, 2019
Opening balance	\$ 477,485	\$ -
Additions from Principal amounts	5,000,000	513,681
Equity component	(562,538)	(43,230)
Warrant component	(157,787)	-
Transaction costs	(527,056)	-
Accrued interest (accretion)	202,787	22,884
Payments	(266,936)	(15,850)
Conversion	(1,791,735)	-
	\$ 2,374,220	\$ 477,485
Current portion	\$ 353,742	\$ 477,485
Non-current portion	\$ 2,020,478	\$ -

10. SHARE CAPITAL

a) Common Shares

Authorized

The authorized capital stock of the Company is an unlimited number of common shares without par value.

Issued

Transactions in Year Ended December 31, 2019

On February 28, 2019, the Company issued 1,120,000 Special Warrants at \$0.40 per Special Warrant for gross proceeds of \$448,000 on the same terms and conditions as those issued on December 28, 2018. The Company paid finders fees of \$35,840 and issued finders warrants to purchase an aggregate of 89,600 common shares at a price of \$0.40 per share for a period of 2 years from date of listing on the CSE. The finders' warrants had a fair value of \$14,863 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years. On May 28, 2019, the Company issued 1,120,000 common shares and 1,120,000 share purchase warrants on conversion of the Special Warrants.

On February 28, 2019, the Company issued 457,500 units at \$0.40 per unit for gross proceeds of \$183,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of \$14,640 and also issued 36,600 finders warrants to purchase an aggregate of 36,600 common shares at a price of \$0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$6,071 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years.

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10. SHARE CAPITAL (cont'd)

a) Common Shares (cont'd)

On March 29, 2019, the Company issued 805,000 units at \$0.40 per unit for gross proceeds of \$322,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of \$25,760 and also issued 64,400 finders warrants to purchase an aggregate of 64,400 common shares at a price of \$0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$10,647 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years.

On April 11, 2019, the Company issued 765,705 units at \$0.40 per unit for gross proceeds of \$306,282. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units.

On April 11, 2019, the Company issued 50,000 common shares at a value of \$20,000 pursuant to a consultancy agreement.

On September 13, 2019, the Company issued 270,000 common shares at a value of \$351,000 pursuant to two consultancy agreements of which 50,000 of those common shares at a value of \$65,000 have been determined to be partial consideration relating to the business acquisition of Vektor (Note 4).

On September 13, 2019, the Company issued 787,064 common shares at a value of \$1,023,183 in partial consideration relating to the business acquisition of Vektor (Note 4).

On September 13, 2019, the Company issued 200,000 common shares at a value of \$260,000 to Canaccord in consideration of corporate advisory services relating to the acquisition of Vektor (Note 4).

On December 11, 2019, the Company issued 50,000 common shares at a value of \$48,000 pursuant to a consulting agreement. These shares are subject to escrow and will be released in tranches over 36 months.

During the year ended December 31, 2019, the Company issued 1,760,500 common shares for proceeds of \$1,001,063 in connection with the exercise of 1,760,500 share purchase warrants.

Transactions in Year Ended December 31, 2020

On March 13, 2020, the Company issued 120,000 common shares at a value of \$180,000 pursuant to a consultant agreement.

On March 13, 2020, the Company issued 293,532 common shares at a value of \$311,141 pursuant to a convertible debt conversion (Note 9).

On June 3, 2020, the Company issued 1,650,000 common shares at a value of \$1,379,343 pursuant to a convertible debt conversion (Note 9).

On June 3, 2020, the Company issued 50,000 common shares at a value of \$159,000 pursuant to a development, technology purchase and license agreement.

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10. SHARE CAPITAL (cont'd)

On July 9, 2020, the Company issued 250,000 common shares at a value of \$195,274 pursuant to a convertible debt conversion (Note 9).

On August 17, 2020, the Company issued 120,000 common shares at a value of \$375,600 pursuant to a consulting agreement.

On December 22, 2020, the Company issued 7,212 common shares at a value of \$16,950 pursuant to a marketing agreement.

On December 30, 2020, the Company issued 50,000 common shares at a value of \$92,500 pursuant to a development, technology purchase and license agreement.

In December 2020, 148,733 common shares with a value of \$163,061 were returned to treasury and cancelled.

During the year ended December 31, 2020, the Company issued 1,050,000 common shares for proceeds of \$1,730,000 in connection with the exercise of 1,050,000 stock options. Upon exercise, \$629,375 was allocated from reserves to share capital.

During the year ended December 31, 2020, the Company issued 8,731,744 common shares for proceeds of \$6,694,739 in connection with the exercise of 8,731,744 share purchase warrants. Upon exercise, \$734,648 was allocated from reserves to share capital.

As of December 31, 2020, there are 7,537,988 common shares subject to escrow which includes 450,000 common shares issued to officers of the Company which will be released from escrow in tranches over 36 months from date of listing on the CSE being July 30, 2019.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2019 to December 31, 2020:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2019	15,156,800	\$ 0.61
Issued warrants	8,421,369	1.17
Exercised warrants	<u>(1,760,500)</u>	0.57
Balance at December 31, 2019	21,817,669	0.83
Issued warrants	3,049,125	1.53
Exercised warrants	<u>(8,731,744)</u>	0.77
Balance at December 31, 2020	<u>16,135,050</u>	\$ 0.99

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10. SHARE CAPITAL (cont'd)

b) Share Purchase Warrants (cont'd)

As at December 31, 2020, the Company had outstanding warrants as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
6,839,500	\$ 0.70	July 31, 2021
275,088	\$ 0.125	July 31, 2021
22,500	\$ 0.70	July 31, 2021
30,500	\$ 0.70	July 31, 2021
268,000	\$ 0.70	July 31, 2021
136,612	\$ 0.40	July 31, 2021
457,500	\$ 1.20	July 31, 2021
36,600	\$ 0.40	July 31, 2021
89,600	\$ 0.40	July 31, 2021
600,000	\$ 1.20	July 31, 2021
29,420	\$ 0.40	July 31, 2021
765,705	\$ 1.20	July 31, 2021
4,191,000	\$ 1.20	July 31, 2021
83,500	\$ 1.20	July 31, 2021
72,400	\$ 1.00	January 31, 2022
1,258,000	\$ 1.50	January 31, 2022
500,000	\$ 2.00	January 31, 2022
50,000	\$ 1.00	September 13, 2022
293,532	\$ 1.00	March 13, 2023
135,593	\$1.77	December 8, 2022
16,135,050		

11. SHARE-BASED COMPENSATION

The Company held its shareholder meeting on December 10, 2018 where the shareholders approved adoption of the Stock Option Plan in accordance with the policies of the CSE. The directors are authorized to grant stock options to directors, officers, consultants or employees. Options granted under the plan will have the term, exercise price and vesting determined by the directors.

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11. SHARE-BASED COMPENSATION (cont'd)

Share option transactions from January 1, 2019 to December 31, 2020 are as follows:

	Number of options	Weighted Average Exercise Price
Balance at January 1, 2019	1,000,000	\$ 0.50
Issued options	<u>2,600,000</u>	1.22
Balance at December 31, 2019	3,600,000	1.02
Issued options	2,875,000	2.28
Expired options	(200,000)	1.25
Forfeited options	(700,000)	1.57
Exercised options	<u>(1,050,000)</u>	1.65
Balance at December 31, 2020	4,525,000	\$ 1.58
Exercisable at December 31, 2020	4,235,000	\$ 1.59

As at December 31, 2020, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
100,000	100,000	0.50	April 11, 2021
200,000	150,000	2.50	July 1, 2021
450,000	450,000	3.00	August 3, 2021
400,000	400,000	1.25	August 7, 2021
500,000	500,000	2.90	September 4, 2021
25,000	25,000	2.72	September 21, 2021
200,000	200,000	1.81	October 16, 2021
100,000	100,000	2.10	February 19, 2022
50,000	50,000	2.50	March 25, 2022
50,000	50,000	1.80	November 4, 2022
1,000,000	1,000,000	0.50	December 20, 2023
1,200,000	960,000	1.25	August 7, 2024
250,000	250,000	1.80	November 1, 2025
<u>4,525,000</u>	<u>4,235,000</u>		

The Company recorded share-based compensation of \$2,592,914 during the year ended December 31, 2020 (2019 – \$1,773,281). The fair value of the options granted during the year ended December 31, 2020 was \$2,350,634 (2019 - \$1,850,466) or \$0.812 (2019 - \$0.71) per option. All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2020	2019
Volatility	81.52% - 95.00%	75.00 – 95.00%
Risk-free interest rate	0.17% - 1.55%	1.20% - 1.59%
Expected life of option	0.5 years to 5 years	1 year to 5 years
Dividend yield	0%	0%

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12. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for planning, directing, and controlling the activities of the Company and include both executive and non-executive directors, and entities controlled by such persons. The Company considers its directors, Chief Executive Officer and Chief Financial Officer of the Company, Managing Director of Vektor and Managing Director and Chief Financial Officer of Bunker to be key management personnel.

The following is a summary of the Company's key management compensation:

	December 31, 2020	December 31, 2019
Research and lab fees	\$ 60,000	\$ 108,000
Salaries and benefits	789,858	756,559
Share-based compensation	335,556	896,309

As at December 31, 2020, \$7,358 (2019 - \$13,582) remained unpaid and has been included in accounts payable and accrued liabilities.

During the year ended December 31, 2020, the Company incurred \$5,600 (2019 – \$nil) in professional fees to a company controlled by the CFO of the Company. As at December 31, 2020, the Company owed \$2,205 (2019 – \$nil) in accounts payable to this company.

In December 2020, the former Managing Director of Bunker returned 148,733 common shares to the Company for cancellation in exchange for settling funds of \$163,061 (December 31, 2019 - \$88,349) previously advanced.

The Company issued an unsecured convertible debenture in the amount of \$220,149 to the Managing Director of Vektor for the purchase of certain equipment (Note 9). This unsecured convertible debenture was repaid in September 2020.

13. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital. There have been no changes to the management of capital during the current fiscal period.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

Cash is carried at fair value using level 1 fair value measurement. The carrying value of amounts receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of convertible debt and lease liability approximates fair value as there has not been any significant changes in interest rates since initial recognition.

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at December 31, 2020 under its financial instruments is approximately \$2.9 million.

Most of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant. The Company actively monitors its amounts receivable and believes the exposure to credit risk is insignificant.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently has no debt subject to variable interest rates. Accordingly, the Company has limited exposure to interest rate movements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

Foreign exchange rate risk

The Company operates in Canada and Germany and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following Canadian dollar equivalents:

	December 31, 2020 Euro	December 31, 2019 Euro
Cash	339,645	185,303
Amounts receivable	245,457	274,862
Total financial assets	585,102	460,165
Accounts payable and accrued liabilities	(708,410)	(246,459)
Lease liability	(908,267)	(873,710)
Net statement of financial position exposure	(1,031,575)	(660,004)

At December 31, 2020, a 10% appreciation (depreciation) in the value of the Euro against the Canadian dollar, with all other variables held constant, would result in approximately a \$103,000 increase (decrease) in the Company's net loss for the year.

15. COMMITMENTS

On December 7, 2018, the Company and the University of Alberta ("UoA") executed an exclusive five-year product manufacturing agreement pursuant to which the Faculty of Pharmacy and Pharmaceutical Sciences agreed to manufacture cannabis-based extracts and isolates. The Company is responsible to provide any necessary equipment for the manufacture of the extracts and isolates and will pay UoA an annual fee estimated at \$140,000.

In April 2020, the Company signed a development, technology purchase and license agreement with 3a-Diagnostics GmbH ("3a") for the development, marketing and commercialization of an oral screening test for the detection of infectious diseases. The Company has committed to fund EUR 250,000 (incurred) in stages through to October 2020 and up to an additional EUR 1,073,000 (EUR 760,000 incurred) based on certain development milestones. The Company will also issue 50,000 common shares on signing (issued), 200,000 common shares based on certain development milestones and 250,000 common shares upon achieving EUR 25,000,000 in gross sales within 24 months. 3a will retain 5% royalty on net sales of related products sold by the Company. In July 2020, the Company signed an addendum to the April 2020, agreement with 3a to further develop its COVID-19 test. The Company has committed to fund EUR 120,000 with EUR 60,000 (incurred) due upon signed and EUR 60,000 due upon validation of the product for market. 3a will retain 5% royalty on net sales of sales of the COVID-19 test by the Company.

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16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2020 consisted of:

- 1) The issuance of 2,193,532 common shares with a value of \$1,885,758 pursuant to convertible debt conversions.
- 2) The issuance of 240,000 common shares with a fair value of \$555,600 pursuant to a consulting agreement.
- 3) The issuance of 7,212 common shares with a fair value of \$16,950 pursuant to a marketing agreement.
- 4) The issuance of 100,000 common shares with a fair value of \$251,500 pursuant to a development, technology purchase and license agreement.
- 5) The issuance of 500,000 warrants with a fair value of \$355,935 pursuant to a supply agreement.
- 6) The issuance of 255,593 finder warrants with a fair value of \$244,942 relating to the issuances of convertible debt.
- 7) The return to treasury and cancellation of 148,733 common shares to settle amounts owing to the Company of \$163,061.

Significant non-cash transactions for the year ended December 31, 2019 consisted of:

- 1) The issuance of 190,600 finder warrants with a fair value of \$31,581 relating to the issuance of shares.
- 2) Deposits totaling \$543,353 reclassified to equipment.
- 3) The issuance of 5,565,500 common shares and 5,565,500 share purchase warrants on conversion of the Special Warrants of \$2,226,200.
- 4) The issuance of 837,064 common shares valued at \$1,088,183, 637,064 warrants valued at \$539,223 and a convertible debenture of \$293,532 towards the acquisition of Vektor.
- 5) The issuance of a convertible debenture of \$220,149 relating to an equipment purchase agreement.
- 6) Equipment purchases of \$21,683 included in accounts payable and accrued liabilities.
- 7) Lease liability and right-of-use asset of \$52,677.

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17. SEGMENTED INFORMATION

The Company has one operating segment. Information on geographical area is as follows:

	December 31, 2020	December 31, 2019
Revenues		
Germany	\$ 345,654	\$ 208,119
Non-current assets		
Canada	\$ 556,467	\$ 622,376
Germany	4,697,881	7,319,384
	<u>\$ 5,254,348</u>	<u>\$ 7,941,760</u>

18. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2020	December 31, 2019
Loss before income taxes	\$ (17,247,251)	\$ (7,713,733)
Expected income tax (recovery)	(4,657,000)	(2,083,000)
Change in statutory, foreign tax, foreign exchange rates and other	(148,489)	(65,021)
Permanent differences	1,476,000	658,000
Share issue cost	-	(21,000)
Change in unrecognizable deductible temporary differences	2,972,000	1,466,000
Income tax expense (recovery)	<u>\$ (357,489)</u>	<u>\$ (45,021)</u>
Current income tax	\$ -	\$ -
Deferred tax recovery	\$ (357,489)	\$ (45,021)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets (liabilities)		
Property and equipment	\$ 258,000	\$ 146,000
Share issue costs	137,000	81,000
Debt with accretion	(166,000)	-
Intangible assets	3,000	(108,000)
Non-capital losses available for future period	4,588,000	1,506,000
	<u>4,820,000</u>	<u>1,625,000</u>
Unrecognized deferred tax assets	<u>(4,820,000)</u>	<u>(1,788,000)</u>
Net deferred tax liability	<u>\$ -</u>	<u>\$ (163,000)</u>

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18. INCOME TAXES (cont'd)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2020 \$	Expiry Date Range	2019 \$	Expiry Date Range
Temporary Differences				
Property and equipment	964,000	No expiry date	845,000	No expiry date
Share issue costs	507,000	2041 to 2044	299,000	2040 to 2043
Intangible assets	11,000	No expiry date	4,000	No expiry date
Non-capital losses available for future periods	15,392,000		5,312,000	
Canada	8,304,000	2037 to 2040	3,841,000	2037 to 2039
Germany	7,088,000	No expiry date	1,471,000	No expiry date

Tax attributes are subject to review, and potential adjustment, by tax authorities

19. SUBSEQUENT EVENTS

Subsequent events to December 31, 2020 are as follows:

- 1) The Company issued 3,799,175 common shares for proceeds of \$3,181,525 in connection with the exercise of 3,799,175 share purchase warrants.
- 2) 770,000 stock options were issued to certain consultants of the Company exercisable for a period of two years at a price ranging from \$2.55 to \$2.85 per common share.
- 3) On January 15, 2021, the Company issued 1,500,000 units at \$1.90 per unit for gross proceeds of \$2,850,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of \$2.20 per share for a period of two years from closing. The Company also issued 120,000 finders warrants to purchase an aggregate of 120,000 common shares at a price of \$1.90 per share for a period of two years from closing.
- 4) In February 2021, the Company's wholly owned subsidiary Vektor TF GmbH was subject to a declaratory action made by a former client in relation to alleged breach of the terms of a development agreement between Vektor and the Claimant. The Claimant has estimated its alleged damages at 1 million Euros. The Company submitted its statement of defence on April 22, 2021. The court hearing is scheduled for July 8, 2021. The Company believes the claim is substantially without merit and intends to defend the claim vigorously.
- 5) In February 2021, the Company signed an agreement with Applied Pharmaceutical Innovation for the synthesis of pharmaceutical grade psychedelic compounds and the parallel development of the standard operating procedures necessary to obtain regulatory approval for the respective commercial production process. The Company will fund all infrastructure and initial lab set up costs which are estimated at \$663,000. The Company will also fund the monthly operation cost at \$20,000 per month.
- 6) On March 18, 2021, the Company issued 50,000 common shares pursuant to a development, technology purchase and license agreement.
- 7) In April 2021, 100,000 stock options expired unexercised.