

TRANSCANNA HOLDINGS INC.

Consolidated Financial Statements

For the years ended November 30, 2020 and November 30, 2019

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TransCanna Holdings Inc.

Opinion

We have audited the consolidated financial statements of TransCanna Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at November 30, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

June 1, 2021



An independent firm
associated with Moore
Global Network Limited

TRANSCANNA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts expressed in Canadian dollars)

	<i>Note</i>	November 30, 2020	November 30, 2019
ASSETS			
CURRENT			
Cash		\$ 1,243,733	\$ 3,119,533
Accounts receivable	7	127,159	375,093
Prepaid expenses		45,922	270,800
Inventory	4	537,257	130,693
Biological assets	5	434,984	144,479
Advances receivable	21	-	196,095
Due from related parties	12	117,978	275,747
TOTAL CURRENT ASSETS		2,507,033	4,512,440
Property, plant and equipment	8	22,257,891	20,912,553
Right-of-use asset	11	973,319	-
Intangible assets	9, 10, 19	733,155	1,276,347
Goodwill	10, 19	-	6,068,526
TOTAL ASSETS		\$ 26,471,398	\$ 32,769,866
LIABILITIES AND EQUITY (DEFICIENCY)			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	6	\$ 3,259,548	\$ 2,220,282
Current portion of lease liabilities	11	193,763	-
Current portion of loans payable	20	578,774	4,884,988
Due to related parties	17	284,066	-
TOTAL CURRENT LIABILITIES		4,316,151	7,105,270
Long-term portion of lease liabilities	11	816,419	-
Long-term portion of loans payable	20	12,000,367	8,734,763
Deferred income tax liability	24	-	303,876
TOTAL LIABILITIES		17,132,937	16,143,909
EQUITY (DEFICIENCY)			
Share capital	13	46,545,058	38,465,541
Reserves	14, 15	7,596,616	6,411,036
Deficit		(45,262,470)	(28,132,613)
Accumulated other comprehensive income (loss)		459,257	(118,007)
TOTAL EQUITY (DEFICIENCY)		9,338,461	16,625,957
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		\$ 26,471,398	\$ 32,769,866

Operations of the Company and Going Concern (Note 1)

Commitments and contingencies (Note 22)

Subsequent Events (Note 28)

Approved on behalf of the Board of Directors on June 1, 2021

/s/ Stephanie Wesik

Director

/s/ Bob Blink

Director

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

TRANSCANNA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts expressed in Canadian dollars)

For the year ended	<i>Note</i>	November 30, 2020	November 30, 2019
REVENUES			
Product revenue		\$ 6,266,850	\$ 240,460
Service revenue		690,486	-
Cost of finished cannabis inventory sold		(6,858,002)	(170,965)
GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS		99,334	69,495
Unrealized gain (loss) in fair value of biological assets	5	94,866	70,096
GROSS MARGIN		194,200	139,591
EXPENSES			
Amortization	8, 19	501,747	44,675
Selling, general and administrative expenses	18	10,030,700	13,737,896
TOTAL EXPENSES		(10,532,447)	(13,782,571)
LOSS BEFORE OTHER ITEMS		(10,338,247)	(13,642,980)
Abandoned acquisitions	17	-	(788,541)
Accretion expense	20	(659,272)	(38,652)
Gain on debt modification	20	1,091,942	-
Interest expense	11, 20	(1,103,030)	-
Impairment - Accounts receivable		-	(77,896)
Impairment - Intangible asset	19	(241,239)	-
Impairment - Investment	16	-	(332,225)
Impairment - Goodwill	19	(6,198,979)	-
Recovery (impairment) - Property, plant, and equipment	8	1,432,132	(10,833,224)
Foreign exchange		(910,863)	(67,231)
Loss from settlement of accounts payable	13	(445,175)	-
Loss from legal settlement	22	(67,535)	-
NET LOSS FOR THE YEAR BEFORE INCOME TAX		(17,440,266)	(25,780,749)
Income tax recovery	24	310,409	-
NET LOSS		(17,129,857)	(25,780,749)
OTHER COMPREHENSIVE INCOME (LOSS) (Items that may be subsequently reclassified to profit and loss)			
Foreign currency translation		577,264	(114,481)
COMPREHENSIVE LOSS FOR THE YEAR		\$ (16,552,593)	\$ (25,895,230)
Loss per share			
Basic and diluted		\$ (0.39)	\$ (0.92)
Weighted average number of shares outstanding, basic and diluted		43,763,994	27,885,825

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

TRANSCANNA HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
(Amounts expressed in Canadian dollars)

	Number of common shares	Share Capital	Reserves	Obligation to Issue Shares	Accumulated Other Comprehensive Income	Deficit	Total equity (deficiency)
Balance at November 30, 2018	12,164,973	1,803,241	280,951	18,750	(3,526)	(2,351,864)	(252,448)
Shares issued for cash	14,400,350	28,201,750	-	-	-	-	28,201,750
Share issuance costs - cash	-	(1,713,887)	-	-	-	-	(1,713,887)
Share issuance costs - broker units	722,566	-	-	-	-	-	-
Share issuance costs - broker warrants	-	(3,247,732)	3,247,732	-	-	-	-
Shares issued upon exercise of warrants	3,834,600	3,722,710	(64,110)	-	-	-	3,658,600
Shares issued upon exercise of options	325,000	264,412	(101,912)	-	-	-	162,500
Shares for services	2,907,281	6,795,141	-	(18,750)	-	-	6,776,391
Shares for settlement of debt	56,266	110,000	-	-	-	-	110,000
Shares for loan extension	500,000	305,000	-	-	-	-	305,000
Warrants for services	-	-	2,201,216	-	-	-	2,201,216
Acquisition of Tres Ojos Naturals, LLC (Note 9)	810,000	617,867	-	-	-	-	617,867
Acquisition of Lyfted Farms Inc. (Note 10)	2,660,750	1,607,039	-	-	-	-	1,607,039
Share-based compensation	-	-	847,159	-	-	-	847,159
Foreign currency translation adjustments	-	-	-	-	(114,481)	-	(114,481)
Loss for the year	-	-	-	-	-	(25,780,749)	(25,780,749)
Balance at November 30, 2019	38,381,786	38,465,541	6,411,036	-	(118,007)	(28,132,613)	16,625,957
Shares issued for cash	5,438,000	2,810,900	-	-	-	-	2,810,900
Share issuance costs - cash refund	-	4,755	-	-	-	-	4,755
Share issuance costs - broker units	63,040	-	-	-	-	-	-
Shares issued upon exercise of warrants	1,908,750	2,121,279	(212,529)	-	-	-	1,908,750
Shares issued upon exercise of options	625,000	785,420	(296,920)	-	-	-	488,500
Shares for settlement of debt	1,800,504	2,255,806	-	-	-	-	2,255,806
Shares for services	400,000	376,000	-	-	-	-	376,000
Cancellation of shares	(750,000)	(274,643)	-	-	-	-	(274,643)
Warrants issued for cash	-	-	238,750	-	-	-	238,750
Share-based compensation	-	-	1,456,279	-	-	-	1,456,279
Foreign currency translation adjustments	-	-	-	-	577,264	-	577,264
Net loss for the year	-	-	-	-	-	(17,129,857)	(17,129,857)
Balance at November 30, 2020	47,867,080	46,545,058	7,596,616	-	459,257	(45,262,470)	9,338,461

The accompanying notes are an integral part of the consolidated financial statements

TRANSCANNA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts expressed in Canadian dollars)

For the year ended	November 30, 2020	November 30, 2019
OPERATING ACTIVITIES		
Net loss for the year	\$ (17,129,857)	\$ (25,780,749)
Items not affecting cash		
Abandoned acquisitions	-	243,465
Accretion	659,272	38,652
Acquisition costs	-	1,118,864
Amortization	501,747	44,675
Change in fair value of biological assets	(94,866)	(69,495)
Gain on debt modification	(1,091,942)	-
Impairment - Intangible asset	241,239	-
Impairment - Inventory	172,950	-
Impairment - Goodwill	6,198,979	-
Income tax recovery	(310,409)	-
Interest expense	826,916	24,974
Impairment - Accounts receivable	-	77,896
Impairment - Investment	-	332,225
Recovery (impairment) - Property, plant, and equipment	(1,432,132)	10,833,224
Loss from settlement of accounts payable	445,175	-
Share-based compensation	1,456,279	847,159
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	3,417,836	2,257,975
Accounts receivable	426,557	(451,190)
Biological assets	(95,851)	22,804
Inventory	(456,265)	(241,178)
Prepaid expenses	224,878	39,744
Due to/from related parties	232,358	(260,800)
CASH FLOWS USED IN OPERATING ACTIVITIES	(5,807,136)	(10,921,755)
FINANCING ACTIVITIES		
Payments of lease liabilities	(172,215)	-
Proceeds from issuance of shares	2,810,900	28,201,750
Proceeds from issuance of warrants	238,750	-
Proceeds from exercise of warrants	1,908,750	3,658,600
Proceeds from exercise of options	488,500	162,500
Share issuance costs - cash	4,755	(1,713,887)
Loans payable	(805,136)	(367,125)
CASH FLOWS FROM FINANCING ACTIVITIES	4,474,304	29,941,838
INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(830,058)	(13,970,138)
Acquisition of Tres Ojos Naturals, LLC, net of cash acquired	-	(619,510)
Acquisition of Lyfted Farms Inc., net of cash acquired	-	(717,004)
Advances receivable	173,776	(196,095)
Investment in affiliates	-	(332,225)
Purchase of intangibles	-	(132,890)
CASH FLOWS USED IN INVESTING ACTIVITIES	(656,282)	(15,967,862)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	113,314	(6,998)
Change in cash during the year	(1,875,800)	3,045,223
Cash, beginning of the year	3,119,533	74,310
CASH, END OF THE YEAR	\$ 1,243,733	\$ 3,119,533

Supplemental cash flow information (Note 26)

The accompanying notes are an integral part of the consolidated financial statements

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

1. OPERATIONS OF THE COMPANY AND GOING CONCERN

TransCanna Holdings Inc. (the “Company” or “TransCanna”) was incorporated on October 26, 2017, under the Business Corporations Act (British Columbia). The Company’s principal business activity is the creation of consumer brands, from inception to sales, which includes, but is not limited, to the manufacturing transportation and distribution services in the state of California including cannabis related products.

On January 9, 2019, the Company completed an initial public offering (“IPO”) transaction and private placement. Following the transaction, the Company’s shares were traded on the Canadian Securities Exchange (the “CSE”) under the symbol “TCAN”. The Company’s head office and registered office is located at Suite 928-1030 West Georgia Street, Vancouver, BC V6E 2Y3.

The Company, via its wholly owned subsidiary Lyfted Farms Inc., is licensed to cultivate, distribute, and sell wholesale cannabis products in the state of California. The Company operates in California pursuant to the California Medicinal and Adult-Use Cannabis Regulation and Safety Act. The Company is subject to risks common in the life sciences and consumer products industries including, but not limited to, compliance with government regulations, regulatory approvals, competitive markets, new technological innovations, protection of proprietary technology, dependence on key personnel, uncertainty of market acceptance and the need to obtain additional financing.

The Company’s business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company’s business plans, financial condition and results of operations.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company has incurred losses since its inception and has an accumulated deficit of \$45,262,470 with a working capital deficit deficiency of \$1,809,118 as at November 30, 2020.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

The accompanying consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the years ended November 30, 2020 and 2019.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 1, 2021.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The following are TransCanna's wholly-owned subsidiaries and entities over which the Company has control as of November 30, 2020:

Entity	Location	Purpose	Percentage Held
TransCanna Management Inc. ("TCMI")	California	Management Company	100%
GF Group Inc., ("GFG")	California	Brand Management Company	100%
TCM Distribution Inc. ("TCDM")	California	Distribution Company	100%
Dalvi, LLC ("Dalvi")	California	Holding Company	100%
Tres Ojos Naturals, LLC ("SolDaze")	California	Branding Company	100%
Lyfted Farms Inc. ("Lyfted")	California	Cultivation, Production, and Distribution Facility	100%

Functional and presentation currency

The functional currency of the Company, as determined by management, is the Canadian ("CDN") dollar. The Company's subsidiaries all have the U.S. dollar as their functional currency.

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, at historical cost basis except for biological assets and certain financial instruments, which are measured at fair value as explained in the accounting principles below. Other measurement bases are described in the applicable notes. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Foreign currency translation

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Currency translations

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income or loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income or loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

Foreign operations

The financial results and position of all of the Company's subsidiaries namely TCMI ,GFG, TCDI, Dalvi, SolDaze, and Lyfted, each having the United States dollar as their functional currency, are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of these amounts are recognized in other comprehensive income or loss and recorded in the Company's foreign currency translation reserve in equity.

Critical accounting estimates, judgments and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may 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 the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts, considering factors such as economic and market conditions and the useful lives of assets.

Estimated useful lives and amortization of intangible assets

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any.

Biological assets

Biological assets, consisting of unharvested cannabis plants, are dependent upon estimates of future economic benefits resulting from past events to determine the fair value through an exercise of significant judgment by the Company. In estimating the fair value of its biological assets, the Company uses market observable data to the extent it is available. Biological assets are measured at fair value less costs to sell up to the point of harvest.

With respect to biological assets, where there is no active market for the unharvested produce, determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to estimating the stage of growth of the cannabis plant, selling and other fulfillment costs, average selling prices and expected yields for the plants.

Valuation of inventory

Inventory is measured at the lower of cost or net realizable value, which includes the deemed costs arising from the fair value measurement gains on the transformation of biological assets. These deemed costs are estimated using assumptions that include, but are not limited to, selling and other fulfillment costs, and average selling prices. Any change in these assumptions could negatively impact operational results, the actual realizable value of inventory and future expected gains.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, requires the Company 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 rely on estimates of the Company's 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 could be impacted.

Equity-based payment arrangements

The Company uses the Black-Scholes valuation model to determine the fair value of options and warrants granted to employees and non-employees under share-based payment arrangements, where appropriate. In instances where equity awards have performance or market conditions, the Company utilized the Monte Carlo valuation model to simulate the various outcomes that affect the value of the award. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Control, joint control or level of influence

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities.

Business Combinations and Asset Acquisitions

Determination of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business. The classification can have a significant impact on the accounting on and subsequent to the acquisition date.

Business Combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for by applying the acquisition method. The total consideration transferred in a business combination is the sum of the fair values of assets transferred, liabilities incurred or assumed, and equity interests issued by the acquirer in exchange for control of the acquiree. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS 3 Business Combinations provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when contingent payments are expected to be made and at what amounts, which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration over the fair value of previously held equity interest prior to obtaining control, and the non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill.

Asset Acquisitions

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Goodwill is not recorded as a result of an asset acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash. For the years presented, the Company did not have any cash equivalents.

Inventory

Inventories, consisting of dried cannabis, concentrate products, edible products, work-in-progress products, accessories, and supplies, are measured at the lower of cost or net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest, which becomes the initial deemed cost. Any subsequent direct and indirect post-harvest costs are capitalized to inventories as incurred, including labor related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated average selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for supplies and accessories are valued at the lower of costs and net realizable value, with cost determined using the weighted average cost basis.

Production costs relating to inventory sold represent all costs of inventories recognized as expense in the years, except deemed costs of inventory that arise from the fair value measurement of biological assets transferred to finished harvest inventory. Fair value adjustments on inventory sold represents the deemed costs of inventory sold that arises from the fair value measurement of biological assets, exclusive of any capitalized costs.

Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labor related costs, materials, utilities, facilities costs, quality and testing costs, and production related depreciation and include such capitalized production costs in the fair value measurement of biological assets. Subsequently, such costs are recorded within the line item "direct inventory costs" on the consolidated statements of comprehensive loss in the year that the related product is sold. Agricultural produce consisting of cannabis is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of harvested goods inventories after harvest (deemed cost). Selling and other fulfillment costs includes trimming, packaging and other fulfillment costs.

Gains or losses arising from changes in fair value less costs to sell during the years, exclusive of capitalized production costs, are included in gross profit under fair value adjustments within the results of operations of the related year. Upon harvest, capitalized production costs are transferred to finished harvest and are included in the fair value

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adjustments on inventory sold within the results of operations during the year in which the harvested cannabis is sold and revenue recognized. The Company determines the fair value of biological assets using a specific valuation technique that incorporates interdependent estimates and assumptions including the stage of growth of the cannabis plant, selling and other fulfillment costs, average selling prices, and expected yields for the cannabis plants to determine the weighted average fair value deemed cost per gram.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

	Estimated useful life
Computer hardware	3 years
Furniture and equipment	5 years
Vehicle	5 years
Building	40 years
Land	N/A
Leasehold improvements	Shorter of the life of the lease, or 15 years

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each reporting period and adjusted prospectively if appropriate. Construction in progress is measured at cost and reflects amounts incurred for property or equipment construction or improvements that are not ready for use. Upon completion, construction in progress will be reclassified as building or leasehold improvements depending on the nature of the assets and depreciated over the estimated useful life of the asset.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit and loss in the year the asset is de-recognized.

Leasehold improvements are depreciated over the terms of the leases.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that

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would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangible assets is recognized on a straight-line basis over their estimated useful lives.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit (“CGU”) or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

Impairment of intangible assets and goodwill

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested whenever there is an indication of impairment.

Goodwill and indefinite life intangible assets are tested annually at November 30 for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGU’s for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment.

An impairment loss is recognized for the amount by which the CGU’s carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs’ assets have been determined based on a fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior period. Impairment losses on goodwill are not subsequently reversed.

Share capital

Share capital is presented at the value of the shares issued. Costs related to issuing shares or share options are reported net of tax as a deduction of the proceeds from the issue. Dividends are included under liabilities in the period in which the payment is approved by the Board of Directors.

Transactions with shareholders are disclosed separately in equity.

If the Company reacquires its own equity instruments, the consideration paid, including directly attributable costs net of tax, is recognized as a deduction from equity. The reacquired shares are classified as treasury shares in the treasury share reserve. When the treasury shares are sold or reissued, the amount received is recognized as an increase in equity, and the positive or negative balance from the transaction is reported as a share premium.

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Valuation of equity instruments issued in private placements

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements are determined to be the more easily measurable component and as such are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any is allocated to the attached warrants and is recorded as such.

Leases

Effective December 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, and therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

Accounting policy applicable from December 1, 2019

At the inception of a contract, the Company assess whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the earlier of the end of the useful life or the lease term using either the straight-line or units-of-production method, depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded to the statement of loss if the carrying amount of the ROU asset has been reduced to zero.

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred the Company are classified as finance leases. Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of

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the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

Transition to IFRS 16

The Company previously classified leases as operating, or finance leases based on the Company's assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. The Company did not have any finance leases in the comparative periods.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at December 1, 2019. ROU assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Company has elected to apply the practical expedient to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

An incremental ROU asset and lease liability of \$1,177,713 was recorded as at December 1, 2019, with no net impact on deficit. When measuring the lease liability, the Company discounted lease payments using the incremental borrowing rate of 11.31% at December 1, 2019. See Note 11 for additional information.

Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of its qualifying assets as they are being constructed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Specific borrowings

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, it determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The financing arrangements for a qualifying asset may result in the Company obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, the Company assesses the amount of investment income that will be earned on such funds and deducts such amount from the borrowing costs incurred.

General borrowings

To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, it determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the Company's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets.

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Related party transactions

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

Income taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantially enacted to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the period of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Revenue recognition

In accordance with IFRS 15, Revenue from Contracts with Customers, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. The Company applies the following five-step analysis to determine whether, how much and when revenue is recognized:

(1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; and (5) Recognize revenue when or as the Company satisfies a performance obligation.

Under IFRS 15, product revenue from the sale of cannabis and derivative products is generally recognized at a point in time when control over the goods has been transferred to the customer. Payment is generally due prior to transfer of the goods and is recognized as revenue upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy.

Under IFRS 15, service revenue is recognized when services have been provided, the transaction price is determinable, and collectability is reasonably assured. The Company's service contract terms do not include any provisions for post-delivery service obligations.

Sales taxes

Sales taxes collected from customers are excluded from revenues.

Equity-based payment arrangements

The Company measures all share-based payment arrangements to employees and non-employees at the fair value on the date of the grant. The Company estimates the fair value of each equity-based award using either the current market price of the stock, the Black-Scholes valuation model or the Monte Carlo valuation model. The inputs into the Black-Scholes valuation model, including the expected term of the instrument, expected volatility, risk-free interest rate and dividend rate are determined by reference to the underlying terms of the instrument, and the Company's experience with similar instruments. In instances where the award has performance or market conditions, the Company utilizes the Monte Carlo valuation model to simulate the various outcomes that affect the value of the award. The grant-date fair value of equity-settled share-based payment arrangements is generally recognized as an expense, with a

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corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service conditions at the vesting date.

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new market, scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

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

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

Provisions

A provision is recognized when it becomes probable that a present obligation arising from a past event will require an outflow of resources that can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to settle this obligation. Where a potential obligation resulting from past events exists, but occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in unrecognized commitments and litigation (Note 21). Provisions include provisions for litigation (legal, employee-related) and others (environment).

The more significant or complex litigation cases are reviewed one by one on a regular basis by the Company's legal department with the assistance of outside counsel.

Financial instruments**Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as FVTPL. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVTOCI.

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The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed as incurred. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are recognized in profit or loss.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

Financial assets at amortized cost

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

The following table shows the classification of the Company's financial assets under IFRS 9:

	November 30, 2020
Financial assets	
Cash	FVTPL
Accounts receivable	Amortized cost
Advances receivable	Amortized cost
Due from related parties	Amortized cost
Deposits	Amortized cost

Impairment of financial assets

The Company applies an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in futures years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses taking into considerations historical credit loss experience and financial factors specific to the debtors and general economic conditions.

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Measurements of fair values

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are summarized below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the years included in these financial statements.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A financial liability is defined as any contractual obligation to deliver cash or another financial asset to another entity. The Company classified its financial liabilities as subsequently measured at amortized cost which include accounts payable and accrued liabilities, due to related parties, loans payable and convertible debt. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

	November 30, 2020
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Loans payable	Amortized cost

Future accounting policies not yet adopted*IFRS 3 Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments included the addition of an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business or not.

The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the Company can elect to not account for the acquisition as a business and instead it will account for the acquisition as an asset acquisition.

The Company adopted the amendments for IFRS 3 effective January 1, 2020. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

The following is a brief summary of the new standards issued but not yet effective:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current ("Amendments to IAS 1"). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The

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Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (“Amendments to IAS 37”) amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

4. INVENTORY

Details of the Company’s inventory are shown in the table below:

Raw materials	\$	40,722
Finished goods		89,971
Carrying amount, November 30, 2019	\$	130,693
Raw materials	\$	375,601
Finished goods		161,656
Carrying amount, November 30, 2020	\$	537,257

During the year ended November 30, 2020, inventory expensed to cost of goods sold was \$6,858,002 (2019 - \$170,965) including inventory impairment of \$172,950 (2019 - \$nil).

5. BIOLOGICAL ASSETS

Biological assets consist of actively growing cannabis plants expected to be harvested as agricultural produce. The changes in the carrying amount of the biological assets are shown in the table below:

Carrying amount, November 30, 2018	\$	-
Biological assets acquired		74,383
Changes in fair value less costs to sell due to biological transformation		70,096
Carrying amount, November 30, 2019	\$	144,479
Production costs capitalized		3,068,613
Transferred to inventories upon harvest		(2,872,972)
Changes in fair value less costs to sell due to biological transformation		94,866
Carrying amount, November 30, 2020	\$	434,984

The Company’s biological assets consist of unharvested cannabis plants and are presented at their fair values less costs to sell up to the point of harvest. The valuation of these biological assets is obtained using a specific valuation technique where the inputs are based upon unobservable market data (Level 3 in the fair value hierarchy).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in-process biological assets, the estimated fair value at the point of harvest is adjusted based on the plants’ stage of growth, which is determined by reference to days remaining to harvest over the average growth cycle. The number of weeks in a production cycle is approximately 16 weeks from propagation to harvest.

The Company's estimates are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. These estimates include the following assumptions:

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a. Selling prices per gram were determined by estimating the Company's average selling price for each respective period. The Company's average selling price for the years ended November 30, 2020 was US\$6.89 (2019 – US\$5.70) per gram;

b. The stage of plant growth at which point of harvest is determined. As of November 30, 2020, the biological assets were on average 35% (2019 - 27%) completed;

c. Expected costs to grow were determined by estimating the Company's average cost per gram, which was \$6.38 (2019- \$3.60) per gram and equivalent gram of cannabis sold as of November 30, 2020; and

d. Expected yield per plant varies by strain and is estimated through historical growing. The Company's average dry yield per plant as of November 30, 2020 was 53 grams (2019 - 68 grams) per cannabis plant.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are shown in the table below:

Significant assumptions	Inputs	Impact of 20% change		
Estimated selling price per gram	USD	\$6.89	\$	185,520
Stage of growth		32%	\$	58,582
Expected yield per plant in grams		53 gm	\$	186,392

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	November 30, 2020		November 30, 2019	
Trade payables	\$	2,639,797	\$	1,946,879
Accrued liabilities		619,751		273,403
	\$	3,259,548	\$	2,220,282

7. ACCOUNTS RECEIVABLE

	November 30, 2020		November 30, 2019	
Sales tax receivable	\$	89,564	\$	293,247
Trade receivables		37,595		11,126
Employee advances receivable		-		70,720
	\$	127,159	\$	375,093

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8. PROPERTY, PLANT AND EQUIPMENT

Cost	Computer hardware	Furniture and equipment	Vehicle	Building	Land	Leasehold improvements	TOTAL
Balance, November 30, 2018	\$ 41,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,955
Additions	3,888	14,100	113,572	28,791,366	1,627,977	1,102,324	31,653,227
Property, plant and equipment acquired	4,977	230,909	18,017	-	-	286,012	539,915
Foreign exchange adjustments	-	(2,811)	(10,831)	(22,762)	(8,672)	5,429	(39,647)
Balance, November 30, 2019	\$ 50,820	\$ 242,198	\$ 120,758	\$ 28,768,604	\$ 1,619,305	\$ 1,393,765	\$ 32,195,450
Additions	-	-	-	93,434	-	736,624	830,058
Foreign exchange adjustments	(111)	(762)	(149)	(399,749)	-	-	(400,771)
Carrying amount, November 30, 2020	\$ 50,709	\$ 241,436	\$ 120,609	\$ 28,462,289	\$ 1,619,305	\$ 2,130,389	\$ 32,624,737

Accumulated amortization and impairment	Computer hardware	Furniture and equipment	Vehicle	Building	Land	Leasehold improvements	TOTAL
Balance, November 30, 2018	\$ (6,293)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,293)
Amortization	(15,639)	(85,770)	(22,278)	-	-	(300,450)	(424,137)
Impairment	-	-	-	(10,833,224)	-	-	(10,833,224)
Foreign exchange adjustments	(36)	(2,603)	(139)	(10,192)	-	(6,273)	(19,243)
Balance, November 30, 2019	\$ (21,968)	\$ (88,373)	\$ (22,417)	\$ (10,843,416)	\$ -	\$ (306,723)	\$ (11,282,897)
Impairment reversal	-	-	-	1,432,132	-	-	1,432,132
Amortization	(11,901)	(49,575)	(24,450)	-	-	(276,982)	(362,908)
Foreign exchange adjustments	(52)	(787)	(1,202)	(95,501)	(36,111)	(19,519)	(153,172)
Balance, November 30, 2020	\$ (33,921)	\$ (138,735)	\$ (48,069)	\$ (9,506,785)	\$ (36,111)	\$ (603,224)	\$ (10,366,845)

Net book value, November 30, 2019	\$ 28,852	\$ 153,825	\$ 98,341	\$ 17,925,188	\$ 1,619,305	\$ 1,087,042	\$ 20,912,553
Net book value, November 30, 2020	\$ 16,788	\$ 102,701	\$ 72,540	\$ 18,955,504	\$ 1,583,194	\$ 1,527,165	\$ 22,257,891

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

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During the year ended November 30, 2020, the Company determined there were indicators of impairment reversal in the carrying value of the Modesto facility. As at November 30, 2020 the recoverable amount of the Modesto facility was estimated as fair value less cost of disposal based on using a market value by comparison approach being a level 2 measurement in the fair value hierarchy. Key inputs are acquisition metrics of recent transactions completed on similar assets to those of the Modesto facility. A reversal of impairment charge of \$1,432,132 was recorded in the statement of comprehensive loss. (2019 – impairment of \$10,833,224)

Amortization of computer hardware, vehicle, equipment, and leasehold improvements of \$84,536 is included in “cost of finished cannabis inventory sold” in the consolidated statements of comprehensive loss.

9. ACQUISITION OF TRES OJOS NATURALS, LLC

On September 19, 2019, the Company acquired a 100% interest in SolDaze for \$464,065 in cash and 810,000 common shares of the Company with a fair value of \$617,867. The acquisition aligned with the Company’s strategy to build a diversified offering of branded consumer products in the cannabis industry.

The Company has concluded that the transaction did not qualify as a business combination under IFRS 3, “Business Combinations”, as significant processes were not acquired. The acquisition was therefore accounted for as an asset acquisition. The purchase consideration has been allocated based on the Company’s assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. The purchase price allocation is as follows:

CONSIDERATION	
Cash consideration	\$ 464,065
Common shares issued (315,000 at \$0.90)	283,500
Restricted shares issued (495,000 at \$0.68)	334,367
	<u>\$ 1,081,932</u>
NET ASSETS OF TRES OJOS NATURALS, LLC	
Cash	\$ 43,440
Accounts payable and accrued liabilities	(9,593)
Brand	140,545
Short term loan	(10,422)
Loan - advance from TCAN	(198,885)
Due to officers	(2,016)
	<u>(36,932)</u>
Acquisition costs	1,118,864
	<u>\$ 1,081,932</u>

Pursuant to the terms of the asset purchase agreement, the share consideration is to be released to the acquiree over a period of time with 315,000 shares being provided upon completion of the acquisition with the remainder released in four tranches of 123,750 shares every six months beginning November 15, 2019.

The value of the restricted common shares was estimated using a commonly used option model that estimates the discount related to the lack of marketability of the shares from the contractual restriction.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

10. ACQUISITION OF LYFTED FARMS, INC.

On November 12, 2019, the Company acquired all of the shares of Lyfted for \$723,636 in cash, 2,660,750 common shares of the Company with a fair value of \$1,607,039, and a non-interest bearing short-term note with a fair value of \$4,804,027. The acquisition aligned with the Company's strategy to build out a fully vertically integrated cannabis growth, production, and distribution operation.

The Company has concluded that the transaction qualified as a business combination under IFRS 3, "Business Combinations", as significant processes were acquired in the form of a fully operation cultivation facility along with the requisite inputs in the form of skilled management, a labour force, and the knowledge required to produce outputs. The acquisition was therefore accounted for as a business combination. The purchase consideration has been allocated based on the Company's assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. The purchase price allocation is as follows:

CONSIDERATION	
Closing cash consideration	\$ 723,636
Common shares issued (665,187 at \$0.76)	505,542
Restricted shares issued (1,995,563 at \$0.55)	1,101,497
Unsecured non-interest bearing note (Note 17)	4,804,027
	\$ 7,134,702

The consideration was allocated as follows:

Cash	\$ 6,632
Biological assets	74,383
Inventory	170,437
Property, plant, and equipment	217,662
Licenses	460,495
Brand	557,857
Goodwill	6,068,526
Deposits	10,519
Accounts payable and accrued liabilities	(127,933)
Deferred tax liability	(303,876)
	\$ 7,134,702

Pursuant to the terms of the asset purchase agreement, the share consideration is to be released to the acquiree over a period of time with 665,187 shares being provided upon completion of the acquisition with the remainder released in three tranches of 665,188 shares every three months beginning February 15, 2019.

The value of the restricted common shares was estimated using a commonly used option model that estimates the discount related to the lack of marketability of the shares from the contractual restriction.

The non-interest bearing note with a face value \$5,262,800 was present valued using the discount rate method for a fair value of \$4,804,027. (Note 20)

From the date of acquisition to November 30, 2019, Lyfted contributed \$87,345 in revenue. The amount of losses attributable to the acquisition, from the date of acquisition to November 30, 2019, is \$93,785. The goodwill recognized on the acquisition is primarily attributed to the assembled workforce and the synergies which will contribute to operational efficiencies within the Company.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

11. LEASES

The Company has lease agreements for its cultivation facilities that carry terms of 5 years with an option to renew on expiration.

Amounts recognized in the consolidated statement of financial position related to leases for which the Company is a lessee are presented below:

Set out below are the carrying amounts of the Company's right-of-use assets recognized and the movements during the year ended November 30, 2020.

Right-of-use assets		
Balance, November 30, 2019 and 2018	\$	-
Additions		1,177,713
Foreign exchange adjustments		(1,135)
Carrying amount, November 30, 2020	\$	1,176,578
Accumulated amortization		
Balance, November 30, 2019 and 2018	\$	-
Amortization		(210,508)
Foreign exchange adjustments		7,249
Balance, November 30, 2020	\$	(203,259)
Net book value, November 30, 2019	\$	-
Net book value, November 30, 2020	\$	973,319

Set out below are the carrying amounts of lease liabilities and the movements during the year ended November 30, 2020.

Lease liabilities		
Balance, November 30, 2019 and 2018	\$	-
Additions		1,177,713
Interest expense		125,500
Payments		(297,715)
Foreign exchange adjustments		4,684
Carrying amount, November 30, 2020	\$	1,010,182
Less: Current portion		(193,763)
Long-term portion of lease liability	\$	816,419

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

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12. RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's board of directors and corporate officers and/or companies controlled by those individuals. Remuneration attributed to key management personnel during the years ended November 30, 2020 and November 30, 2019, are summarized in the table below:

	November 30, 2020	November 30, 2019
Salaries, benefits, and management fees	\$ 1,437,686	\$ 1,109,252
Share-based compensation	1,203,341	349,800
	\$ 2,641,027	\$ 1,459,052

As at November 30, 2020, included in accounts payable and accrued liabilities is \$979,214 (2019 - \$582,150) owed to related parties for salaries and benefits with \$117,978 (2018 - \$275,747) receivable for advances for expenses.

During the year ended November 30, 2020, directors and officers participated in the private placements for total subscriptions of \$537,500 (2019 - \$nil).

During the year ended November 30, 2020, the Company settled amounts owing to directors and officers via the issuance of shares in the amount of \$520,000 (2109 - \$nil).

13. SHARE CAPITAL

Authorized: unlimited number of common voting shares without nominal or par value.

During the year ended November 30, 2020, the Company:

- Issued 3,600,000 units as part of a brokered private placement at \$0.50 for gross proceeds of \$1,800,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until May 8, 2022.
- Issued 1,838,000 units as part of a brokered private placement at \$0.55 for gross proceeds of 1,010,900. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until November 18, 2022. As part of the financing, the Company paid finder's fees as follows:
 - 63,040 broker units valued at \$34,672.
- Issued 4,725,000 warrants for proceeds of \$238,750.
- Issued 1,908,750 shares upon the exercise of warrants for proceeds of \$1,908,750.
- Issued 625,000 shares upon the exercise of options for proceeds of \$488,500.
- Issued 600,000 shares with a fair value of \$855,000 for the extinguishment of \$480,000 in outstanding debt and recognized a loss on debt settlement of \$375,000.
- Issued 550,504 shares with a fair value of \$880,806 (US\$500,000) as non-cash consideration for the promissory note owing to its wholly owned subsidiary and recognized a loss on debt settlement of \$231,211.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

For the year ended November 30, 2020

(Amounts expressed in Canadian dollars, unless otherwise indicated)

-
- Issued 650,000 shares with a fair value of \$520,000 for the extinguishment of \$520,000 in outstanding debt to directors and officers of the Company.
 - Issued 400,000 shares for services with a fair value of \$376,000.
 - Returned 500,000 shares to treasury pursuant to a settlement agreement for consideration with a fair value of \$274,643.
 - Returned 250,000 shares to treasury pursuant to a settlement agreement for consideration with a fair value of \$nil.

During the year ended November 30, 2019, the Company:

- Issued 4,400,000 units as part of an initial public offering at \$0.50 for gross proceeds of \$2,200,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020. As part of the offering, the Company paid finder's fees as follows:
 - \$95,107 in cash;
 - 352,000 broker warrants with a fair value of \$51,829 entitling the holder to purchase one additional share for \$0.50 until January 8, 2020; and
 - 308,400 broker units valued at \$132,852 comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020.
 - 308,400 agent warrants valued at \$21,348 entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020
- Issued 8,000,000 units as part of a brokered private placement at \$2.00 for gross proceeds of \$16,000,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$3.00 per share until April 4, 2020. As part of the financing, the Company paid finder's fees as follows:
 - \$744,657 in cash;
 - 351,666 broker units valued at \$703,332;
 - 62,500 broker units valued at \$125,000;
 - 207,083 broker warrants valued at \$224,733 entitling the holder to purchase one additional share at an exercise price of \$3.00 per share until April 4, 2020; and
 - 640,000 broker warrants valued at \$2,548,233 entitling the holder to purchase one additional share at an exercise price of \$2.00 per share until April 4, 2020.
- Issued 2,000,350 units as part of a brokered private placement at \$5.00 for gross proceeds of \$10,001,750. Each unit is comprised of one common share and one half common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$6.00 per share until June 7, 2022. As part of the financing, the Company paid finder's fees as follows:
 - \$874,123 in cash.
 - 140,024 agent warrants valued at \$401,589 entitling the holder to purchase one additional share at an exercise price of \$6.00 per share until June 7, 2022
- Issued 810,000 shares to acquire a 100% interest in Tres Ojos Naturals, LLC with a fair value of \$617,867.
- Issued 2,660,750 shares to acquire a 100% interest in Lyfted Farms, Inc. with a fair value of \$1,607,039.

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

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- Issued 2,907,281 shares for services with a fair value of \$6,795,141.
- Issued 56,266 shares with a fair value of \$110,000 for the extinguishment of \$110,000 in outstanding debt.
- Issued 500,000 shares for a loan extension with a fair value of \$305,000.
- Issued 3,834,600 shares upon the exercise of warrants for proceeds of \$3,658,600.
- Issued 325,000 shares upon the exercise of options for proceeds of \$162,500.

14. STOCK OPTIONS

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares.

A summary of the Company's options activity is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)
Balance, November 30, 2018	-	\$ -	-
Granted	2,729,000	0.82	3.52
Exercised	(325,000)	0.50	-
Expired	(800,000)	0.50	-
Balance, November 30, 2019	1,604,000	\$ 0.50	4.51
Granted	1,578,333	0.92	1.69
Exercised	(625,000)	0.78	-
Forfeited	(310,000)	1.00	-
Balance, November 30, 2020	2,247,333	\$ 1.04	3.12

As of November 30, 2020, outstanding and exercisable options to purchase common shares consisted of the following:

Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life (in years)
January 20, 2022	50,000	50,000	\$ 1.37	1.14
January 20, 2022	169,000	169,000	1.37	1.14
November 6, 2024	875,000	875,000	1.00	3.94
November 6, 2024	200,000	200,000	1.00	3.94
February 18, 2025	553,333	553,333	1.00	4.22
February 18, 2021	200,000	200,000	1.00	0.22
September 10, 2021	200,000	200,000	1.00	0.78
	2,247,333	2,247,333	\$ 1.04	3.12

During the year ended November 30, 2020, the Company recorded share-based compensation of \$1,051,320 (2019 - \$847,160) with respect to 1,578,333 (2019 - 1,781,500) stock options granted. The weighted average fair value of these options was \$0.67 per option and was estimated using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair value are as follows:

TRANSCANNA HOLDINGS INC.

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	November 30, 2020	November 30, 2019
Risk-free interest rate	0.24% - 1.68%	1.53% - 1.94%
Expected life	1 - 5 years	3 - 5 years
Annualized volatility	142.30% - 168.30%	100.56%
Dividend rate	0%	0%
Weighted average fair value per option	\$ 0.67	\$ 0.61

During the year ended November 30, 2020, the Company recorded share-based compensation of \$393,709 (2019 - \$nil) with respect to the vesting of 770,250 (2019 - nil) stock options granted in the prior year.

15. WARRANTS

A summary of the Company's warrant activity is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining life (in years)
Balance, November 30, 2018	2,275,000	\$ 0.84	1.98
Granted	12,247,682	0.88	1.60
Exercised	(4,099,600)	1.00	-
Expired	(750,000)	2.75	-
Balance, November 30, 2019	9,673,082	\$ 2.72	1.23
Granted	10,501,040	0.88	1.60
Exercised	(1,908,750)	1.00	-
Expired	(4,577,050)	2.75	-
Balance, November 30, 2020	13,688,322	\$ 1.54	1.72

As of November 30, 2020, outstanding equity-classified warrants to purchase common shares consisted of the following:

Expiry date	Number of warrants	Exercise price	Weighted average remaining life (in years)
February 21, 2024	1,200,000	\$ 2.60	3.23
April 4, 2022	207,083	\$ 3.00	1.34
April 4, 2022	640,000	\$ 2.00	1.34
June 7, 2022	1,000,175	\$ 6.00	1.52
June 7, 2022	140,024	\$ 6.00	1.52
May 8, 2022	3,172,000	\$ 0.75	1.44
June 25, 2022	428,000	\$ 1.00	1.57
June 25, 2022	5,000,000	\$ 1.00	1.57
November 18, 2022	1,838,000	\$ 0.75	1.97
November 18, 2022	63,040	\$ 0.75	1.97
	13,688,322	\$ 1.54	1.72

During the year ended November 30, 2020, the Company recorded share-based compensation of \$11,250 (2019 - \$nil) with respect to 225,000 warrants with a fair value of \$0.05 per warrant granted to certain employees as performance incentives.

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16. IMPAIRMENT OF INVESTMENT

During the year ended November 30, 2019, the Company subscribed to a financing round by CannamAb, a tech start-up in the early stages of a patent application in the life sciences and biotech sector for 1,200,000 shares for a total investment of \$332,225.

As at year-end, the determined the fair value of its investment based on its net realizable value. Management has been unable see significant progress on the patent and has assessed it unlikely the Company will recover any of its investment. As such, the Company impaired its entire investment in CannamAb.

17. ABANDONED ACQUISITIONS

During the year ended November 30, 2019, the Company signed a Letter of Intent (“LOI”) to acquire GoodFellas Group LLC (“GoodFellas”). The Company would then subsequently enter into a branding agreement wherein they would acquire GoodFellas’ brands as part of their strategy to diversify their revenue streams via brand management. Subsequent to further discussion, the Company chose to not follow through with the brand acquisition after acquiring GoodFellas and as such impaired all outstanding balances.

On October 4, 2019 the company and GoodFellas signed a release and settlement agreement ending the acquisition of GoodFellas by the Company. As part of the release and settlement agreement the two companies have entered into an agency agreement with GoodFellas wherein the Company acquired the Daily brand valued at \$132,890 in lieu of repayment of advances provided. As such, the Company impaired a total of \$457,500 in funds advanced to GoodFellas as working capital advances.

During the year ended November 30, 2019, the Company signed a Letter of Intent (“LOI”) to acquire Pacific Agriculture (“PacAg”) for US\$250,000. The two parties could not reach a mutual agreement and as such the Company terminated the agreement and impaired a total of \$331,041 in funds advanced to PacAg as working capital advances. See contingencies note for further discussion. (Note 22)

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

		November 30, 2020		November 30, 2019
Advertising and promotion		\$ 862,722	\$	4,939,724
Acquisition costs	9	-		1,118,864
Consulting		2,023,583		429,636
Insurance		269,117		110,438
Investor relations		544,704		1,794,696
Legal fees		506,326		557,571
Management fees	12	3,932		647,497
Meals and entertainment		1,550		59,906
Office and miscellaneous		212,249		521,085
Professional fees		81,763		1,187,456
Regulatory and transfer fees		63,488		113,558
Rent and utilities		425,411		301,772
Repairs and maintenance		35,841		51,703
Research and development		-		13,877
Salaries and benefits	12	3,283,178		779,494
Share-based compensation	14, 15	1,456,279		847,160
Excise tax		228,936		-
Travel		31,621		263,459
Total selling, general and administrative expenses		\$ 10,030,700	\$	13,737,896

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19. INTANGIBLE ASSETS AND GOODWILL

Cost	License	Brand	Total intangibles	Goodwill
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ -
Acquisition of Tres Ojos Naturals, LLC (Note 9)	-	140,545	140,545	-
Acquisition of Lyfted Farms, Inc. (Note 10)	460,495	557,857	1,018,352	6,068,526
GF Group - 'Daly' Brand	-	132,890	132,890	-
Foreign exchange adjustments	-	17,148	17,148	-
Balance, November 30, 2019	\$ 460,495	\$ 848,440	\$ 1,308,935	\$ 6,068,526
Foreign exchange adjustments	\$ (7,632)	\$ (55,644)	\$ (63,276)	\$ 130,453
Balance, November 30, 2020	\$ 452,863	\$ 792,796	\$ 1,245,659	\$ 6,198,979
Accumulated amortization and impairment	License	Brand	Total	Goodwill
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ -
Amortization	(5,512)	(27,069)	(32,581)	-
Foreign exchange adjustments	(2)	(5)	(7)	-
Balance, November 30, 2019	\$ (5,514)	\$ (27,074)	\$ (32,588)	\$ -
Amortization	\$ (113,977)	\$ (211,874)	\$ (325,851)	-
Impairment	-	(241,239)	(241,239)	(6,198,979)
Foreign exchange adjustments	(35,007)	122,181	87,174	-
Balance, November 30, 2020	\$ (154,498)	\$ (358,006)	\$ (512,504)	\$ (6,198,979)
Net book value, November 30, 2019	\$ 454,981	\$ 821,366	\$ 1,276,347	\$ 6,068,526
Net book value, November 30, 2020	\$ 298,365	\$ 434,790	\$ 733,155	\$ -

Major brands

The brand valued on the consolidated statement of financial position is the 'Lyfted' brand with a carrying amount of \$298,365.

Impairment

During the year ended November 30, 2020, the Company wrote down a number of brands to reflect their value in use of \$nil due to management's change in strategy.

TRANSCANNA HOLDINGS INC.

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The ‘SolDaze’ brand was recognized upon the acquisition of Tres Ojos Naturals, LLC (Note 9) during the year ended November 30, 2019. The amount represent the sales and growth potential of the brand, was subject to amortization, and was evaluated for impairment annual or more often if events or circumstances indicated the presence of an impairment.

During the year ended November 30, 2020, the Company wrote down the value of the ‘SolDaze’ brand by \$108,349 pursuant to management’s assessment of their long-term strategy and the decision to pivot away from cannabis edibles entirely.

The ‘Daly’ brand was recognized during the year ended November 30, 2019 subject to a pending acquisition of the GoodFellas entity which would provide the Company with additional exposure to the wholesale bulk flower sales segment of the market. The value of the brand represented costs capitalized in the process of performing due diligence for the acquisition.

During the year ended November 30, 2020, the Company wrote down the value of the ‘Daly’ brand by \$132,890 pursuant to management’s assessment of their long-term strategy and the decision to focus on cultivation of Lyfted flower only.

These impairment losses are reported under “Other items” on the consolidated statements of comprehensive loss.

Goodwill from a business combination is allocated to CGUs or groups of CGUs expected to benefit from the business combination. The carrying amounts of goodwill are allocated to the following CGUs:

	November 30, 2020	November 30, 2019
Lyfted	\$ -	\$ 6,068,526

During the year ended November 30, 2020, the Company wrote down goodwill for a total of \$6,198,979 to reflect a number of indications of impairment. The goodwill was reduced to its value in use by discounting future cash flows at a rate of 20%. These impairment losses are reported under “Other items” on the consolidated statements of comprehensive loss.

The impairment test for CGUs to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

Management refers to its strategic plans to determine future cash flows. These strategic plans cover a period of five years. A 10% decrease in expected cash flows under these plans would result in an additional impairment of \$596,372.

For subsequent years, a growth rate of 1.17% is used, in keeping with the expected industry growth rate. A 100-basis-point decrease in the growth rate would result in an impairment reduction of \$192,355.

The rate used to discount future cash flows was estimated at 20%. A 100-basis-point increase in the discount rate would result in an additional impairment of \$62,926.

Amortization

Amortization of intangible assets is included in “cost of finished cannabis inventory sold” in the consolidated statements of comprehensive loss.

20. LOANS PAYABLE

During the year ended November 30, 2019, the Company, through its wholly owned subsidiary, Dalvi, entered into an agreement to purchase a 196,000 square foot facility in Modesto California for US\$15,000,000 (CAD \$20,100,000). The Company paid a US\$250,000 deposit followed by a cash payment of US\$8,000,000 (CAD \$10,700,000). The balance of US\$6,750,000 (CAD \$8,970,075) was financed by a promissory note with an interest

TRANSCANNA HOLDINGS INC.

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rate of 7% per annum and an original maturity date of October 15, 2019 secured against the facility. On October 10, 2019, the Company exercised an option to extend the maturity date of the loan to April 15, 2020 by issuing 500,000 shares valued at \$305,000.

As consideration for the seller's agreement to accept the promissory note, and to provide an additional month extension for closing, the Company agreed to pay the seller US\$200,000 immediately and issue to the seller an aggregate of 500,000 common shares valued at \$ 1,695,000 and 1.2 million share purchase warrants valued at \$ 2,201,215 upon closing of the acquisition. Each warrant will be exercisable to acquire one common share of the Company at an exercise price of \$2.60 per share for a five-year period from the date of issuance, vesting quarterly in equal portions over the initial 12 months of the five-year term commencing on the date of the original extension, being February 21, 2019, notwithstanding the warrants were issued upon closing of the acquisition of the Property. Additionally, the company issued 2,000,000 shares (valued at \$4,740,000) for consulting services related to due diligence on the purchase of the property. (Note 13)

During the year ended November 30, 2020, the Company, through its wholly owned subsidiary, Dalvi, LLC "Dalvi") entered into an Amendment Agreement to further extend the maturity date of the Promissory Note in the amount of US \$6,750,000, previously issued by Dalvi with a maturity date of April 2020 to April 2022. Pursuant to the terms of the Agreement dated January 2, 2020, Dalvi agreed to pay an extension fee of \$176,247 (US\$135,000) as well as, increase the interest rate from 7% to 12% per annum.

During the year ended November 30, 2020, the Company recorded interest expense for \$1,078,812 (2019 - \$392,441 capitalized) and accretion expense of \$302,624 (2019 - \$224,511 capitalized).

	November 30, 2020	November 30, 2019
Balance, beginning	\$ 8,734,763	\$ 388,521
Loans received	-	8,970,075
Interest accrued	1,078,817	3,398
Loan extension fee	(176,247)	(305,000)
Accretion	302,624	82,152
Loans and interest repaid	(628,889)	(391,919)
Foreign exchange adjustments	(219,534)	(12,464)
Balance, ending	\$ 9,091,534	\$ 8,734,763

On November 12, 2019, the Company acquired a 100% interest in Lyfted (Note 10). Pursuant to the terms of the purchase, the Company provided a non-interest-bearing note payable for the amount with a face value \$5,316,000 due June 30, 2020. This was present valued using a 17.5% discount rate for a fair value of \$4,804,027 due to being a below market rate debt instrument. During the year ended November 30, 2019, the Company recognized accretion expense for the amount of \$38,652 (2018 - \$nil).

Under the terms of the debt agreement if the loan was not converted to shares within 3 business days subsequent to June 30, 2020 the loan would be repayable at 15% of the gross revenue received 30 days subsequent to each quarter end. As the debt was not converted this resulted in a change of estimated cash flows and the debt is reported at the carrying value of the estimated future cash flows of all payments at amortized cost using the original discount rate of 17.5%. This resulted in a carrying value of the debt at November 30, 2020 of \$3,487,612 and a gain on debt modification of \$1,091,942.

The gain on debt modification is reported under "Other items" on the consolidated statements of comprehensive loss.

During the year ended November 30, 2020, the Company issued 550,504 shares with a fair value of \$880,806 as a payment of \$649,595 (US\$500,000) against the promissory note.

During the year ended November 30, 2020, the Company recognized accretion expense for the amount of \$468,635 (2019 - \$38,652).

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

	November 30, 2020	November 30, 2019
Balance, beginning	\$ 4,884,988	\$ -
Loans received	-	4,804,027
Loans repaid	(649,595)	-
Accretion	429,544	38,652
Gain on debt modification	(1,091,942)	-
Foreign exchange adjustments	(85,383)	42,309
Carrying amount, November 30, 2020	3,487,612	4,884,988
Less: Current portion	(578,774)	-
Balance, ending	\$ 2,908,838	\$ 4,884,988

21. LICENSE AND ROYALTY AGREEMENT

On November 15, 2017, the Company entered into an Intellectual Property License and Royalty Agreement (the "Royalty Agreement") with Lifestyle Delivery Systems Inc. ("LDS"), a company related by virtue of former common management and a common director, for the non-exclusive rights to utilize LDS's "Track and Trace" software for a period of five years.

LDS was in the process of developing the software, and the Company paid LDS an initial license fee of US\$50,000 (CAD \$63,820) which was reflected as a deposit. On February 20, 2018, the Royalty Agreement was amended to include a payment of 9% of the outstanding shares of the Company prior to the Company's initial public offering ("IPO"). On May 2, 2018, the Company issued 1,028,077 common shares representing 9% of the outstanding shares for a fair value of \$514,039. On June 5, 2018, the Company issued 54,396 common shares to LDS representing 9% of the shares issued since May 2, 2018, for a fair value of \$27,198.

On January 1, 2019, the Company issued 19,781 common shares to LDS representing 9% of the shares issued since June 5, 2018, for a fair value of \$9,891 in fulfillment of the Company's obligations pursuant to the License Agreement.

On July 4, 2019, the Company advanced LDS US\$150,000 (CAD \$196,095) as a short-term advance. The principal amount of the advance accrues interest at a rate of 1% per month, compounded monthly and is payable on demand. The loan was secured against 250,000 shares of the Company and offset by unpaid rents of \$26,546 (US\$20,000) payable by TCDM. Given ongoing discussions with LDS the Company had elected to not accrue any interest on the amount. As at November 30, 2019, the full amount of advance is due and payable.

As LDS was in the process of developing the software and the criteria to capitalize development expenditure under IAS 38 has not been met, the Company has expensed the research and development expense.

During the year ended November 30, 2020, the Company terminated the Royalty Agreement pursuant to a mutual sign and release agreement and wrote off advances receivable of \$200,880 (US\$ 150,000), rents payable of \$26,546 (US\$ 20,000). As consideration for the settlement the Company returned 750,000 shares to treasury. These included the above mentioned 250,000 shares from LDS with a fair value of \$nil and an additional 500,000 shares from a director party to the Royalty Agreement with a fair value of \$274,643 based on the consideration transferred.

22. COMMITMENTS AND CONTINGENCIES*Leases*

During the year ended November 30, 2019, the Company entered into two 5 year lease agreements for cultivation and distribution facilities terminating on November 30, 2024.

The interest expense in the consolidated statements of comprehensive loss as at November 30, 2020 includes an amount of \$125,500 (2019 - \$nil). The Company's total cash payments for its leases were \$297,715 (2019 - \$nil) with principal payments of \$128,223 (2019 - \$nil).

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The total lease commitments are as follows:

2021	\$	286,121
2022		302,187
2023		314,275
2024		326,846
2025 and later		76,384
Total	\$	1,305,813

Maturities

Maturities on borrowings and lease liabilities (on a present value basis) are as follows:

As at November 30, 2020	Borrowings	Lease liabilities	TOTAL
Less than one year	\$ 578,774	\$ 193,763	\$ 772,537
1 to 5 years	12,000,367	816,419	12,816,786
More than 5 years	-	-	-
Total	\$ 12,579,141	\$ 1,010,182	\$ 13,589,323

Contingencies

The Company is involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations and, therefore, the commitment table does not include any provisions for outstanding litigation and potential claims.

On June 29, 2020, the Company executed a general release and settlement agreement with Pacific Agriculture LLC. With no admission of liability the Company agreed to pay consideration to Pacific Agriculture in the amount of \$67,535 (US\$50,000) which was accrued in legal provisions, with the lawsuit filed on November 25, 2019 in the New York State Supreme Court, Nassau County, to be dismissed with prejudice.

23. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The fair value of the Company's receivables, accounts payable and accrued liabilities, loans payable, and amounts due to related parties approximate carrying value, which is the amount recorded on the statements of financial position. The fair value of the Company's cash under the fair value hierarchy are based on level 1 quoted prices in active markets for identical assets and liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's cash and cash equivalents are held with major financial institutions in Canada and USA which management believes the risk of loss to be remote. Receivables consist of tax refunds from the Federal Government of Canada and, in which regular collection occurs. The Company believes its credit risk is equal to the carrying value of this balance.

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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 anticipates and determines the funds required to support normal operation requirements. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 25, in normal circumstances.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities and advances payable.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash balances are held mainly in chequing accounts and therefore are exposed to minimal interest rate risk. Furthermore, the Company is not subject to interest rate risk with its debt as the only interest-bearing debt instrument is at a fixed rate.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated in US dollars.

	November 30, 2020	November 30, 2019
Cash denominated in USD	\$ 493,944	\$ 527,524
Accounts receivable denominated in USD	37,595	81,846
Accounts payable and accrued liabilities denominated in USD	(2,325,013)	(305,350)
Loans denominated in USD	(12,579,141)	(13,619,751)
Total	\$ (14,372,615)	\$ (13,315,731)
Effect of a 10% change in exchange rates	\$ (1,437,262)	\$ (1,331,573)

24. INCOME TAXES

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

	November 30, 2020	November 30, 2019
Loss for the year before income tax	\$ (17,440,266)	\$ (25,780,749)
Statutory income tax rate	27%	27%
Expected income tax (recovery)	(4,709,000)	(6,961,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,546,000	(6,704,000)
Permanent differences	556,000	548,000
Share issue cost	(463,000)	(463,000)
Expiry of non-capital losses	(310,409)	-
Change in unrecognized deductible temporary differences	3,071,000	13,580,000
Total income tax expense (recovery)	\$ (309,409)	\$ -

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The significant components of deferred tax assets that have not been included on the statements of financial position are as follows:

	November 30, 2020	November 30, 2019
Deferred tax assets:		
Property and equipment	\$ 6,000	\$ 12,000
Share issue costs	383,000	370,000
Non-capital losses available for future period	5,580,000	3,899,000
Unrecognized deferred tax assets	(5,969,000)	-
	-	4,281,000
Valuation allowance	-	(4,281,000)
Unrecognized deferred tax assets	-	-
	-	(303,876)
Intangible assets	-	(303,876)
Net deferred tax liability	\$ -	\$ (303,876)

25. CAPITAL MANAGEMENT

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth of the business and finance future expansion while maintaining strong creditor relationships and shareholder return. The Board of Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the year ended November 30, 2020.

26. SUPPLEMENTAL CASH FLOW INFORMATION

	November 30, 2020	November 30, 2019
Cancellation of shares	\$ 274,643	\$ -
Interest expense on lease liabilities	125,500	-
Payments of lease liabilities	128,223	-
Property, plant, and equipment acquisition financed with debt	-	8,346,242
Property, plant, and equipment acquisition financed with shares	-	305,000
Shares for settlement of debt	2,255,806	-
Share issuance costs - broker warrants	-	3,247,732
Share issuance costs - broker units	34,672	-
Shares issued for advisory services for building acquisition	-	4,740,000
Shares issued for building acquisition extension	-	1,695,000
Shares issued for research and development	-	9,891
Shares issued for services	376,000	847,160
Shares issued for the acquisition of Tres Ojos Naturals, LLC	-	617,867
Shares issued for the acquisition of Lyfted Farms, Inc.	-	1,607,039
Warrants issued for advisory services for building acquisition	-	2,201,215

TRANSCANNA HOLDINGS INC.

Notes to the Consolidated Financial Statements

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27. GEOGRAPHIC SEGMENTS

The following non-current assets are located in the following countries:

As at November 30, 2020	Canada	USA	TOTAL
Property, plant, and equipment	\$ 23,445	\$ 22,234,446	\$ 22,257,891
Intangible assets	-	733,155	733,155
Goodwill	-	-	-
Right-of-use asset	-	973,319	973,319
Total	\$ 23,445	\$ 23,940,920	\$ 23,964,365

As at November 30, 2019	Canada	USA	TOTAL
Property, plant, and equipment	\$ 41,542	\$ 20,871,012	\$ 20,912,554
Intangible assets	132,890	1,143,457	1,276,347
Goodwill	-	6,068,526	6,068,526
Right-of-use asset	-	-	-
Total	\$ 174,432	\$ 28,082,995	\$ 28,257,427

The following is revenue earned from external customers:

Year ended November 30, 2020	Canada	USA	TOTAL
Product revenue	\$ -	\$ 6,266,850	\$ 6,266,850
Service revenue	-	690,486	690,486
Total	\$ -	\$ 6,957,336	\$ 6,957,336

Year ended November 30, 2019	Canada	USA	TOTAL
Product revenue	\$ -	\$ 240,460	\$ 240,460

28. SUBSEQUENT EVENTS

Subsequent to the year ended November 30, 2020, the Company received proceeds of \$1,058,300 through the exercise of 544,400 warrants at \$0.75 and 650,000 warrants at \$1.00 respectively. Gross proceeds of \$450,000 were realized through the exercise of 450,000 warrants at \$1.00 per option.

On December 1, 2020, the Company granted 400,000 stock options to directors and officers of the Company. Each option entitles the holder to purchase one share at an exercise price of \$1.00 per share until December 1, 2025.

On December 3, 2020, the Company closed the second tranche of its private placement with the issuance of 1,356,873 Units at \$0.55 per Unit for gross proceeds of \$746,280. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022. As part of the offering, the Company paid finder's fees as follows:

- \$45,543 in cash;
- 77,350 broker warrants with a fair value of \$42,543 entitling the holder to purchase one additional share for \$0.75 until December 3, 2022; and
- 3,200 broker units valued at \$1,760 comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022.

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On January 13, 2021, the Company closed its private placement with the issuance of 3,800,000 warrants at \$0.05 per warrant for gross proceeds of \$190,000.

On January 19, 2021, the Company granted an aggregate of 1,168,333 stock options to directors, employees, and consultants. Each option entitles the holder to purchase one share at an exercise price of \$1.00 per share until January 13, 2023 and January 13, 2026 for 600,000 and 568,333 options respectively.

On February 12, 2021, the Company was reached a settlement agreement with ROK Consulting wherein the consultant would pay the Company the amount of \$100,000 as the settlement amount.

On March 24, 2021, the Company completed a convertible debt financing for total gross proceeds of \$2,512,400 (US\$2,000,000). The convertible debentures bear interest at a rate of 10% per year payable a year after the financing date. The convertible debentures are secured against the Daly building and convertible, at the option of the holder, into common shares of the Company at a price of USD\$0.59 per common share.

On March 31, 2021, the Company closed its private placement with the issuance of 1,578,194 Units at \$1.00 per Unit for gross proceeds of \$1,578,194. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.50 per share until March 21, 2023. As part of the offering, the Company paid finder's fees as follows:

- \$66,000 in cash;
- 42,000 broker units with a fair value of \$42,000 entitling the holder to purchase one additional share for \$1.50 per share until March 21, 2023; and
- 3,200 broker units valued at \$1,760 comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022.

On March 31, 2021, the Company issued 610,388 shares with a fair value of \$634,804 for the extinguishment of debt to certain employees of its wholly owned subsidiary Lyfted.