

TRANSCANNA HOLDINGS INC.

Condensed consolidated Financial Statements

For the period ended February 28, 2021

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

February 28, 2021

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

| | <i>Note</i> | February 28, 2021 | November 30, 2020 |
|--|-------------|--------------------------|--------------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash | | \$ 659,441 | \$ 1,243,733 |
| Accounts receivable | 7 | 229,778 | 127,159 |
| Prepaid expenses | | 150,943 | 45,922 |
| Inventory | 4 | 1,165,610 | 537,257 |
| Biological assets | 5 | 242,106 | 434,984 |
| Due from related parties | 11 | - | 117,978 |
| TOTAL CURRENT ASSETS | | 2,447,878 | 2,507,033 |
| Property, plant and equipment | 8 | 21,752,514 | 22,257,891 |
| Right-of-use asset | 9 | 905,123 | 973,319 |
| Intangible assets | 16 | 655,237 | 733,155 |
| TOTAL ASSETS | | \$ 25,760,752 | \$ 26,471,398 |
| LIABILITIES AND EQUITY (DEFICIENCY) | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 6 | \$ 3,588,708 | \$ 3,259,548 |
| Current portion of lease liability | 9 | 146,304 | 193,763 |
| Current portion of loans payable | 20 | 863,642 | 578,774 |
| Due to related parties | 17 | 340,097 | 284,066 |
| TOTAL CURRENT LIABILITIES | | 4,938,751 | 4,316,151 |
| Long-term portion of lease liability | 11 | 844,342 | 816,419 |
| Long-term portion of loans payable | 20 | 12,065,151 | 12,000,367 |
| TOTAL LIABILITIES | | 17,848,244 | 17,132,937 |
| EQUITY (DEFICIENCY) | | | |
| Share capital | 12 | 48,684,548 | 46,545,058 |
| Reserves | 13, 14 | 8,822,468 | 7,596,616 |
| Subscriptions receivable | 12 | (212,000) | - |
| Deficit | | (50,395,833) | (45,262,470) |
| Accumulated other comprehensive income (loss) | | 1,013,325 | 459,257 |
| TOTAL EQUITY (DEFICIENCY) | | 7,912,508 | 9,338,461 |
| TOTAL LIABILITIES AND EQUITY (DEFICIENCY) | | \$ 25,760,752 | \$ 26,471,398 |

Operations of the Company and Going Concern (Note 1)

Commitments and contingencies (Note 18)

Subsequent Events (Note 21)

Approved on behalf of the Board of Directors on June 3, 2021

/s/ Stephanie Wesik

Director

/s/ Bob Blink

Director

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

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

| For the three months ended | <i>Note</i> | February 28, 2021 | February 29, 2020 |
|---|-------------|--------------------------|--------------------------|
| REVENUES | | | |
| Product revenue | | \$ 591,436 | \$ 436,722 |
| Service revenue | | - | 469,079 |
| Cost of finished cannabis inventory sold | | (410,270) | (404,601) |
| GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS | | 181,166 | 501,200 |
| Realized gain (loss) in fair value of biological assets | 5 | (89,960) | 124,285 |
| Unrealized gain (loss) in fair value of biological assets | 5 | 71,820 | 124,285 |
| GROSS MARGIN | | 163,026 | 749,770 |
| EXPENSES | | | |
| Amortization | 8, 19 | 164,938 | 171,016 |
| Selling, general and administrative expenses | 15 | 3,414,766 | 3,249,884 |
| TOTAL EXPENSES | | (3,579,704) | (3,420,900) |
| LOSS BEFORE OTHER ITEMS | | (3,416,678) | (2,671,130) |
| Accretion expense | 20 | (327,228) | (199,502) |
| Interest expense | 11, 20 | (242,007) | - |
| Foreign exchange | | (1,268,950) | 140,611 |
| Gain (loss) from settlement of accounts payable | 13 | 21,500 | - |
| Gain (loss) from legal settlement | 22 | 100,000 | (67,535) |
| NET LOSS FOR THE YEAR BEFORE INCOME TAX | | (5,133,363) | (2,797,556) |
| OTHER COMPREHENSIVE INCOME (LOSS) (Items that may be subsequently reclassified to profit and loss) | | | |
| Foreign currency translation | | 554,068 | (258,658) |
| COMPREHENSIVE LOSS FOR THE YEAR | | \$ (4,579,295) | \$ (3,056,214) |
| Loss per share | | | |
| Basic and diluted | | \$ (0.10) | \$ (0.07) |
| Weighted average number of shares outstanding, basic and diluted | | 51,293,810 | 40,656,601 |

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

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

| | Number of common shares | Share Capital | Reserves | Subscriptions receivable | Accumulated Other Comprehensive Income | Deficit | Total equity (deficiency) |
|--|----------------------------|-------------------|------------------|-----------------------------|---|---------------------|------------------------------|
| Balance at November 30, 2019 | 38,381,786 | 38,465,541 | 6,411,036 | - | (118,007) | (28,132,613) | 16,625,957 |
| Share issuance costs - cash refund | | 4,755 | - | - | - | - | 4,755 |
| Shares issued upon exercise of warrants | 1,625,750 | 1,786,773 | (161,023) | - | - | - | 1,625,750 |
| Shares issued upon exercise of options | 625,000 | 785,420 | (296,920) | - | - | - | 488,500 |
| Shares for settlement of debt | 850,504 | 1,285,806 | - | - | - | - | 1,285,806 |
| Share-based compensation | - | - | 723,618 | - | - | - | 723,618 |
| Other comprehensive income | - | - | - | - | (258,658) | - | (258,658) |
| Net loss for the period | - | - | - | - | - | (2,921,841) | (2,921,841) |
| Balance at February 29, 2020 | 41,483,040 | 42,328,295 | 6,676,711 | - | (376,665) | (31,054,454) | 17,573,887 |
| Shares issued for cash | 5,438,000 | 2,810,900 | - | - | - | - | 2,810,900 |
| Share issuance costs - broker units | 63,040 | - | - | - | - | - | - |
| Shares issued upon exercise of warrants | 283,000 | 334,506 | (51,506) | - | - | - | 283,000 |
| Shares for settlement of debt | 950,000 | 970,000 | - | - | - | - | 970,000 |
| 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 | - | - | 732,661 | - | - | - | 732,661 |
| Foreign currency translation adjustments | - | - | - | - | 835,922 | - | 835,922 |
| Net loss for the period | - | - | - | - | - | (14,208,016) | (14,208,016) |
| Balance at November 30, 2020 | 47,867,080 | 46,545,058 | 7,596,616 | - | 459,257 | (45,262,470) | 9,338,461 |
| Shares issued for cash | 1,246,873 | 685,780 | - | (132,000) | - | - | 553,780 |
| Share issuance costs - cash | - | (42,542) | - | - | - | - | (42,542) |
| Share issuance costs - broker units | 3,200 | - | - | - | - | - | - |
| Share issuance costs - broker warrants | - | (42,543) | 42,543 | - | - | - | - |
| Shares issued upon exercise of warrants | 1,000,000 | 930,000 | (30,000) | - | - | - | 900,000 |
| Shares issued upon exercise of options | 350,000 | 548,295 | (198,295) | - | - | - | 350,000 |
| Shares for settlement of debt | 110,000 | 60,500 | - | - | - | - | 60,500 |
| Warrants issued for cash | - | - | 190,000 | (80,000) | - | - | 110,000 |
| Share-based compensation | - | - | 1,221,604 | - | - | - | 1,221,604 |
| Other comprehensive income | - | - | - | - | 554,068 | - | 554,068 |
| Net loss for the year | - | - | - | - | - | (5,133,363) | (5,133,363) |
| Balance at February 28, 2021 | 50,577,153 | 48,684,548 | 8,822,468 | (212,000) | 1,013,325 | (50,395,833) | 7,912,508 |

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

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

| For the three months ended | February 28, 2021 | February 29, 2020 |
|--|--------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Net loss for the year before income tax | \$ (5,133,363) | \$ (2,921,841) |
| Items not affecting cash | | |
| Accretion | 327,228 | 199,502 |
| Amortization | 164,938 | 171,016 |
| Change in fair value of biological assets | (71,820) | - |
| Interest expense | 242,007 | 23,250 |
| Share-based compensation | 1,221,604 | 972,187 |
| Changes in non-cash working capital: | | |
| Accounts payable and accrued liabilities | 1,365,136 | (311,403) |
| Accounts receivables | 59,959 | (98,437) |
| Biological assets | (121,058) | (124,285) |
| Inventory | (628,353) | (97,362) |
| Prepaid expenses | (20,009) | 68,733 |
| Legal provision | - | 67,535 |
| Due to/from related parties | 117,978 | - |
| CASH FLOWS USED IN OPERATING ACTIVITIES | (2,475,753) | (2,051,105) |
| FINANCING ACTIVITIES | | |
| Payments of lease liabilities | (43,859) | (38,640) |
| Proceeds from issuance of shares | 553,780 | - |
| Proceeds from issuance of warrants | 110,000 | - |
| Proceeds from exercise of warrants | 1,250,000 | 1,625,750 |
| Proceeds from exercise of options | - | 488,500 |
| Share issuance costs - cash | (42,542) | 4,755 |
| Loans payable | - | (213,183) |
| CASH FLOWS FROM FINANCING ACTIVITIES | 1,827,379 | 1,867,182 |
| INVESTING ACTIVITIES | | |
| Acquisition of property, plant, and equipment | - | (725,446) |
| Advances receivable | - | (4,785) |
| Deposits | - | (16,285) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | - | (746,516) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | 64,082 | (42,355) |
| Change in cash during the year | (584,292) | (972,794) |
| Cash, beginning of the year | 1,243,733 | 3,119,533 |
| CASH, END OF THE YEAR | \$ 659,441 | \$ 2,146,739 |

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

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

For the period ended February 28, 2021

(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 condensed 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 \$50,395,833 with a working capital deficit of \$ 1,809,118 2,490,873 as at February 28, 2021.

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 condensed 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 condensed 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 period ended November 30, 2020 and 2019.

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The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 3, 2021.

Basis of Consolidation

The condensed 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 February 28, 2021:

| 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 condensed 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 condensed 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.

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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 condensed 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 condensed 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

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change in these assumptions could negatively impact operational results, the actual realizable value of inventory and future expected gains.

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.

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.

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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 condensed 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 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 |
| Property, plant, and equipment | 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 have not been placed in service. 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 when placed in service.

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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 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

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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.

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.

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

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fair value of equity-settled share-based payment arrangements is generally recognized as an expense, with a 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 |

4. INVENTORY

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

| | | |
|------------------------------------|----|-----------|
| Raw materials | \$ | 375,601 |
| Finished goods | | 161,656 |
| Carrying amount, November 30, 2019 | \$ | 537,257 |
| Raw materials | \$ | 172,479 |
| Finished goods | | 993,131 |
| Carrying amount, February 28, 2021 | \$ | 1,165,610 |

During the period ended February 28, 2021, inventory expensed to cost of goods sold was \$410,270 (2020 - \$404,601).

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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, 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 | | 94,864 |
| Carrying amount, November 30, 2020 | \$ | 434,984 |
| Production costs capitalized | | 558,313 |
| Transferred to inventories upon harvest | | (823,011) |
| Changes in fair value less costs to sell due to biological transformation | | 71,820 |
| Carrying amount, February 28, 2021 | \$ | 242,106 |

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:

- 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 period ended February 28, 2021 was US\$7.26 (2020 – US\$5.70) per gram;
- The stage of plant growth at which point of harvest is determined. As of February 28, 2021, the biological assets were on average 28% (2020 - 94%) completed;
- Expected costs to grow were determined by estimating the Company's average cost per gram, which was \$4.58 (2020- \$3.90) per gram and equivalent gram of cannabis sold as of February 28, 2021; and
- Expected yield per plant varies by strain and is estimated through historical growing. The Company's average dry yield per plant As of February 28, 2021 was 76 grams (2020 - 71 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:

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| Significant assumptions | Inputs | Impact of 20% change | |
|-----------------------------------|---------------|-----------------------------|------------|
| Estimated selling price per gram | USD | \$7.26 | \$ 96,121 |
| Stage of growth | | 28% | \$ 23,481 |
| Expected yield per plant in grams | | 76 gm | \$ 105,322 |

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 | \$ | 3,584,457 | \$ | 1,946,879 |
| Accrued liabilities | | 4,251 | | 273,403 |
| | \$ | 3,588,708 | \$ | 2,220,282 |

7. ACCOUNTS RECEIVABLE

| | November 30, 2020 | | November 30, 2019 | |
|------------------------------|--------------------------|---------|--------------------------|---------|
| Sales tax receivable | \$ | 63,541 | \$ | 293,247 |
| Trade receivables | | 166,237 | | 11,126 |
| Employee advances receivable | | - | | 70,720 |
| | \$ | 229,778 | \$ | 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 |
| Additions | - | - | - | - | - | - | - |
| Foreign exchange adjustments | (92) | (4,245) | (331) | (306,591) | (29,768) | (28,945) | (369,972) |
| Carrying amount, February 28, 2021 | \$ 50,617 | \$ 237,191 | \$ 120,278 | \$ 28,155,698 | \$ 1,589,537 | \$ 2,101,444 | \$ 32,254,765 |

| 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) |
| Amortization | (4,217) | (11,790) | (6,055) | - | - | (67,188) | (89,250) |
| Foreign exchange adjustments | (32) | (2,510) | (5,397) | - | - | (38,216) | (46,155) |
| Balance, February 28, 2021 | \$ (38,170) | \$ (153,035) | \$ (59,521) | \$ (9,506,785) | \$ (36,111) | \$ (708,628) | \$ (10,502,250) |

| | | | | | | | |
|--|------------------|-------------------|------------------|----------------------|---------------------|---------------------|----------------------|
| Net book value, November 30, 2020 | \$ 16,788 | \$ 102,701 | \$ 72,540 | \$ 18,955,504 | \$ 1,583,194 | \$ 1,527,165 | \$ 22,257,891 |
| Net book value, February 29, 2021 | \$ 12,447 | \$ 84,156 | \$ 60,757 | \$ 18,648,913 | \$ 1,553,426 | \$ 1,392,816 | \$ 21,752,514 |

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During the period ended February 28, 2021, the Company determined there were indicators of recovery 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 condensed consolidated statements of comprehensive loss.

9. 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 condensed 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 period ended February 28, 2021.

| Right-of-use assets | |
|--|-------------------|
| Balance, November 30, 2019 | \$ - |
| Additions | 1,177,713 |
| Foreign exchange adjustments | (1,135) |
| Carrying amount, November 30, 2020 | \$ 1,176,578 |
| Foreign exchange adjustments | (22,123) |
| Carrying amount, November 30, 2020 | \$ 1,154,455 |
| Accumulated amortization | |
| Balance, November 30, 2019 | \$ - |
| Amortization | (210,508) |
| Foreign exchange adjustments | 7,249 |
| Balance, November 30, 2020 | \$ (203,259) |
| Amortization | (6,493) |
| Foreign exchange adjustments | (39,580) |
| Balance, November 30, 2020 | \$ (249,332) |
| Net book value, November 30, 2020 | \$ 973,319 |
| Net book value, February 28, 2021 | \$ 905,123 |

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Set out below are the carrying amounts of lease liabilities and the movements During the period ended February 28, 2021.

| Lease liabilities | |
|--------------------------------------|--------------|
| Balance, November 30, 2019 | \$ - |
| Additions | 1,177,713 |
| Interest expense | \$ 125,500 |
| Payments | \$ (297,715) |
| Foreign exchange adjustments | 4,684 |
| Carrying amount, November 30, 2020 | \$ 1,010,182 |
| Interest expense | \$ 27,569 |
| Payments | \$ (71,428) |
| Foreign exchange adjustments | 24,323 |
| Carrying amount, February 28, 2021 | \$ 990,646 |
| Less: Current portion | \$ (146,304) |
| Long-term portion of lease liability | \$ 1,834,988 |

11. 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 period ended November 30, 2020 and November 30, 2019, are summarized in the table below:

| | February 28, 2021 | February 29, 2020 |
|---|--------------------------|--------------------------|
| Salaries, benefits, and management fees | \$ 114,780 | \$ 202,765 |
| Share-based compensation | 638,076 | - |
| | \$ 752,856 | \$ 202,765 |

As at February 28, 2021, included in accounts payable and accrued liabilities is \$613,635 (2019 - \$275,747) owed to related parties for salaries and benefits with \$113,417 (2018 - \$275,747) receivable for advances for expenses.

During the period ended February 28, 2021, directors and officers participated in the private placements for total subscriptions of \$30,000 (2020 - \$nil).

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12. SHARE CAPITAL

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

During the period ended February 28, 2021, the Company:

- Issued 1,246,873 units as part of a brokered private placement at \$0.55 for gross proceeds of \$685,780. 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 financing, the Company paid finder's fees as follows:
 - 3,200 broker units valued at \$1,760;
 - \$42,542 in cash; and
 - 77,350 broker warrants valued at \$42,543 entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022.
- Issued 3,800,000 warrants for proceeds of \$190,000.
- Issued 1,350,000 shares upon the exercise of 1,000,000 warrants and 350,000 options for proceeds of \$1,250,000.
- Issued 110,000 shares with a fair value of \$60,500 for the extinguishment of \$82,000 in outstanding debt and recognized a gain on debt settlement of \$21,500.

During the period ended February 29, 2020, the Company:

- Issued 1,625,750 shares upon the exercise of warrants for proceeds of \$1,625,750.
- Issued 625,000 shares upon the exercise of options for proceeds of \$488,500.
- Issued 850,504 shares with a fair value of \$904,595 for the extinguishment of \$904,595 in outstanding debt.

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13. 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, 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, 2019 | 2,247,333 | \$ 1.04 | 3.12 |
| Granted | 1,568,333 | 1.00 | 4.86 |
| Exercised | (350,000) | 1.00 | - |
| Balance, February 28, 2021 | 3,465,666 | \$ 1.02 | 3.91 |

As of February 28, 2021, 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 | 0.89 |
| January 20, 2022 | 169,000 | 169,000 | 1.37 | 0.89 |
| November 6, 2024 | 725,000 | 725,000 | 1.00 | 3.69 |
| November 6, 2024 | 200,000 | 200,000 | 1.00 | 3.69 |
| February 18, 2025 | 553,333 | 553,333 | 1.00 | 3.98 |
| September 10, 2021 | 200,000 | 200,000 | 1.00 | 0.53 |
| December 1, 2025 | 400,000 | 400,000 | 1.00 | 4.76 |
| January 19, 2026 | 200,000 | 200,000 | 1.00 | 4.89 |
| January 19, 2026 | 968,333 | 968,333 | 1.00 | 4.89 |
| | 3,465,666 | 3,465,666 | \$ 1.02 | 3.91 |

During the period ended February 28, 2021, the Company recorded share-based compensation of \$1,211,605 with respect to 1,568,333 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:

| | February 28, 2021 |
|--|-------------------|
| Risk-free interest rate | 0.41% - 0.46% |
| Expected life | 5 years |
| Annualized volatility | 133.20% - 152.91% |
| Dividend rate | 0% |
| Weighted average fair value per option | \$ 0.78 |

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14. 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, 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 | \$ 2.72 | 1.23 |
| Granted | 3,800,000 | 1.00 | 1.92 |
| Exercised | (1,000,000) | 0.90 | - |
| Balance, February 28, 2021 | 16,488,322 | \$ 1.46 | 1.59 |

As of February 28, 2021, 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 | 2.98 |
| April 4, 2022 | 207,083 | \$ 3.00 | 1.10 |
| April 4, 2022 | 640,000 | \$ 2.00 | 1.10 |
| June 7, 2022 | 1,000,175 | \$ 6.00 | 1.27 |
| June 7, 2022 | 140,024 | \$ 6.00 | 1.27 |
| May 8, 2022 | 2,772,000 | \$ 0.75 | 1.19 |
| June 25, 2022 | 428,000 | \$ 1.00 | 1.32 |
| June 25, 2022 | 4,050,000 | \$ 1.00 | 1.32 |
| November 18, 2022 | 1,838,000 | \$ 0.75 | 1.72 |
| November 18, 2022 | 63,040 | \$ 0.75 | 1.72 |
| January 29, 2023 | 3,800,000 | \$ 1.00 | 1.92 |
| | 16,138,322 | \$ 1.47 | 1.59 |

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

For the period ended February 28, 2021

(Amounts expressed in Canadian dollars, unless otherwise indicated)

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | | February 28, 2021 | | February 29, 2020 |
|---|-----------|--------------------------|-----------|--------------------------|
| Advertising and promotion | | \$ 41,509 | \$ | 221,552 |
| Consulting | | 85,988 | | 26,344 |
| Insurance | | 272,208 | | 32,947 |
| Investor relations | | 827,470 | | 291,637 |
| Legal fees | | 53,443 | | 228,532 |
| Management fees | <i>12</i> | - | | 94,052 |
| Meals and entertainment | | 21,681 | | 127 |
| Office and miscellaneous | | 11,823 | | 191,045 |
| Professional fees | | - | | 174,930 |
| Regulatory and transfer fees | | 6,903 | | 7,457 |
| Rent and utilities | | 74,582 | | 86,755 |
| Repairs and maintenance | | 3,134 | | - |
| Salaries and benefits | | 711,800 | | 861,494 |
| Share-based compensation | <i>13</i> | 1,221,605 | | 972,188 |
| Excise tax | | 78,383 | | 46,642 |
| Travel | | 4,237 | | 14,182 |
| Total selling, general and administrative expenses | | \$ 3,414,766 | \$ | 3,249,884 |

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

16. 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 |
| Foreign exchange adjustments | \$ (7,208) | \$ (10,346) | \$ - | \$ - |
| Balance, November 30, 2020 | \$ 445,655 | \$ 782,450 | \$ 1,245,659 | \$ 6,198,979 |
| Accumulated amortization and impairment | License | Brand | Total | Goodwill |
| Balance, November 30, 2018 and 2017 | \$ - | \$ - | \$ - | \$ - |
| 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) |
| Amortization | (39,199) | (28,494) | (67,693) | - |
| Foreign exchange adjustments | (6,556) | (3,669) | (10,225) | - |
| Balance, November 30, 2020 | \$ (200,253) | \$ (390,169) | \$ (590,422) | \$ (6,198,979) |
| Net book value, November 30, 2020 | \$ 298,365 | \$ 434,790 | \$ 733,155 | \$ - |
| Net book value, February 28, 2021 | \$ 245,402 | \$ 392,281 | \$ 655,237 | \$ - |

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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:

| | February 28, 2021 | February 29, 2020 |
|--------|-------------------|-------------------|
| Lyfted | \$ 591,436 | \$ 905,801 |

Amortization

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

17. 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 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 period ended February 28, 2021, 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 period ended February 28, 2021, the Company recorded interest expense for \$268,416 (2020 - \$1,078,817) and accretion expense of \$17,557 (2020 - \$302,624).

| | February 28, 2021 | November 30, 2020 |
|------------------------------|-------------------|-------------------|
| Balance, beginning | \$ 9,091,534 | \$ 8,734,763 |
| Loans received | - | - |
| Interest accrued | 268,416 | 1,078,817 |
| Loan extension fee | - | (176,247) |
| Accretion | 17,557 | 302,624 |
| Loans and interest repaid | - | (628,889) |
| Foreign exchange adjustments | (180,276) | (219,534) |
| Balance, ending | \$ 9,197,231 | \$ 9,091,534 |

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 the discount rate method for a fair value of \$4,804,027 due to being a below market rate debt instrument.

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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 period ended February 28, 2021, the Company recognized accretion expense for the amount of \$148,849 (2020 - \$429,544).

| | February 28, 2021 | November 30, 2020 |
|------------------------------------|-------------------|-------------------|
| Balance, beginning | \$ 3,487,612 | \$ 4,884,988 |
| Loans received | - | - |
| Loans repaid | - | (649,595) |
| Accretion | 149,859 | 429,544 |
| Gain on debt modification | - | (1,091,942) |
| Foreign exchange adjustments | (65,721) | (85,383) |
| Carrying amount, November 30, 2020 | 3,571,750 | 3,487,612 |
| Less: Current portion | (717,606) | (578,774) |
| Balance, ending | \$ 2,854,144 | \$ 2,908,838 |

18. 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 condensed 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 \$128,223 (2019 - \$nil).

The total lease commitments are as follows:

| | | |
|----------------|----|-----------|
| 2021 | \$ | 202,841 |
| 2022 | | 296,505 |
| 2023 | | 308,366 |
| 2024 | | 320,700 |
| 2025 and later | | 74,948 |
| Total | \$ | 1,203,360 |

Maturities

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

| As at February 28, 2021 | Borrowings | Lease liabilities | TOTAL |
|-------------------------|---------------|-------------------|---------------|
| Less than one year | \$ 863,642 | \$ 146,304 | \$ 1,009,946 |
| 1 to 5 years | 12,065,151 | 844,342 | 12,909,493 |
| More than 5 years | - | - | - |
| Total | \$ 12,928,793 | \$ 990,646 | \$ 13,919,439 |

Contingencies

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

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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.

19. 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.

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 is held mainly in chequing accounts and therefore are exposed to minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values compared to carrying value.

The Company's interest rate risk arises principally from the changes in interest rates related to the loan used to finance the purchase of their facility in Modesto, California at 7%. A one percent increase in interest rates would result in an increase of approximately \$91,022 to the Company's loss for the year ended November 30, 2020.

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.

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

For the period ended February 28, 2021

(Amounts expressed in Canadian dollars, unless otherwise indicated)

| | February 28, 2021 | February 29, 2020 |
|---|--------------------------|--------------------------|
| Cash denominated in USD | \$ 301,660 | \$ 167,616 |
| Accounts receivable denominated in USD | 166,237 | 152,886 |
| Accounts payable and accrued liabilities denominated in USD | (2,831,468) | (656,373) |
| Loans denominated in USD | (12,768,981) | (4,205,235) |
| Total | \$ (15,132,552) | \$ (4,541,106) |
| Effect of a 10% change in exchange rates | \$ (1,513,255) | \$ (454,111) |

20. 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 period ended February 28, 2021.

21. SUBSEQUENT EVENTS

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.

On June 2, 2021, the Company received proceeds of \$13,598 through the exercise of 18,130 warrants at \$0.75.