XPHYTO THERAPEUTICS CORP.

Management's Discussion and Analysis

For the year ended December 31, 2020

1. Introduction

The following Management Discussion and Analysis ("MD&A") of the operating results and financial position of XPhyto Therapeutics Corp. ("XPhyto" or the "Company") is prepared as of April 27, 2021 and provides information concerning the Company's financial condition as at December 31, 2020. The MD&A should be read in conjunction with the Company's audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2020.

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars.

2. Description of Business

The Company, formally known as Cannabunker Development Corp., 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 and psychedelic opportunities focused on emerging European markets. The Company trades on the Canadian Securities Exchange ("CSE") under the symbol "XPHY", on the OTCQB under the symbol "XPHYF" and on the Frankfurt exchange under the symbol "4XT".

3. Cautionary Note Regarding Forwarding Looking Statements

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

4. Overall Performance

To December 31, 2020, the Company has an accumulated deficit of $24,926,438 as it pursues and executes on its plan 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.

Total revenue for the year ended December 31, 2020 was $345,654, an increase of $137,535 or 66% from the previous year. This is attributable to the fact that the Vektor acquisition (see Section 6.2) closed in September 2019 and, therefore, the comparable period reflects only four months Vektor operations as opposed to twelve months for the 2020 fiscal year.

5. Selected Annual Information

The following table summarizes selected information from the Company's audited financial statements for the past three fiscal years.

For the Year Ended December 31	2020 $	2019 $	2018 $
Total revenue	345,654	208,119	–
Comprehensive loss for the period	(16,826,345)	(7,680,523)	(860,600)
Loss per share (basic and diluted)	(0.30)	(0.17)	(0.04)
Cash dividends per share	Nil	Nil	Nil
Total Assets	8,284,177	8,655,887	8,932,137
Long-term financial liabilities	2,812,436	951,280	708,405
Accumulated deficit	(24,926,438)	(8,533,797)	(865,085)

All financial information is prepared in accordance with IFRS. All dollar amounts are expressed in Canadian dollars.

6. Summary of Key Events

During the years ended December 31, 2020, 2019, and 2018, the Company executed the following agreements:

6.1 Year Ended December 31, 2018

- The Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences (the "Faculty") of the University of Alberta (the "UoA"). Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the UoA, executed a Commercial Analytical Lab Development and Services Agreement with respect to the co-development of a commercial grade analytical lab at the UoA for the purpose of testing cannabis and other plant-based medicines.

  The Company was responsible to fund the development and construction of the analytical testing facility originally budgeted at $695,000.

  The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures and operating costs in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

  The Company has paid all expected development costs including equipment, training, and facility upgrades.

- On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the licence 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 licence.

  In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares (the "Consideration Shares"), to a company controlled by Loebenberg with a value of $625,000. The Consideration Shares are subject to voluntary pooling (the "Loebenberg Escrow") for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listing for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. On completion of the prospectus and listing, the Consideration Shares will also be subject to mandatory escrow. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Escrow. If the licence is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. If the Company generates at least $10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of $200,000. If the Company generates at least $5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of $200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg $1,000,000 per each bonus entitlement.

Canaccord Genuity Corp. ("Canaccord") provided the Company with certain corporate advisory services with respect to the intangible assets. In consideration, the Company issued 500,000 common shares on September 4, 2018 with a value of $62,500 to Canaccord. Additional transaction costs of $30,259 relating to the intangible assets were also incurred.

In November 2020, the Company announced that it has expanded the Exclusive Dealing Agreement to incorporate a number of psychedelic compounds, pre-cursor molecules and metabolites.

- On October 22, 2018, the Company entered into a share exchange agreement to acquire all the issued and outstanding shares of Bunker Pflanzenextrakte GmbH ("Bunker") replacing an earlier letter of intent. As consideration, the Company will issue to Bunker shareholders 7,500,000 common shares of the Company. In addition, the Company shall reserve for issuance an aggregate of 2,500,000 common shares in the Company (the "Milestone Shares"). In the event that Bunker either (i) is granted a cultivation licence(s) within 24 months or (ii) generates EUR 2,500,000 gross revenue in an 18-month period within 36 months after the date of this agreement, then the Company will issue the Milestone Shares to Bunker shareholders.

  The Company closed the share exchange agreement on December 13, 2018 and issued the 7,500,000 shares at a value of $3,000,000 to Bunker shareholders. The 7,500,000 shares are subject to escrow and will be released in tranches over 36 months on the earlier of (i) the date of listing on the CSE and (ii) 6 months after the effective date of the agreement. For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares. The Company also advanced funds to Bunker prior to closing and incurred costs relating to the transaction totaling $1,286,722.

  Canaccord provided the Company with certain corporate advisory services as part of the transaction. As consideration, the Company issued 750,000 common shares at a value of $300,000 and 250,000 share purchase warrants, exercisable at $0.125 per share for a period of two years from date of listing on the CSE to Canaccord. The fair value of the 250,000 warrants was $73,392.

6.2 Year Ended December 31, 2019

- In August 2019, the Company entered into a 2-year exclusive European consultancy agreement with its Global Cannabis expert. As consideration, the Company will pay USD $20,000 per month to the consultant in addition to stock based compensation in the form of stock options and common shares to vest and be issued, respectively, over a two year period: 1) 600,000 stock options, each of which is exercisable into one common share of the Company for a period of five years at an exercise price of $1.25 per share, of which 120,000 will vest immediately and 120,000 will vest every six months thereafter; and 2) 700,000 common shares of the Company, of which 220,000 will be issued immediately and 120,000 will be issued every six months thereafter. 90 days termination notice was served to the consultant on November 7, 2020.

- In August 2019, the Company's wholly owned subsidiary, Bunker, entered into an exclusive cannabis research and development agreement with the department of biochemistry at the Technical University of Munich. Pursuant to the agreement, initial research will focus on the identification and assessment of novel research and development approaches to utilize the cannabis plant and its derivatives, including cannabinoids, terpenes, terpenoids, polyphenols, and flavones. Promising targets will be advanced through pilot studies and pending preliminary success, pursued via separate joint research projects on a case-by-case basis for potential commercialization.

- 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 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 Company also issued a convertible debenture in the amount of $293,532.

  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.

- 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 is convertible into Payment Units at the option of the holder, at any time prior to the maturity date and is denominated in Canadian dollars. 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.

- In September 2019, the Company's wholly owned subsidiary, Bunker entered into an exclusive cannabis research and development agreement with the chair of brewing and beverage technology at the Technical University of Munich, School of Life Sciences Weinhenstephan. Pursuant to the agreement, initial research will focus on the identification and development of new research approaches targeting potential commercial applications for the use and inclusion of cannabis plants, parts thereof, or derived ingredients, active ingredients and flavours for the production of beverages, food and dietary supplements. Preliminary testing will include analysis of the chemical-physical suitability of the cannabis derived materials for use in various food and beverages. Specific cannabis applications with prospective commercial viability will be pursued via separate joint research projects on a case-by-case basis

- In November 2019, the Company announced that it had signed a term sheet with a major cannabis grower and supplier for exclusive distribution of EU GMP flower, extracts, isolates, and crystallites in Germany. The supplier is a major international grower and extractor in the process of EU GMP certification of its facilities and with scalable production in excess of 100,000 hectares which includes, indoor medical-grade hydroponic high-THC flower and outdoor high and low-THC cannabis strains for extraction purposes. The Company and the cannabis grower and supplier are working towards executing a definitive agreement.

6.3 Year Ended December 31, 2020

- In January 2020, the Company announced that it had signed a three-year definitive supply, import and distribution agreement with PharmaCielo Ltd. ("PharmaCielo") Pursuant to the Agreement and subject to all necessary regulatory approvals, XPhyto plans to commence the commercial import of cannabis oils and isolates in Q4 2021 with a three year minimum sales target of approximately 30,000 kg for a full range of extracted products including 99% pure CBD and THC isolates, broad spectrum CBD oils, and full spectrum THC oils. Import and commercial sales of extracts in Germany are expected to commence in Q4 2021.

- In April 2020, the Company signed a development, technology purchase and licence agreement with 3a-Diagnostics GmbH ("3a") for the development and commercialization of an oral screening test for the detection of infectious diseases. The Company has committed to fund EUR 250,000 in stages through to October 2020 and up to an additional EUR 1,073,000 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 (100,000 issued) and 250,000 common shares upon achieving EUR 25,000,000 in gross sales within 24 months. 3a will retain a 5% royalty on net sales of all products sold by the Company.

- In May 2020, the Company signed a standstill agreement and letter of intent for cooperation in the field of development, production, and distribution of new cannabis-infused beverages and products with the renowned German brewery OETTINGER Brauerei GmbH ("Oettinger"). XPhyto and Oettinger have agreed to pursue the signing of an exclusive definitive agreement in due course, specifically for creating new cannabis-related beverages and products.

- In November 2020, the Company announced signing a research agreement with a leading German university for the exclusive development of a proprietary biotechnology process for the industrial manufacture of psilocybin as a certified active pharmaceutical ingredient.

- In November 2020, the Company announced that it had signed an addendum to the Exclusive Dealing Agreement with Dr. Raimar Loebenberg to include a wide range of psychedelic compounds under Loebenberg's recently acquired psychedelic and research licences acquired from Health Canada.

7. Results of Operations

7.1 Year Ended December 31, 2020

During the year ended December 31, 2020, the Company recorded revenues of $345,654 (2019 - $208,119) and a comprehensive loss of $16,826,345 (2019 – 7,680,523).

Operating expenses for the year ended December 31, 2020 increased to $15,317,833 from $7,372,467 for the comparable period due to costs associated with the Company's effort to set up and execute on its business plan covering Canada and Germany and the incremental costs of operating the Vektor business, which was acquired in September 2019. Significant variances in operating expenses for the year ended December 31, 2020 as compared to the prior year include the following:

- Professional fees decreased to $443,206 in fiscal year 2020 from $600,642 in fiscal year 2019. For fiscal year 2019, a significant portion of the professional fees incurred related to the German-based legal counsel, for fees associated with the Vektor acquisition. As the acquisition was treated as a business combination as opposed to an asset acquisition, these legal fees are expensed as incurred.
- Consulting fees increased from $1,063,723 in fiscal year 2019 to $1,844,724 in fiscal year 2020. The Company engaged additional consulting services as it became publicly listed in August 2019 and expanded its operating activities. Of the $1,844,724 for consulting fees, 714,600 of the consulting fees were paid in the form of share compensation and thus non-cash. 240,000 shares with a fair value of $555,600 was paid per the European consultancy agreement with its Global Cannabis expert and 50,000 shares with a fair value of $159,000 was paid to 3a diagnostics GmbH per the development, technology purchase and licence agreement. Salaries and benefits decreased to $740,169 in fiscal year 2020 from $920,244 in fiscal year 2019. This is mainly due to the managing director of Bunker being terminated in January 2020 and not replaced during the 2020 fiscal year.
- Share-based compensation expense was $2,592,914 for fiscal year 2020, as compared to $1,773,281 for fiscal year 2019. The increase is attributable to the exercise price of the options granted. Options granted in 2019 totalled 2,600,000 at an average exercise price of $1.22 as compared to fiscal 2020 where 2,875,000 options were granted at an exercise price of $2.28.
- Marketing and advertising expense was $4,645,027 for fiscal year 2020, as compared to $924,742 for fiscal year 2019. Marketing and advertising costs in 2019 were limited to the July 2019-December 2019 timeframe as the Company listed on the CSE exchange on July 31, 2019. After the Company became publicly listed, it had initiated various marketing and advertising activities to promote its business. Additionally, the marketing and advertising costs for 2020 included $355,935 in non-cash costs related to warrants issued pursuant to a supply agreement.

- Office and miscellaneous expense increased by $196,443 to $480,842 for fiscal year 2020 as the Company incurred a full year of expense relating to Vektor's operations as opposed to only three months in fiscal year 2019.
- Research and lab fees were $3,241,734 for fiscal year 2020 as compared to $515,819 for fiscal year 2019. The increase is largely due to Vektor's operations being accounted for the full 2020 fiscal year as opposed to only three months in 2019, since the business combination transaction with Vektor closed in September 2019. Additionally, Vektor's drug delivery program has scaled up over the past 12 months.

Finance costs for the year ended December 31, 2020 were $297,077 compared to $105,061 for the year ended December 31, 2019. The increase was largely due to interest on convertible debentures issued in January and December 2020.

7.2 Three Months Ended December 31, 2020

During the three months ended December 31, 2020, the Company recorded a comprehensive loss of $2,816,440, as compared to a comprehensive loss of $2,202,694 for the three months ended December 31, 2019.

Operating expenses for the three months ended December 31, 2020 increased to $2,937,934 from $1,975,606 for the comparative three months period in 2019 due to the Company's effort to set up and execute on its business plan covering Canada and Germany. In particular, research and lab fees increased to $891,624 as compared to $292,015 in the 4th quarter of 2019, as the Company entered into several research projects and ramped up its research efforts. Consulting fees increased to $420,890 from $275,975 due to additional resources being utilized to further the business. Share-based compensation increased to $513,995 from $142,369 for the comparative period as the Company issued stock options as compensation to its consultants and a director during the three months ended December 31, 2020.

8. SUMMARY OF QUARTERLY RESULTS

The following selected financial information is a summary of the eight most recently completed quarters up to December 31, 2020:

	Dec 31, 2020 $	Sept 30, 2020 $	June 30, 2020 $	Mar 31, 2020 $
Total revenue	77,330	84,622	(76,813)	260,515
Comprehensive loss	(2,816,440)	(6,838,896)	(3,640,227)	(3,530,782)
Basic and diluted loss per share	(0.05)	(0.11)	(0.06)	(0.07)

	Dec 31, 2019 $	Sept 30, 2019 $	June 30, 2019 $	Mar 31, 2019 $
Total revenue	163,047	45,072	–	–
Comprehensive loss	(2,202,694)	(3,731,418)	(869,626)	(876,785)
Basic and diluted loss per share	(0.05)	(0.08)	(0.02)	(0.02)

In terms of comparative and trend discussion from quarter to quarter, the Company's operations are still in their early stages, and the Company is continuing to grow in both Canada and Germany. As a result, large variances from quarter to quarter may occur. Below are a few highlights discussing the comparable quarterly results.

Total comprehensive loss for the quarter ended December 31, 2020 was $2,816,440 as compared to $6,838,896 for the quarter ended September 30, 2020. Higher loss for the quarter ended September 30, 2020 was mainly due to impairment of goodwill and intangibles and issuance of stock options, as described below. In addition, marketing and advertising expense was higher in the quarter ended September 30, 2020 due to the Company's initiatives with respect to digital marketing.

The comprehensive loss for the quarter ended September 30, 2020 increased to $6,838,896 as compared to the previous quarter loss of $3,640,227 largely due to the goodwill and intangible asset write downs taken in the third quarter in the amount of $1,958,219 as a result of its annual impairment analysis. Additionally, during the three months ended September 30, 2020, the Company granted 1,175,000 stock options to certain consultants of the Company exercisable for a period of one year at a price ranging from $2.50 to $3.00 per common share. Share-based payment expense for the three months ended September 30, 2020 was $1,118,074 as compared to $74,497 for the quarter ended June 30, 2020.

The comprehensive loss for the quarter ended March 31, 2020 increased to $3,530,782 from the previous quarter loss of $2,202,694 largely due to an increase in the share-based compensation expense quarter over quarter. During the three months ended March 31, 2020, the Company granted 1,200,000 stock options to certain directors, officers, and consultants of the Company exercisable for a period from six months to two years at a price ranging from $1.70 to $2.50 per common share. Share-based payment expense for the three months ended March 31, 2020 was $886,348 as compared to $142,369 for the quarter ended December 31, 2019. Additionally, the Company continued with several marketing programs and for the three months ended March 31, 2020 the expense was $1,510,960 as compared to $417,416 for the prior quarter, of which $355,935 was a non-cash charge related to warrants issued pursuant to a supply agreement.

The comprehensive loss for the quarter ended December 31, 2019 decreased to $2,202,694 as compared to the previous quarter loss of $3,731,418 largely due to a reduction in the share-based compensation expense quarter over quarter. As the Company went public in the third quarter of 2019, the Company granted 2,500,000 stock options to certain directors, officers, and consultants of the Company at an exercise price of $1.25 per share with varying vesting and expiry dates. Share-based payment expense for the three months ended September 30, 2019 was $1,501,801 as compared to $142,369 for the quarter ended December 31, 2019.

The comprehensive loss for the quarter ended September 30, 2019 increased from $3,731,418 as compared to the previous quarter loss of $869,626 largely due to an increase in the share-based compensation expense and marketing expenses quarter over quarter. As the Company went public during the third quarter of 2019, the Company granted 2,500,000 stock options to certain directors, officers, and consultants of the Company at an exercise price of $1.25 per share with varying vesting and expiry dates. Share-based payment expense for the three months ended September 30, 2019 was $1,501,801 as compared to $70,267 for the three months ended June 30, 2019. Marketing and advertising costs for the quarter ended September 30, 2019 were $507,326 compared to $nil for the quarter ended June 30, 2019.

9. LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital include the issuance of equity, exercise of common share warrants and stock options by their holders, and debt financing. The Company had a working capital of $1,563,741, which included cash of $2,584,943, at December 31, 2020 compared to a working capital deficit of $666,856, which included cash of $295,014, at December 31, 2019.

Cash increased by $2,289,929 to $2,584,943 during the year ended December 31, 2020. The Company's operations consumed $10,204,937 of cash during fiscal year 2020, as compared to $3,690,289 during fiscal year 2019. From fiscal year 2019 to 2020, the Company had continued to increase its scale of operating activities, which resulted in increased cash expenditures. Investing activities consumed $156,472 of cash during fiscal year 2020, as compared to $462,280 during fiscal year 2019. Cash used in investing activities in 2019 was largely attributable to the Vektor business acquisition, net of cash acquired, of $342,972.

Financing activities provided a cash inflow of $12,650,766 in fiscal year 2020, as compared to $2,079,060 in fiscal year 2019. During fiscal year 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. The Company also issued 1,050,000 common shares for proceeds of $1,730,000 in connection with the exercise of 1,050,000 options. In addition, the company raised $4,629,706 of net cash from the issuance of convertible debentures during fiscal year 2020.

The Company has forecasted its cash requirements for the next fiscal year and believes it will have sufficient cash resources and liquidity to sustain its current planned activities. This assessment is based on the Company's budget, its available cash and future planned financing activities. Future planned activities related to the Bunker and Vektor operations will require the Company to raise additional capital, which the Company plans to do. For the foreseeable future, the Company intends to finance its operations through the issuance of shares and debentures, and cash from the exercise of warrants and options by their holders.

10. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

11. Proposed Transactions

The Company does not have any proposed transactions as at December 31, 2020 other than as disclosed elsewhere in this document.

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 $
Compensation – Hugh Rogers, CEO & Director	180,000	180,000
Compensation – Christopher Ross, CFO	150,000	150,000
Compensation – Wolfgang Probst, Director	183,508	178,197
Compensation – Robert Barth, Former Managing Director, Bunker	15,292	178,197
Compensation – Thomas Beckert, Managing Director, Vektor	247,735	70,165
Compensation – Per S. Thoresen, Director	13,323	–
Research and lab fees – Dr. Raimar Löbenberg, Director	60,000	60,000
Consulting fees (shares) – Thomas Beckert, Managing Director, Vektor	–	48,000
Share-based payments (1) – Hugh Rogers, CEO & Director	29,735	294,450
Share-based payments (1) – Christopher Ross, CFO	16,011	241,670
Share-based payments (1) – Wolfgang Probst, Director	–	180,094
Share-based payments (1) – Robert Barth, Managing Director, Bunker	–	180,094
Share-based payments (1) – Per S. Thoresen, Director	289,810	–

(1) Share-based payments are the fair value of options granted to key management personnel and directors of the Company under the Company's Stock Option Plan.

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.

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 (see Note 9 of the Company's audited consolidated financial statements for the year ended December 31, 2020). This unsecured convertible debenture was repaid in September 2020.

All related transactions are in the normal course of business and are measured at the exchange amount.

13. Outlook

The Company, through its wholly owned subsidiaries and exclusive development and commercialization agreements, is developing a therapeutic film drug delivery, pathogen screening test, and medical cannabis distribution business in Germany and an analytical testing, cannabis extraction and cannabis and psychedelic drug formulation business for in Canada.

Vektor – Drug Delivery and Oral Screening Test Development

In Q3 2019, XPhyto acquired 100% of Vektor, a German-based narcotics company focused on the research, development and production of therapeutic films for pharmaceutical applications. The company had established itself as an expert in the design, testing and manufacturing of thin film drug delivery systems, including transdermal patches and sub-lingual (oral) strips. Vektor also holds a number of valid narcotics licences pursuant to EU GMP certification and other governing regulations: Import Permit for drug dosage forms; Import Permit for cannabis; Manufacturing Permit for clinical samples; Manufacturing Permit for final drug product release; Analytical Permit for chemical and physical testing; Permit to handle narcotic drugs; and a Permit to handle animal tissue. Vektor's various narcotics licences include authorizations related to conventional and cannabis-related prescription medications, including but not limited to: Buprenorphine, cannabis, Dronabinol, Fentanyl, Hydromorphone, Oxycodone, and THC. Vektor's cannabis licences and EU GMP facility may be important assets for XPhyto's import and distribution businesses.

Vektor's managing director is a licensed German pharmacist with a doctorate degree in pharmacy and the following regulated qualifications in Germany: Qualified Person (QP), Production Manager (AMG), Control Manager (AMG), Narcotics Officer (BtMG and EU-QPPV), EU Qualified Person (QP) for Phrmacovigilance, and RP (GDP and Information Officer).

The current drug delivery programs are focused on precision dosing of conventional narcotics and cannabis-derived compounds using Vektor's novel thin film drug delivery platforms. The three leading drug delivery programs are as follows: 1) a transdermal patch for the delivery of Rotigotine; 2) an oral dissolvable film ("ODF") for the delivery of CBD; and an ODF for the delivery of THC. Additional drug delivery programs are underway at various stages of planning and development.

Rotigotine is a non-ergoline dopamine agonist approved for the treatment of Parkinson's disease (PD) and restless legs syndrome (RLS) in Europe and the United States. Rotigotine, the active pharmaceutical ingredient, is a generic "off-patent" drug that is typically formulated as a once-daily transdermal patch which provides a slow and constant supply of the drug over the course of 24 hours. Vektor has completed formulation and process implementation for the manufacture of its Rotigotine patches for use in clinical studies. Clinical sample manufacturing and analytical work was completed in Q4 2020 with human bioavailability studies completed in Q1 2021. Results from the pilot study are expected to be announced in Q2 2021.

CBD, a non-psychoactive cannabis-derived compound, is prescribed for neurological conditions, including certain forms of Epilepsy and pain management. Vektor has completed the initial stage of product development and established a number of critical parameters necessary for an efficient and well-defined dissolvable oral CBD dosage form. The Company is finalizing the formulation and preparing for European-based clinical studies in Q2 2021.

THC, the primary psychoactive cannabinoid compound has been approved for the treatment of nausea associated with cancer chemotherapy and for the treatment of anorexia associated with weight loss in AIDS patients. Vektor has completed the initial stage of product development and established a number of critical parameters necessary for an efficient and well-defined dissolvable oral THC dosage form. The Company is finalizing the formulation and preparing for European-based clinical studies in Q3 2021.

Vektor is also developing a one-to-one oral dissolvable CBD:THC dosage form for the treatment of Multiple Sclerosis associated spasticity. The Company is finalizing the formulation and preparing for European-based clinical studies in Q4 2021.

Vektor is actively involved in the development of pathogen screening tests which incorporate 3a's peptide biosensors into Vektor's oral dissolvable drug delivery system. 3a has developed peptide-based biosensor screening tests for bacterial and viral infectious diseases, including influenza A, scarlet fever, stomatitis, periimplantitis, and periodontitis. Additional pandemic-focused biosensors are in planning and development, specifically for COVID-19 (coronavirus), H1N1 (swine flu), and H5N1 (avian flu). Positive detection of the respective pathogen results in enzymatic release of an extreme (but safe) bitter compound. 3a has confirmed successful enzyme activation of its peptide biosensor when delivered using Vektor's platform; in addition, ODF embedded biosensor activation has been demonstrated for biologically relevant levels of pathogen specific enzymes. Screening test evaluation for the purpose of EU regulatory approval is planned for Q2 and Q3 2021. In Q3 2020, Vektor signed a research agreement with a leading German university for the exclusive development of a proprietary biotechnology process for the industrial manufacture of psilocybin as a certified active pharmaceutical ingredient ("API"). The biotechnology production development program commenced in October 2020 with completion planned in September 2021.

In Q1 2021, the Company announced that Vektor had been made subject to a declaratory action made by a former client and current competitor in relation to alleged breach of the terms of a development agreement. Vektor has filed a notice of defence in the respective German court. On April 22, 2021, the Company filed a statement of defence in reply to the complaint. The matter is set to be heard in July 2021 in the Regional Court of Dusseldorf.

3a – Infectious Disease Screening Tests

In April 2020, the Company signed a development, technology purchase and licence agreement with 3a-Diagnostics GmbH ("3a") for the development and commercialization of an oral screening test for the detection of infectious diseases. The Company has committed to fund EUR 250,000 in stages through to October 2020 and up to an additional EUR 1,073,000 based on certain development milestones. The Company will also issue 50,000 common shares on signing, 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 a 5% royalty on net sales of all products sold by the Company. Since signing the agreement, the Company has commenced adaption of Vektor's oral dissolvable film to deliver 3a's peptide biosensors, starting with 3a's existing products.

As described above, 3a has developed peptide-based biosensor screening tests for bacterial and viral infectious diseases, including influenza A, scarlet fever, stomatitis, periimplantitis, and periodontitis. Additional pandemic-focused biosensors are in planning and development, specifically for COVID-19 (coronavirus), H1N1 (swine flu), and H5N1 (avian flu). On June 10, 2020, XPhyto announced that 3a and their contract research collaborators received a €254,200 grant from the German Federal Ministry of Education and Research ("BMBF"). Proceeds of the grant are committed to the development and commercialization of enzyme activated biosensors for use in real-time, low-cost and easy-to-use oral screening tests for the detection of influenza A virus and specific variants that are high-risk pandemic threats such as H1N1 and H5N1.

3a is also developing a rapid COVID-19 PCR diagnostic test kit and an ultra-rapid, disposable, point-of-care lateral flow screening test ("LFA") to detect COVID-19 viral RNA from patient saliva and nasal and throat swabs. On March 18, 2021, the Company announced European CE-IVD approval for the commercial sale of the COVID-19 PCR kit. The Company is working to secure production and distribution agreements for commercial launch Q2 2021. On April 21, 2021 the Company announced that it had entered into an agreement with an established German pharmaceutical wholesaler and service provider for the distribution, storage and logistics of XPhyto's diagnostic products in Germany. The Company has also announced successful validation of a working prototypes of the COVID-19 LFA and is targeting Q2 2021 for European commercial approval. 3a's enhanced RNA probe system is employed in both test products. 3a's COVID-19 enhanced probe system and associated technology has been incorporated into the development, technology purchase and licence agreement, announced July 6, 2020.

As part of its commitment to further its infectious disease initiatives, the Company has announced the addition of Prof. Dr. Wolfgang Eisenreich to its team via an exclusive infectious disease advisory agreement. Prof. Dr. Eisenreich leads a research group at the Department of Chemistry, Technical University of Munich and the Central NMR Analytics Facility at Garching. He is a world-renowned expert in pathogen-host cell interactions.

Supply, Import, and Distribution

In January 2020, the Company announced that it had signed a three-year definitive supply, import and distribution agreement with PharmaCielo Ltd. ("PharmaCielo") Pursuant to the Agreement and subject to all necessary regulatory approvals, XPhyto plans to commence the commercial import of cannabis oils and isolates with a three year minimum sales target of approximately 30,000 kg for a full range of extracted products including 99% pure CBD and THC isolates, broad spectrum CBD oils, and full spectrum THC oils. All imported products must be EU GMP approved prior to receiving a German import licence for each individual product. The Company will work with PharmaCielo to expedite EU GMP approval once they have received local GMP approval in Colombia. Import and commercial sales of extracts in Germany are expected to commence in Q4 2021.

In preparation for import and commercial sales in Germany the Company has worked with PharmaCielo to identify specific products for the Germany market, engaged in the design of expanded vault capacity for storage of imported extracts, planned its import permitting strategy, and engaged with narcotics wholesalers and distributors.

University of Alberta, Faculty of Pharmacy and Pharmaceutical Sciences

XPhyto Laboratories Corp., a wholly owned Alberta subsidiary, is focused on development of an analytical testing and extract manufacturing business in collaboration with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta. Analytical testing, manufacturing, formulation and clinical studies may be carried out pursuant to an exclusive agreement with Dr. Raimar Loebenberg in respect of the use of his Health Canada dealer's licence. Analytical testing and manufacturing will be carried out in laboratories at the University of Alberta.

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the licence 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 licence.

In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares (the "Consideration Shares"), to a company controlled by Loebenberg with a fair value of

$625,000. The Consideration Shares are subject to voluntary pooling ("Escrow") for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listed for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Escrow. If the licence is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. The eligibility for earning the revenue-based bonus payments expires at the end of the exclusivity period. If the Company generates at least $10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of $200,000. If the Company generates at least $5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of $200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg $1,000,000 per each bonus entitlement.

The initial phase of XPhyto's business development is founded on two strategic cannabis-related collaborations with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta: 1) an exclusive five year agreement to co-develop and operate a commercial grade analytical lab for the testing of cannabis and other plant-based medicines (the "Testing Agreement"); and 2) an exclusive five year product manufacturing agreement to extract cannabis-derived compounds and produce pharmaceutical grade isolates (the "Manufacturing Agreement").

Pursuant to both agreements, XPhyto provided the necessary start-up funding for any testing and manufacturing equipment and equipment and facility upgrades, as well as all ongoing operational expenses and business marketing. The Faculty of Pharmacy shall provide qualified staff, certified laboratory facilities, and ongoing regulatory support. Any necessary testing or manufacturing services not available within the Faculty's facilities shall be outsourced and coordinated by the Faculty.

With respect to analytical testing, the Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences of the University of Alberta. Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the University of Alberta, executed a Commercial Analytical Lab Development and Services Agreement for the co-develop of a commercial grade analytical lab at UoA for the purpose of testing cannabis and other plant-based medicines.

The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

The Company is responsible to fund the development and construction of the analytical testing facility. The Company has paid substantially all expected development costs including equipment, training, and facility upgrades.

On December 7, 2018, the Company and the 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. The equipment has been delivered and is awaiting commissioning. Commissioning has currently been delayed due to the COVID-19 situation as the supplier has an employee travel ban in place.

The purpose of XPhyto's analytical testing agreement is two-fold: 1) to provide third-party testing services to Canadian cannabis cultivators, wholesalers and retailers; and 2) to provide in-house testing for XPhyto's manufacturing business. XPhyto does not intend to cultivate cannabis in Canada nor does it intend to sell cannabis in Canada. Accordingly, XPhyto believes it will be well positioned to provide independent analytical services to both growers and purchasers.

Manufacturing capability, focused on production of pharmaceutical grade isolates and other plant-based medical and nutraceutical compounds, is designed to provide XPhyto with access to materials for use in subsequent phases of its business development, namely formulation and pilot studies. Certified in-house testing combined with its manufacturing capability is expected to help facilitate access to quality product on a consistent and timely basis.

On November 5, 2020, the Company signed an addendum to the Exclusive Dealing Agreement to include a wide range of psychedelic compounds under Loebenberg's recently acquired psychedelic testing and research licences from Health Canada. The Company will pursue psychedelic drug delivery and API production opportunities.

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. The psychedelic work at UoA is focused on the development of pharmaceutical grade EU GMP mescaline.

Subject to the resolution of the COVID-19 situation and the resumption of normal business in Canada, the Company will work towards moving its testing and manufacturing business forward towards operations.

Bunker - Scientific Cultivation & Extraction Licence

XPhyto's wholly owned German subsidiary, Bunker, holds a long-term lease on a decommissioned former military command centre in Bavaria. Built in 1984, the Bunker 88 Facility is a former avionics station and nuclear bunker used by the German Bundeswehr Tornado fighter bomber squadron. The Bunker 88 Facility is located in Memmingerberg, Bavaria, on a historic Luftwaffe air force base that dates back to 1935. In 2004, the airport was released by the German government for civilian use and is now an operating commercial airport, Allgäu Airport (Munich West).

In 2017, Bunker submitted an application to BfArM for a cannabis research and development licence, based on proposed research to be conducted at the Bunker 88 Facility. On July 25, 2018, Bunker submitted a revised joint application for a research and development licence in collaboration with TUM. The majority of proposed work is to be conducted at the Bunker 88 Facility over a period of approximately three years.

On March 29, 2019, Bunker was granted a licence for the cultivation of cannabis for scientific purposes valid until December 31, 2022. A maximum of 960 cannabis plants may be grown per year with a maximum of 480 plants to be grown at one time. The application generally related to "production of high-quality cannabis raw material for medical and pharmaceutical uses". The more specific objective was determination of differential composition and biosynthesis of cannabinoids and related metabolites of cannabis trichomes depending on genetic background of different cultivars and cultivation conditions.

To grow cannabis under the scientific cultivation licence, the Company will be required to invest in additional equipment and facility upgrades which are subject to permit modifications related to the intended change of use of the building, as well as retain the services of a qualified person to operate the facility under the licence. An application for a change of use permit has been submitted to the local authority.

Commercial Cultivation Licence – Bunker

The first German cannabis cultivation tender was initiated by German health authority in 2017 but was cancelled after the proceedings had been successfully challenged in German courts. BfArM announced a second tender in mid-2018 with applications due December 11, 2018. Bunker submitted an application to

BfArM in December 2018 for a cannabis cultivation licence pursuant to the tender process. The specific licences sought were authorizations for handling narcotic drugs from the BOPST pursuant to §3 BtMG and a cultivation specific manufacturing licence from the local authority, RO pursuant to §13 AMG. On April 3, 2019, BfArM advised Bunker that it was not successful in the application process. The Company expects that the German health authority may initiate another commercial cultivation licence tender in the next 12 months and that Bunker may participate in this application process. The criteria related to a potential tender process are unknown at this time.

Scientific Collaborations

In Q3 2019, the Bunker signed two exclusive collaboration agreements with the Technical University of Munich ("TUM"). The first exclusive agreement was signed with the Faculty of Chemistry whereby initial research will focus on the identification and assessment of novel research and development approaches to utilize the cannabis plant and its derivatives, including cannabinoids, terpenes, terpenoids, polyphenols and flavones. Promising targets will be advanced through pilot studies and pending preliminary success, pursued via separate joint research projects on a case-by-case basis for potential commercialization. This agreement is for 12 months and is renewable for an additional 12 months.

The second exclusive agreement was signed with the chair of brewing and beverage technology at TUM, School of Life Sciences Weihenstephan. The initial research will focus on the identification and development of new research approaches targeting potential commercial applications for the use and inclusion of cannabis plants, parts thereof, or derived ingredients, active ingredients and flavours for the production of beverages, food and dietary supplements. Preliminary testing will include analysis of the chemical-physical suitability of the cannabis derived materials for use in various food and beverages. Specific cannabis applications with prospective commercial viability will be pursued via separate joint research projects on a case-by-case basis. This agreement is for 12 months and is renewable for an additional 12 months.

14. Critical Accounting Estimates

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 and 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:

i) Share-based compensation

The 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 for the purpose of impairment testing requires the use of significant 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:

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.

15. 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.

16. 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.

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

The following is a summary of the maturities for the Company's lease liabilities as at December 31, 2020.

	Up to 1 year $	1 year to 2 years $	More than 2 years $
Lease liabilities	146,842	162,176	1,010,975
TOTAL:	146,842	162,176	1,010,975

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.

17. Subsequent Events to December 31, 2020

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 whole 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.

18. Risks and Uncertainties

Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

Negative Operating Cash Flows

As the Company is an early-stage start-up it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

Risks Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

Reliance on Key Personnel and Advisors

The Company relies heavily on its officers and directors. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

Management's Responsibility for the Financial Statements

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

COVID-19

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.

Risk Factors

Market Risk for Securities

We are an issuer company whose common shares are not listed for trading on a stock exchange. There can be no assurance that an active trading market for our common shares will be established and sustained. Upon a listing, the market price for our common shares could be subject to wide fluctuations. Factors such as government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Uninsured or Uninsurable Risk

We may become subject to liability for risks against which we cannot insure or against which we may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for our usual business activities. Payment of liabilities for which we do not carry insurance may have a material adverse effect on our financial position and operations.

Conflicts of Interest Risk

Certain of our directors and officers are also directors in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors' and officers' conflict with or diverge from our interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to our best interests. However, in conflict of interest situations, our directors and officers may owe the same duty to another company and will need to balance their competing interests with duties to us.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to us.

Key Personnel Risk

Our success will depend on our directors and officers to develop our business and manage our operations, and on our ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants once operations begin. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on our business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that we will be able to attract or retain key personnel in the future, which may adversely impact our operations.

No Established Market for Shares Risk

There is currently no established trading market through which common shares in our authorized capital may be sold. Even if a trading market develops, there can be no assurance that such market will continue in the future. You may lose your entire investment.

Dividend Risk
We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain any earnings to finance further growth and, when appropriate, retire debt.

Share Price Volatility Risk

It is anticipated that our common shares will be listed for trading on the Exchange. As such, external factors outside of our control such as announcements of quarterly variations in operating results, revenues and costs, and sentiments toward the cannabis sector stocks may have a significant impact on the market price of our common shares. Global stock markets including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

Nature of the Business Model

Probable lack of business diversification.

Because the Company will be focused on developing its business ancillary to the cannabis industry, and potentially directly in the cannabis industry, the prospects for the Company's success will be dependent upon the future performance and market acceptance of the Company's intended facilities, products, processes, and services. Unlike certain entities that have the resources to develop and explore numerous product lines, operating in multiple industries or multiple areas of a single industry, the Company does not anticipate the ability to immediately diversify or benefit from the possible spreading of risks or offsetting of losses. Again, the prospects for the Company's success may become dependent upon the development or market acceptance of a very limited number of facilities, products, processes or services.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Common Shares may significantly decrease.

There is no assurance that the Company will turn a profit or generate immediate revenues.

There is no assurance as to whether the Company will be profitable, earn revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.

The Company has grown by acquisition. If the Company implements it business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Common Shares.

The Company may be unable to adequately protect its proprietary and intellectual property rights

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;
- another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the

complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some U.S. state jurisdictions or under U.S. federal law, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.

An increase in the number of companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the market.

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's Chief Executive Officer, Chief Financial Officer, and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

There is no assurance that the Company will obtain and retain any relevant licences.

If obtained, any licences are expected to be subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licences or any failure to maintain licences would have a material adverse impact on the business, financial condition and operating results of the Company.

The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.

Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability. The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Stock Option Plan and upon the exercise of outstanding Warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate government regulations. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company will be reliant on information technology systems and may be subject to damaging cyberattacks.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

In certain circumstances, the Company's reputation could be damaged.

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

No guarantee on the use of available funds by the Company.

The Company cannot specify with certainty the particular uses of available funds. Management has broad discretion in the application of its proceeds. Accordingly, a holder of Common Shares will have to rely upon the judgment of management with respect to the use of available funds, with only limited information concerning management's specific intentions. The Company's management may spend a portion or all of the available funds in ways that the Company's shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser's investment. The failure by management to apply these funds effectively could harm the Company's business. Pending use of such funds, the Company might invest the available funds in a manner that does not produce income or that loses value.

Currency Fluctuations.

A significant portion of the Company's German subsidiary expenses are expected to be denominated in

Euros, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the Euro and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

19. Outstanding Share Data

Authorized and issued share capital as at April 27, 2021:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	67,703,579

- As at April 27, 2021, there were 5,195,000 stock options outstanding.
- As at April 27, 2021, there were 13,955,875 warrants outstanding

20. Other Information

Additional information on the Company is available on SEDAR at www.sedar.com.