ASCENT INDUSTRIES CORP.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

ASCENT INDUSTRIES CORP.
Index to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

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May 7, 2020
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ascent Industries Corp.

Opinion

We have audited the consolidated financial statements of Ascent Industries Corp. (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations, changes in equity and cash flow for the periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and the consolidated financial performance and consolidated cash flow for the periods then ended in accordance with International financial reporting standards (IFRS).

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $22,396,385 during the year ended December 31, 2019 and has an accumulated deficit of $59,813,910. In addition, during the year ended December 31, 2019, the Company defaulted on certain debt obligations and failed to secure proper licensing in Canada to produce and sell cannabis and cannabis related products. These events have substantially restricted access to continue operations and, as a result, the Company filed for protection under the Companies' Creditors Arrangement Act (the "CCAA"). As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

(continues)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

ASCENT INDUSTRIES CORP.
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)
As at December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 3,993,021**	$ 1,339,027
Trade and other receivables *(Note 7)*	**746,877**	786,480
Prepaid expenses *(Note 8)*	**72,030**	1,249,612
Deposits for properties *(Note 9)*	**-**	7,595,000
Inventory *(Note 10)*	**-**	2,019,434
Investments *(Note 11)*	**376,502**	376,502
	5,188,430	13,366,055
CONSTRUCTION IN PROGRESS *(Note 12)*	**-**	6,361,671
PROPERTY, PLANT AND EQUIPMENT *(Note 12)*	**7,368,860**	17,387,007
INTANGIBLE ASSETS *(Note 13)*	**1,056,087**	10,128,872
RIGHT OF USE ASSET *(Note 12)*	**52,020**	-
	$ 13,665,397	$ 47,243,605

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)
As at December 31, 2019 and 2018

	2019	2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Trade and other payables	**$ 413,888**	$ 3,412,011
Current portion of finance leases *(Note 14)*	**-**	14,561
Short term debt payable *(Note 16)*	**-**	1,731,003
Contingent consideration *(Note 17)*	**-**	500,000
Derivative liability *(Note 18)*	**-**	1,976,063
RIGHT-OF-USE LEASE *(Note 15)*	**49,479**	-
FINANCE LEASE *(Note 14)*	**-**	1,658
LOAN PAYABLE *(Note 18)*	**-**	3,895,745
	463,367	11,531,041
SHAREHOLDERS' EQUITY		
Share capital *(Note 19)*	**70,513,445**	70,214,848
Contributed surplus	**1,572,639**	1,572,639
Accumulated other comprehensive income	**(311,456)**	(197,307)
Common shares to be issued *(Note 20)*	**-**	548,597
Share-based reserve *(Note 21)*	**1,241,312**	1,241,312
Deficit	**(59,813,910)**	(37,667,525)
	13,202,030	35,712,564
	$ 13,665,397	$ 47,243,605

ON BEHALF OF THE BOARD

Jeremy South (signed) *Director*

Mark Lotz (signed) *Director*

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Operations
(Expressed in Canadian Dollars)
Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

	2019	2018
REVENUE	**$ 744,040**	$ 1,568,014
COST OF SALES	**1,748,968**	1,965,577
GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS	**(1,004,928)**	(397,563)
Fair value adjustment on sale of inventory	**-**	(1,285,695)
Fair value adjustment on growth of biological assets	**-**	-
GROSS MARGIN AFTER FAIR VALUE ADJUSTMENTS	**(1,004,928)**	(1,683,258)
EXPENSES		
General and administration	**8,592,913**	6,490,615
Selling and marketing	**374,733**	1,824,250
Depreciation and amortization	**1,002,244**	1,696,098
Pre-production costs	**-**	881,840
Share based compensation *(Note 19)*	**-**	718,477
Research and development	**-**	329,922
	9,969,890	11,941,202
LOSS FROM OPERATIONS	**(10,974,818)**	(13,624,460)
OTHER EXPENSES		
Gain on sale of assets *(Note 4)*	**2,915,810**	-
Loss on disposal of assets *(Note 5)*	**(5,952,843)**	-
CCAA settlement *(Note 6)*	**(5,280,251)**	-
Accretion expense *(Note 23)*	**-**	(74,467)
Interest and other	**(3,102,129)**	(285,845)
Impairment of goodwill *(Note 17)*	**-**	(1,073,000)
Loss on derivative liability *(Note 18)*	**-**	(1,100,368)
Listing expense *(Note 3)*	**-**	(1,625,219)
	(11,419,413)	(4,158,899)
LOSS BEFORE INCOME TAXES AND COMPREHENSIVE INCOME	**(22,394,231)**	(17,783,359)
INCOME TAXES *(Note 26)*	**2,154**	(415,504)
NET LOSS	**(22,396,385)**	(17,367,855)

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ASCENT INDUSTRIES CORP.
Consolidated Statement of Operations *(continued)*
(Expressed in Canadian Dollars)
Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

	2019	2018
COMPREHENSIVE INCOME		
Currency translation adjustment	**(114,149)**	(220,978)
	(114,149)	(220,978)
COMPREHENSIVE LOSS	**$ (22,510,534)**	$ (17,588,833)
EARNINGS PER SHARE	**$ (0.07)**	$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**320,151,457**	317,805,414

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)
Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

	Common shares	Common shares to be issued	Contributed surplus	Accumulated other comprehensive income	Share-based reserve	Deficit	**Total equity**
As at June 1, 2018	$ 31,576,460	$ 8,673,862	$ 1,572,639	$ 23,671	$ 507,151	$ (20,299,670)	**$ 22,054,113**
Exercise of warrants (for private placement A)	916,667	-	-	-	-	-	**916,667**
Exercise of warrants (for private placement D)	1,970,232	298,597	-	-	-	-	**2,268,829**
Shares issued in Paget Minerals reverse takeover	3,796,748	-	-	-	-	-	**3,796,748**
Shares issued through public offering	19,234,200	-	-	-	-	-	**19,234,200**
Shares issued for private placement D	12,000,000	(8,673,862)	-	-	-	-	**3,326,138**
Shares issued for finders fees	204,163	-	-	-	-	-	**204,163**
Shares issued for equipment	621,647	-	-	-	-	-	**621,647**
Shares issued for service	271,200	-	-	-	-	-	**271,200**
Shares issued as a deposit for property	1,150,000	-	-	-	-	-	**1,150,000**
Shares issued in First Circle acquisition	225,000	250,000	-	-	-	-	**475,000**
Shares issued for compensation	-	-	-	-	734,161	-	**734,161**
Share issuance costs	(1,751,469)	-	-	-	-	-	**(1,751,469)**
Foreign currency reserve	-	-	-	(220,978)	-	-	**(220,978)**
Net loss for the year	-	-	-	-	-	(17,367,855)	**(17,367,855)**
As at December 31, 2018	$ 70,214,848	$ 548,597	$ 1,572,639	$ (197,307)	$ 1,241,312	$ (37,667,525)	**$ 35,712,564**
As at January 1, 2019	$ 70,214,848	$ 548,597	$ 1,572,639	$ (197,307)	$ 1,241,312	$ (37,667,525)	**$ 35,712,564**
Shares issued	298,597	(298,597)	-	-	-	-	**-**
Shares written off	-	(250,000)	-	-	-	250,000	**-**
Foreign currency reserve	-	-	-	(114,149)	-	-	**(114,149)**
Net loss for the period	-	-	-	-	-	(22,396,385)	**(22,396,385)**
As at December 31, 2019	$ 70,513,445	$ -	$ 1,572,639	$ (311,456)	$ 1,241,312	$ (59,813,910)	**$ 13,202,030**

ASCENT INDUSTRIES CORP.
Consolidated Statement of Cash Flow
(Expressed in Canadian Dollars)
Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

	2019	2018
OPERATING ACTIVITIES		
Net loss for the period	**$ (22,396,385)**	$ (17,367,855)
Items not affecting cash:		
Depreciation and amortization	**1,002,244**	1,696,098
Change in fair value of sale of inventory	**-**	1,285,695
Gain on sale of PPE *(Note 4)*	**(2,915,810)**	-
Loss on disposal of assets *(Note 5)*	**5,952,843**	-
Shares issued for products and services	**-**	1,117,547
Shares to be issued	**-**	-
CCAA settlement *(Note 6)*	**5,280,251**	-
Stock based compensation	**-**	734,160
(Gain) Loss on derivative liabilities	**(1,976,063)**	1,100,368
	(15,052,920)	(11,433,987)
Changes in non-cash working capital:		
Trade and other receivables	**39,603**	465,800
Inventory	**2,019,434**	(834,860)
Trade and other payables	**(2,998,123)**	592,229
Income taxes payable	**-**	415,504
Prepaid expenses	**1,177,582**	(294,964)
Current portion of leases	**(14,561)**	-
Contingent consideration	**(500,000)**	-
	(276,065)	343,709
Cash flow used by operating activities	**(15,328,985)**	(11,090,278)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, construction in progress and right of use assets	**-**	(7,181,659)
Proceeds on disposal of property, plant and equipment, construction in progress and right of use assets	**18,173,217**	-
Purchase of intangible assets	**-**	(3,703,069)
Commission paid on asset sale	**(978,840)**	-
Proceeds of disposal of (Investment in) Deposits for properties	**7,595,000**	(5,395,000)
Purchases of investments	**-**	(16,502)
Proceeds on reverse take-over	**-**	2,189,996
Cash flow from (used by) investing activities	**24,789,377**	(14,106,234)

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ASCENT INDUSTRIES CORP.

Consolidated Statement of Cash Flow *(continued)*

(Expressed in Canadian Dollars)

Year Ended December 31, 2019 and Seven Months Ended December 31, 2018

	2019	2018
FINANCING ACTIVITIES		
Warrants exercised	**-**	2,792,528
Shares issued	**-**	22,560,338
Share issue costs	**-**	(1,376,969)
Repayment of Short-term debt	**(1,731,003)**	-
Repayment of obligations under Right-of-use lease	**(195,110)**	-
Repayment of loan payable	**(3,895,745)**	(15,196)
Repayment on finance leases	**-**	(25,509)
Cash flow from (used by) financing activities	**(5,821,858)**	23,935,192
OTHER CASH FLOW ITEMS		
Effect of exchange rate change on cash	**(984,540)**	12,911
(DECREASE) INCREASE IN CASH	**2,653,994**	(1,248,409)
CASH AND CASH EQUIVALENT - BEGINNING OF PERIOD	**1,339,027**	2,587,436
CASH AND CASH EQUIVALENT - END OF PERIOD	**$ 3,993,021**	$ 1,339,027

Refer to Note 22 for additional information on cash flow.

1. NATURE OF OPERATIONS AND GOING CONCERN

Ascent Industries Corp. ("Ascent"), was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013. Ascent's head office and principal address is located at 260 – 22529 Lougheed Hwy, Maple Ridge, BC V2X 0T5 and the registered records office address is located at Suite 1700 – 666 Burrard Street, Vancouver, BC V6C 2X8.

The consolidated financial statements as at and for the year ended December 31, 2019 and the seven months ended December 31, 2018, include Ascent and its subsidiaries (together referred to as the "Company") and the Company's interest in affiliated companies.

On November 10, 2017 Agrima Botanicals Corp. ("Agrima"), a wholly owned subsidiary of Ascent, was granted a Producer's License under Health Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR"). The license allows Agrima to cultivate cannabis and produce cannabis oils.

The Company operates in the USA through wholly owned subsidiaries in Nevada and Oregon with licenses to produce, process and distribute cannabis and processed cannabis products including cannabis oils. On July 26, 2017, the Oregon Liquor Control Commission granted a Marijuana Wholesaler License and a Marijuana Processor License to Luff Enterprises, LLC the Company's wholly owned Oregon subsidiary. On November 22, 2017, the State of Nevada, Department of Taxation granted to Luff Enterprises NV, Inc., the Company's wholly-owned Nevada subsidiary doing business as Sweet Cannabis, Certification as a Medical Marijuana Production Establishment and Certification as a Medical Marijuana Cultivation Establishment. On January 5, 2018, the State of Nevada Department of Taxation granted to Sweet Cannabis, a Nevada Marijuana Product Manufacturing License and Nevada Marijuana Cultivation Facility License. Ascent is further expanding into federally legal jurisdictions outside of Canada and the USA, including activities currently focused on Europe through its wholly owned subsidiary in Denmark.

The Company's primary activities relate to cannabis cultivation, processing, production, research, product and brand development, and distribution. The Company's Canadian licensing applications through its subsidiary Agrima, are currently under review by Health Canada.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In the year ended December 31, 2019, the Company has generated $744,040 in revenues from operations, incurred a net loss of $22,396,385 and has an accumulated deficit of $59,813,910.

In the year ended December 31, 2019, the Company defaulted on certain debts and failed to secure proper licensing in Canada to produce and sell cannabis and cannabis related products. These events have substantially restricted access to continue operations and, as a result, the Company filed for protection under the Companies' Creditors Arrangement Act (the "CCAA"). While under CCAA protection, creditors and others are stayed from enforcing any rights against the Company. It is not possible to predict the outcome of matters related to the CCAA proceedings. As a result of the CCAA proceedings and other factors outlined below, a material uncertainty exists that cast significant doubt of the Company's ability to continue as a going concern.

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1. NATURE OF OPERATIONS AND GOING CONCERN *(continued)*

On March 14, 2019 the Company, together with its subsidiaries Agrima Botanicals Corp., Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., and Agrima Scientific Corp. (collectively, the "Vendors") have entered into an asset purchase agreement with BZAM Management Inc. (the "Purchaser"), an affiliate of Gulf Bridge Ltd., pursuant to which the Vendors have agreed to sell to the Purchaser substantially all of the assets comprising the Canadian business of the Vendors for cash and the Purchaser has agreed to assume the Vendors' obligations to purchase a greenhouse located in Pitt Meadows, British Columbia subsequent to closing of the agreement with the Vendors. The Company through its subsidiaries will continue to own the assets related to cannabis cultivation, production, distribution, research and product development business outside of Canada in Oregon, Nevada and Denmark.

The Company has financed its working capital requirements primarily through equity and debt financing. The Company's ability to continue as a going concern is dependent upon its ability satisfy its debts and leave CCAA protection and obtain necessary licensing to commence profitable operations and generate funds therefrom or raise additional financing in order to meet current and future obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to obtain additional financing or that such financing will be available on reasonable terms once it leaves CCAA protection. These conditions combined with the accumulated losses to date indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board on a going concern basis. These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 28, 2020.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Agrima Botanicals Corp., Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., Azeha Holdings Ltd., Agrima Botanicals ApS (Denmark), West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC., Sweet Cannabis NV Inc., Luff Enterprises NV Inc., AIC Health Winnipeg Corp., AIC Health Winnipeg Wellness Corp., and AIC Health Services Corp. All significant inter-company balances and transactions have been eliminated on consolidation.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for biological assets, assets classified as held for sale and available-for-sale and derivatives, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's US subsidiaries is the US Dollar, and the functional currency of the Company's Danish subsidiary is the Danish Krone.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statements as a comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive income and accumulated in equity.

(e) Changes in accounting policies

The Company has adopted IFRS 16 effective January 1, 2019 without restatement of comparative periods.

IFRS 16 eliminates the classification of operating leases and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements.

The Company elected to apply the changes to IFRS 16 with a modified retrospective approach with the cumulative effect being recognized as at January 1, 2019. The Company has used transitional provisions in order to not restate comparative periods. The financial information for the 2018 fiscal year is presented using the standards set in IAS 17 and does not reflect the reporting requirements of IFRS 16.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Cash and cash equivalents

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

(g) Inventory

Inventories of harvested finished good and packaging materials are initially measured at cost and subsequently at the lower of cost and 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 deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

The Company reviewed inventory for obsolete, redundant and slow-moving goods and any such inventories were written down to net realizable value.

(h) Property, plant and equipment and construction in progress and Right of Use asset

Property, plant and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and amortization. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

For the periods ending December 31, 2019 and December 31, 2018, depreciation is calculated on a straight-line basis over the estimated useful life of the assets on a pooled basis, as is consistent with industry practice. Management estimates those useful lives to be:

- Computer and business equipment - 3 years
- Agriculture, laboratory and production equipment - 4 to 5 years
- Furniture, fixtures and tools - 4 to 5 years

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- Leasehold improvements - 10 years
- Groundworks - 10 years
- Buildings - 40 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

The Company capitalizes borrowing costs on capital invested in projects under construction. Upon commencement of commercial operations, capitalized borrowing costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Construction in progress is not amortized until the construction is completed and the asset is available for use.

Following the adoption of IFRS 16, the Company recorded a right-of-use asset, to be amortized on a straight-line basis over the 60-month term of the lease ending February 2020.

(i) 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 is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

For the periods ending December 31, 2019 and December 31, 2018, amortization was calculated on a straight-line basis over the estimated useful life of the assets on a pooled basis, as is consistent with industry practice. Management estimated those useful lives to be:

- Licenses for the cultivation of cannabis - 40 years
- Software - 10 years

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Right-of-use lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations. 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 and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose to asset is used is predetermined, the Company has the right to direct the use of the asset if either:

1. The Company has the right to operate the asset: or

2. The Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of buildings in which it: is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contained a lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Right of use leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of comprehensive income.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A leased asset is amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

The Company has elected to recognize the lease payments associated with short term leases and leases for which the underlying asset is of low value as an expense on a straight-line basis over the lease term.

	Original classification under IAS 17	New classification under IFRS 16	Original amount under IAS 17	Reclassification amount	New carrying amount under IFRS 16
Building leases	Rent expense	Obligations under right-of-use lease	$ -	$ 244,589	$ 244,589

(k) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

Unrealized gains or losses arising from the changes in fair value less costs to sell during the year are included in the results of operations.

(l) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of an asset or CGU is the greater of it's fair value less cost 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

(m) Share capital

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for nonmonetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. When shares and warrants are issued at the same time, the proceeds are allocated first to common shares issued, according to their fair value and the residual value being allocated to shares. Any fair value attributed to the warrants is recorded as contributed surplus.

(n) Share-based payments

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

(o) Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale and changes in the fair value of the effective portion of cash flow hedging instruments.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

(q) Revenue recognition

The Company generates revenue primarily from the sale of cannabis and cannabis related products. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

(r) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development to use or sell the asset.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current income taxes

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(t) Statement of Cash Flow

The Company is using the indirect method in its presentation of the Statement of Cash Flow.

(u) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified at amortized cost, at fair value through other comprehensive income (FVOCI) or fair value profit or loss (FVTPL). The determinant of the classification of the financial asset is based on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The Company determines the classification of its financial assets at initial recognition.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

The Company's financial assets include cash and cash equivalents, trade and other receivables, and investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

<u>Financial assets at fair value through profit or loss</u>
Financial assets at fair value through profit or loss include financial assets unless it is measured at amortized cost or at fair value through other comprehensive income. The company can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Company may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

The Company has designated investments at fair value through profit or loss.

<u>Amortized cost</u>
Financial assets are measured at amortized cost if the two following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has designated cash and cash equivalents, and trade and other receivables at amortized cost.

<u>Fair value through other comprehensive income</u>
Financial assets measured at fair value through other comprehensive income is permitted by IFRS 9 if the two following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has not designated any financial assets at fair value through other comprehensive income upon initial recognition.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when one of the following conditions is met:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company’s continuing involvement in it.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company has to recognize a loss allowance for expected credit losses on all financial assets and certain off-balance sheet loan commitments and guarantees. The expected credit loss model requires a loss allowance to be claimed on the financial asset regardless of whether an actual loss event has occurred. This differs from the IAS 39 standards which specified that an allowance is recorded on performing loans to capture losses only when there was objective evidence that a financial asset or a group of financial assets is impaired.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The expected credit loss model presents three stages of credit loss allowances that must be assessed on all financial assets acquired by the Company. At the reporting date, if the credit risk of a financial asset has not significantly changed from initial recognition an allowance for that financial instrument at an amount equal to a 12-month expected credit losses is recognized (Stage 1). Once the financial assets credit risk significantly increases from initial recognition, a lifetime expected credit loss will be recognized (Stage 2). At Stage 2 the interest revenue from the asset will continue to be calculated on the carrying value of the asset before impairments. If the credit quality of the financial asset deteriorates, the lifetime expected loss will continue to be recognized however the interest revenue will now be calculated on the net amortized carrying value after deducting the loss allowance (Stage 3).

The assessment of significant increases in credit loss is completed at the reporting date and considers historical events, current market conditions and supportable information about future economic conditions that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Company's financial liabilities include trade and other payables, short term debt payable, derivative liability, contingent consideration, and loans payable.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as measured at fair market value if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities at fair value are recognized in the statement of comprehensive income.

The Company has not designated any financial liabilities as fair value through profit or loss.

<u>Amortized cost</u>
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method (EIR). The EIR amortization is included in finance costs in the statement of comprehensive income.

The Company has designated trade and other payables, short term debt payable, derivative liability, contingent consideration, loans payable at amortized cost.

Derecognition

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, or a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

(v) Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 financial statements are described below.

Significant judgments

(a) Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in note 28.

(b) Biological assets

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural product requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying cost for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(c) Estimated useful lives and depreciation of property, plant and equipment and intangible assets

Depreciation of property, plant and equipment and intangible assets 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 that take into account factors such as economic and market conditions and the useful lives of assets.

Significant estimates

(a) Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(b) Deferred tax assets

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(w) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(continues)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3. REVERSE TAKE OVER TRANSACTION ("RTO")

Effective August 8, 2018, Paget Minerals Corp. (Paget) acquired 100% of the issued and outstanding shares of Ascent Industries Corp. in exchange for 9,542,639 common shares issued by Paget. As a result of this share issuance, the former shareholders of Ascent Industries Corp. obtained 96.71% of the common shares of Paget and, consequently, control of Paget.

Accordingly, the Company has accounted for the acquisition as a reverse takeover, and no goodwill or intangible asset representing the stock exchange listing has been recorded. Therefore, for accounting purposes, Ascent Industries Corp., the legal subsidiary, has been treated as the accounting acquirer, and Paget, the legal parent, has been treated as the accounting acquire in these consolidated financial statements. As Ascent Industries Corp. was deemed to be the acquirer for accounting purposes, Paget's assets, liabilities, and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Paget's results of operations have been included from August 8, 2018, the date of completion of the acquisition.

These consolidated financial statements have been prepared on the basis the acquisition constituted the issuance of shares by Ascent as consideration for Paget's net assets. The transaction has been accounted for in accordance with IFRS 2, Share Based Payments as Paget did not meet the definition of a business under IFRS 3, Business Combinations. The acquisition was recorded by the Company as a listing expense which reflects the difference between the fair value of the Ascent Industries Corp. common shares issued to the Paget shareholders less the fair value of the assets of Paget acquired.

For the purposes of accounting for the reverse takeover, the percentage of ownership of the pre-acquisition shareholders of Paget in the combined entity upon completion of the acquisition was determined to be 3.29% (which represents 9,542,639 common shares out of a total of 290,263,039 common shares of the Company outstanding upon closing of the acquisition).

The excess of the fair value of the consideration received by the pre-acquisition shareholders of Paget over the fair value of the identifiable net assets of Paget on the closing date of the acquisition was calculated as follows:

Common shares issued (9,542,639 shares at $0.40)	**$ 3,817,056**
Adjustment for fair value of options (83,333 stock options exercisable at $0.60)	**15,683**
Adjustment for fair value of warrants (500,000 stock warrants exercisable at $0.60)	**22,483**
	3,855,222

(continues)

(Expressed in Canadian Dollars)

3. REVERSE TAKE OVER TRANSACTION ("RTO") *(continued)*

Net assets of the Company	
Cash	**2,189,996**
Trade and other receivables	**3,942**
Prepaid expenses	**20,000**
Investments	**16,502**
Trade and other payables	**(437)**
	2,230,003
Listing expense	**$ 1,625,219**

4. SALE OF CANADIAN OPERATING ASSETS

Effective April 8, 2019 and pursuant to an order issued by the Supreme Court of British Columbia on March 25, 2019, the Company sold the Pitt Meadows Facility to BZAM Management Inc. and subsequently commenced the winding up of its Canadian operations.

The consideration was allocated as follows:

	2019
Sale of assets	
Gross consideration	**$ 19,152,056**
Less commission	**(978,840)**
Inventory	**(541,877)**
Prepaids	**(103,221)**
Deposits and Construction in progress	**(14,432,232)**
Property, Plant & Equipment	**(10,674,398)**
Assumption of long-term debt	**8,518,259**
Assumption of derivative debt	**1,976,063**
	$ 2,915,810

5. LOSS ON WRITE-DOWN OF ASSETS

The Company recorded a loss on the write-down of its assets in Canada and Denmark which were deemed to have no value, in the total amount of $5,952,843. See Note 13: Intangible Assets.

(Expressed in Canadian Dollars)

6. CCAA SETTLEMENT

On March 1, 2019, by order of the Supreme Court of British Columbia, Ascent Industries Corp. along with the wholly owned subsidiaries, Agrima Botanicals Corp., Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., and West Fork Holdings NV Inc. (the "Petitioners") were granted protection under CCAA from its creditors under Vancouver Registry No. S-192188. Ernst & Young Inc. was appointed as Monitor of the Petitioners.

On December 19, 2019, by order of the Supreme Court of British Columbia, the Company settled outstanding claims in the amount of $17,344,083 pursuant to the Plan of Compromise and Arrangement. The allowable claims we segregated into two classes:

(i) the unaffected claims: claims below $11,100 and paid in full;

(ii) the affected claims: claims affected by the compromise - 51% of the original allowed amount paid.

In addition to the cash settlement of $9,361,913 paid in final settlement, Company issued the affected claimants the 35,572, 372 common shares with an aggregate value of $889,309 to eligible affected shareholders on March 03, 2020.

The Company recorded a loss on its settlement with CCAA in the amount of $5,280,251.

7. TRADE AND OTHER RECEIVABLES

	December 31 2019	December 31 2018
Trade receivables	**$ -**	$ 117,791
GST recoverable	**746,877**	668,689
	$ 746,877	$ 786,480

During the year ended December 31, 2019 or the seven months ended December 31, 2018, no bad debt expense was recognized.

			Past due but not impaired		
	Total	< 30 days	30-60 days	60-90 days	> 90 days
December 31, 2018	$ 117,791	$ 117,791	$ -	$ -	$ -

(Expressed in Canadian Dollars)

8. PREPAID EXPENSES

	December 31 2019	December 31 2018
Prepaid vendors	**$ 14,295**	$ 629,095
Deposits	**57,735**	531,219
Prepaid insurance	**-**	89,298
	$ 72,030	$ 1,249,612

9. DEPOSITS FOR PROPERTIES

	December 31 2019	December 31 2018
Deposit for Pitt Meadows property	**$ -**	$ 7,595,000

The deposit was disposed of in the course of the sale of assets. See Note 4.

10. INVENTORY AND BIOLOGICAL ASSETS

	December 31 2019	December 31 2018
Inventory		
Packaging	**$ -**	$ 750,214
Finished terpenes	**-**	215,230
Finished packaged goods	**-**	416,175
Finished unpackaged goods	**-**	637,815
	$ -	$ 2,019,434

Due to the suspension of the requisite Health Canada licenses, the Company recognized a write-down of inventory in the amount of $1,285,695 in the seven months ended December 31, 2018.

As noted in Note 4, the Company sold its Canadian assets in the year ended December 31, 2019. Assets for that sale included $134,663 of inventory. The Company also recognized a writedown of $1,014,404 in cannabis product.

(Expressed in Canadian Dollars)

11. INVESTMENTS

During the year ended May 31, 2018, the Company invested in Enhanced Pet Sciences Corp., a privately held, startup company that is developing pet food products incorporating cannabinoid extracts. The Company does not have significant influence or control over the investee. The investee is privately held and there is no quoted market price for its common shares.

During the period ended December 31, 2018, the Company acquired an investment in Sebastiani Ventures Corp, a publicly traded company previously held by Paget Minerals Corp. The Company does not have significant influence or control over the investee.

	December 31, 2019	December 31, 2018
Enhanced Pet Sciences Corp.	**$ 360,000**	$ 360,000
Sebastiani Ventures Corp.	**16,502**	16,502
	$ 376,502	$ 376,502

12. PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS AND RIGHT OF USE ASSETS

Cost	December 31, 2018 Balance	Additions	Disposals	**December 31 2019 Balance**
Construction in progress	$ 6,361,671	$ -	$ 6,361,671	**$ -**
Land	1,321,159	-	653,982	**667,177**
Buildings	9,416,042	-	5,107,867	**4,308,175**
Computer equipment	504,840	-	433,629	**71,211**
Wireless network	87,003	-	87,003	**-**
Software	42,317	-	9,317	**33,000**
Mobile equipment	77,815	-	42,019	**35,796**
Furniture and fixtures	345,705	-	292,972	**52,733**
Security fencing and equipment	609,038	-	452,035	**157,003**
Tools and equipment	2,122,614	-	790,806	**1,331,808**
Leasehold improvements	3,835,024	-	1,475,676	**2,359,348**
New groundwork	133,182	-	133,182	**-**
Agriculture and lab equipment	2,896,968	-	2,890,445	**6,523**
Right-of-use assets	-	244,589	-	**244,589**
	$ 27,753,378	$ 244,589	$ 18,730,604	**$ 9,267,363**

(continues)

(Expressed in Canadian Dollars)

12. PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS AND RIGHT OF USE ASSETS *(continued)*

Accumulated Amortization	December 31 2018 Balance	Amortization	Accumulated Amortization on Disposals	**December 31 2019 Balance**
Construction in progress	$ -	$ -	$ -	**$ -**
Land	-	-	-	**-**
Buildings	(922,308)	(137,910)	(835,834)	**(224,384)**
Computer equipment	(192,991)	(30,394)	(178,535)	**(44,850)**
Wireless network	(87,003)	-	(87,003)	**-**
Software	(23,440)	(11,444)	(17,009)	**(17,875)**
Mobile equipment	(39,364)	(11,459)	(39,290)	**(11,533)**
Furniture and fixtures	(177,339)	(13,505)	(170,653)	**(20,191)**
Security fencing and equipment	(190,316)	(67,012)	(153,865)	**(103,463)**
Tools and equipment	(489,541)	(233,760)	(38,124)	**(685,177)**
Leasehold improvements	(398,687)	(302,103)	(157,746)	**(543,044)**
New groundwork	(68,225)	-	(68,225)	**-**
Agriculture and lab equipment	(1,415,486)	(2,088)	(1,414,176)	**(3,398)**
Right-of-use assets	-	(192,569)	-	**(192,569)**
	$ 4,004,700	$ 1,002,244	$ (3,160,460)	**$ (1,846,484)**

Cost	June 1 2018 Balance	Additions	Disposals	December 31 2018 Balance
Construction in progress	1,030,841	5,330,830	-	6,361,671
Land	1,287,270	33,889	-	1,321,159
Buildings	9,009,909	406,133	-	9,416,042
Computer equipment	258,150	246,690	-	504,840
Wireless network	87,003	-	-	87,003
Software	40,590	1,727	-	42,317
Mobile equipment	74,940	2,875	-	77,815
Furniture and fixtures	309,472	36,233	-	345,705
Security fencing and equipment	492,132	116,906	-	609,038
Tools and equipment	2,047,624	74,990	-	2,122,614
Leasehold improvements	3,311,089	523,935	-	3,835,024
New groundwork	133,182	-	-	133,182
Agriculture and lab equipment	2,253,848	643,120	-	2,896,968
	20,336,050	7,417,328	-	27,753,378

(continues)

(Expressed in Canadian Dollars)

12. PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS AND RIGHT OF USE ASSETS *(continued)*

Accumulated Amortization	June 1 2018 Balance	Amortization	Disposals	December 31 2018 Balance
Construction in progress	$ -	$ -	$ -	$ -
Land	-	-	-	-
Buildings	(779,100)	(143,208)	-	(922,308)
Computer equipment	(50,593)	(142,398)	-	(192,991)
Wireless network	(77,498)	(9,505)	-	(87,003)
Software	(16,204)	(7,236)	-	(23,440)
Mobile equipment	(16,965)	(22,399)	-	(39,364)
Furniture and fixtures	(160,171)	(17,168)	-	(177,339)
Security fencing and equipment	(98,746)	(91,570)	-	(190,316)
Tools and equipment	(422,240)	(67,301)	-	(489,541)
Leasehold improvements	(240,092)	(158,595)	-	(398,687)
New groundwork	(34,211)	(34,014)	-	(68,225)
Agriculture and lab equipment	(653,307)	(762,179)	-	(1,415,486)
	$ (2,549,127)	$ (1,455,573)	$ -	$ (4,004,700)

Net book value	**December 31 2019**	December 31 2018
Construction in progress	**$ -**	$ 6,361,671
Land	**667,177**	1,321,159
Buildings	**4,083,791**	8,493,734
Computer equipment	**26,361**	311,849
Wireless network	**-**	-
Software	**15,125**	18,877
Mobile equipment	**24,263**	38,451
Furniture and fixtures	**32,542**	168,366
Security fencing and equipment	**53,540**	418,722
Tools and equipment	**646,631**	1,633,073
Leasehold improvements	**1,816,304**	3,436,337
New groundwork	**-**	64,957
Agriculture and lab equipment	**3,125**	1,481,482
Right-of-use assets	**52,020**	-
	$ 7,420,880	$ 23,748,678

(Expressed in Canadian Dollars)

13. INTANGIBLE ASSETS

	December 31 2019	December 31 2018
Licenses	**$ 1,105,799**	$ 6,346,064
Software	**-**	4,212,221
	1,105,799	10,558,285
Accumulated amortization	**(49,712)**	(429,413)
	$ 1,056,087	$ 10,128,872

Amortization expense of $nil in the year ended December 31, 2019 (seven months ended December 31, 2018 - $240,525), is included in the accompanying consolidated statement of operations.

At December 31, 2018, the Company recorded a goodwill impairment of $1,073,000 based on significant concerns and uncertainties in the obtaining licensing in Canada. The goodwill impairment was recognized in the First Circle Medical Pharmacy and Clinic cash-generating unit and is the full amount of goodwill that was attributable to this cash generating unit. The recoverable amount of the cash-generating unit was determined to be its fair value less costs of disposal and is categorized as level 3 in the fair value hierarchy. Management has determined the fair value less costs of disposal would not be lower than the carrying amount of the tangible assets acquired.

During the year ended December 31, 2019, the Company recognized losses on the write off of intangible assets that were deemed to no longer have value in use or resale.

Recognized in the net gain on sale of assets:	
Canadian licenses as the Company was unable to monetarize the licenses which were attached to the physical assets sold to BZAM	$ 3,428,000
Recorded as losses on disposal of assets:	
Payments made towards licenses in Denmark upon a re-assessment of the operations in Denmark	$ 1,820,553
Upon the evaluation of Agrimaware - a proprietary ERP software system deemed to ultimately require too much additional investment to function effectively	$ 4,132,290

(Expressed in Canadian Dollars)

14. FINANCE LEASE

The Company previously entered into finance lease agreements related to two production equipment transactions totaling $529,886, of which down payments of $174,585 were made. The finance leases were repayable over a period of 1 to 3 years expiring June 2018 and February 2020. The leases were disposed of as a result of the asset sale in 2019.

	December 31 2019	December 31 2018
Less than 1 year	**$ -**	$ 20,928
Between 1 and 3 years	**-**	1,744
Total minimum lease payments	**-**	22,672
Less: Amount representing interest at approximately 62.0%	**-**	(6,453)
Present value of minimum lease payments	**-**	16,219
Less: Current portion	**-**	(14,561)
Long term portion	**$ -**	$ 1,658

15. OBLIGATIONS UNDER RIGHT-OF-USE LEASE

	2019	2018
Lease liabilities on buildings bearing interest at 5.70% per annum, due in 2020 and in 2021	**$ 49,479**	$ -
	49,479	-
Amounts payable within one year	**(27,447)**	-
	$ 22,032	$ -

Future lease payments are as follows:

2020	$ 28,132
2021	22,781
Total minimum lease payments	$ 50,913
Less: amount representing interest	(1,434)
Present value of minimum lease payments	49,479
Less: current portion	(27,447)
	$ 22,032

(Expressed in Canadian Dollars)

16. SHORT TERM DEBT PAYABLE

A wholly owned subsidiary of the Company had a mortgage on its property in Maple Ridge, BC. The initial mortgage amount was for $1,800,000 for a two-year period beginning January 1, 2016 bearing interest at 8.5% per annum compounded monthly. The mortgage was renewed for a one-year term on January 1, 2018 for the principal outstanding of $1,754,546 with the same interest rate of 8.5% per annum compounded monthly, repayable in monthly payments of $14,494. The short term debt payable at December 31, 2018 was $1,731,003. The mortgage was disposed of in the course of the asset sale in 2019 (Note 4).

17. ACQUISITION

On June 26, 2018, the Company completed the acquisition of the net assets of First Circle Medical Pharmacy and Clinic pursuant to a Purchase Agreement (the “Agreement”) dated June 26, 2018, for a total consideration of $1,250,000. First Circle Medical Pharmacy and Clinic is focused on providing multidisciplinary, patient-centric, full-service health care to patients in Canada. The transaction was accounted for as a business combination.

Consideration		
Cash paid at closing	$	**275,000**
Common shares issued		**225,000**
Performance milestones achieved		
Common shares to be issued		**250,000**
Contingent consideration		**500,000**
	$	**1,250,000**

Contingent consideration represents the amount estimated to be paid out over a 12-month period on achievement of future performance milestones related to cumulative successful patient referrals and cumulative patients ordering medicine through the telemedicine services of the Clinics.

This consideration is to be satisfied based on four individual milestones, each resulting in issuance of $250,000 of Ascent Industries Corp. Common Shares, with the fair value being determined based on management’s assessment of the profitability of each milestone being achieved. The issuance of the Company’s shares should not result in former First Circle Medical Pharmacy and Clinic shareholders accumulating 50% or more of the Company’s shares.

During the period ended December 31, 2018, the first milestone was achieved for closing of the purchase. The Company has not issued the shares and thus has recorded $250,000 in Common shares to be issued. AS a result of the Health Canada actions, the First Circle Medical Pharmacy did not achieve the milestones in the terms to the agreement. The right to the contingent consideration lapsed as a result, so the shares were cancelled and the contingent consideration reversed.

All common shares issued were accounted for at fair value at the dates of issuance.

(continues)

(Expressed in Canadian Dollars)

17. ACQUISITION *(continued)*

Consideration

The fair value of the assets and liabilities acquired was as follows:

Allocation	
Inventory	**$ 42,000**
Equipment	**35,000**
Leasehold improvements	**100,000**
Goodwill	**1,073,000**
	$ 1,250,000

For the period ended December 31, 2018, First Circle Medical Pharmacy and Clinic accounted for $1,241,990 in net loss since June 28, 2018 which includes a goodwill impairment of $1,073,000.

In the year 2019 it accounted for $118,801 of the loss, settled through the CCAA process.

18. LONG TERM LIABILITIES

Effective May 29, 2017 and as amended July 26, 2018, a wholly-owned subsidiary of the Company has an 8.0% interest only mortgage on its Las Vegas, NV property. The aggregate amount of the mortgage is $4,000,000 and is due on January 1, 2020. This mortgage is secured against the Las Vegas property and the Maple Ridge property. There is a conversion privilege at the option of the lender, in whole or in part at any time during the term into common shares of the Company at $0.35 per share, and a prepayment right exercisable by the Company should there be an offering of shares or merger type transaction, at a share price of at least $1.00. The conversion privilege contains a price adjustment clause in the event of any future financing at a price of less than $0.35 per common share. As the conversion price can be amended, the conversion feature failed the 'fixed-for-fixed' criteria and was classified as a derivative liability with a fair value of $357,445 at the date of issuance. The conversion feature was valued using a binomial model on the issuance date and remeasured to fair value at December 31, 2018 with the following assumptions:

December 31, 2018

1. Exercise price: $0.35
2. Time to maturity: 1 year
3. Risk-free rate: 1.64%
4. Volatility: 70%
5. Dividend rate: nil

(continues)

(Expressed in Canadian Dollars)

18. LONG TERM LIABILITIES *(continued)*

Derivative liability	
Derivative liability	
Balance June 1, 2018	**$ 875,695**
Change in fair value	**1,100,368**
Balance December 31, 2018	**1,976,063**
Settled as part of the CCAA process (Note 6)	**(1,976,063)**
	$ -

Loan payable	
Balance June 1, 2018	**$ 3,821,278**
Add: Accretion interest	**74,467**
Balance December 31, 2018	**3,895,745**
Settled as part of the CCAA process (Note 6)	**(3,895,745)**
	$ -

19. SHARE CAPITAL

Authorized:
Unlimited Common shares with no par value
Unlimited Preferred shares with no par value

		December 31 2019	December 31 2018
Issued:			
320,151,457	Common shares	**$ 70,513,445**	$ 70,214,848

At December 31, 2019, there were 320,151,457 issued and fully paid common shares (December 31, 2018 - 320,151,457).

During the seven months ended December 31, 2018, the Company:

1. received $916,667 pursuant to the exercise of warrants issued as a part of a series B non-brokered private placement.
2. issued 2,777,778 units and 416,667 shares as consideration for properties in Pitt Meadows at a price of $0.36 per unit/share for a total of $1,150,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.

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19. SHARE CAPITAL *(continued)*

3. issued 205,556 units as consideration for services at a price of $0.36 and $0.40 per share for total services of $80,000.
4. issued 458,810 shares as consideration for services at a price of $0.36 and $0.40 per share for total services of $191,200.
5. issued 562,500 shares as consideration for the purchase of First Circle Medical Clinic Ltd. at a price of $0.40 per share for a total of $225,000.
6. issued 30,000,000 units as part of the series D non-brokered private placement at a price of $0.40 per unit for gross proceeds of $12,000,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years. In connection with the private placement the Company issued 510,407 units and paid $76,178 in transaction costs.
7. Company issued 48,085,500 units as part of a brokered public placement at a price of $0.40 per unit for gross proceeds of $19,234,200. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years. Issue costs consist of 2,885,130 units consisting of one option and one warrant at a unit price of $0.40. Warrants can be exercised at a price of $0.60 to acquire one common share for a period of two years.
8. issued 7,996,000 units as part of a brokered public placement at a price of $0.40 per unit for gross proceeds of $3,198,400. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years.
9. issued 1,495,870 common shares at a deemed price of $0.40 per share to former existing shareholders of Paget pursuant to closing of the Amalgamation.
10. issued 1,412,152 shares at a price of $0.44 per shares for the purchase of equipment.
11. received $1,970,232 pursuant to the exercise of warrants issued as a part of a Series D non-broker private placement and a brokered public placement.

(Expressed in Canadian Dollars)

20. SHARE PURCHASE WARRANTS

Balance May 31, 2018	**12,500,000**	$	0.250
Expired	**(12,000,000)**		0.250
Issued	**2,885,130**		0.400
Issued	**33,493,741**		0.500
Issued	**56,581,500**		0.600
Exercised	**(51,796)**		0.400
Exercised	**(2,833,334)**		0.500
Exercised	**(1,796,499)**		0.600
Balance December 31, 2018	**88,778,742**		0.250
Expired	**(500,000)**		0.600
Balance December 31, 2019	**88,278,742**	$	0.550

During the year ended May 31, 2018, the Company received total gross proceeds of $3,232,456 on the exercise of a total of 1,791,460 and 11,962,436 warrants an exercise price of $0.135 and $0.25 per common share respectively.

During the seven months ended December 31, 2018 the Company:

- received total gross proceeds of $916,667 pursuant to the exercise of 3,666,667 series B warrants at a price of $0.25 per common share.
- issued 2,777,778 units as consideration for properties in Pitt Meadows. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.
- issued 30,000,000 units as part of the series D non-brokered private placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.
- issued 48,085,500 units as part of a brokered public placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years. Issue costs consist of 2,885,130 units consisting of one option and one warrant. Options can be exercised at a price of $0.40 to acquire one common share and one warrant at a price of $0.60 per common share for a period of two years.
- issued 7,996,000 units as part of a brokered public placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years.

(continues)

(Expressed in Canadian Dollars)

20. SHARE PURCHASE WARRANTS *(continued)*

- issued 500,000 warrants at a deemed exercise price of $0.60 per share to former existing warrant holders of Paget pursuant to the Amalgamation. The fair value of the warrants at the date of grant was estimated at $22,483, based on the following weighted average assumptions: stock price volatility - 86%, risk free interest rate – 2.19%, dividend yield – 0.00%; and expected life – 6 months.
- received total gross proceeds of $490,472 pursuant to the exercise of 1,226,180 public offering warrants at $0.40 each.
- received total gross proceeds of $486,875 pursuant to the exercise of 973,750 series D warrants at $0.50 each.
- received total gross proceeds of $1,127,900 pursuant to the exercise of 1,879,833 public offering warrants at $0.60 each.

During the year ended December 31, 2019:

500,000 warrants at a deemed exercise price of $0.60 expired.

The following table summarizes the warrants that remain outstanding as at December 31, 2019:

Exercise Price	Number of Warrants	Expiry Date
0.500	30,660,407	June 19, 2020
0.600	46,789,000	June 21, 2020
0.600	7,996,001	July 24, 2020
0.600	2,833,334	August 03, 2020
	88,278,742	

Not all common shares issuable on exercise of these warrants have yet been issued, and accordingly, these have been reflected as common shares to be issued on the statement of changes of shareholders' equity.

21. SHARE-BASED COMPENSATION

During the year ended May 31, 2018, the shareholders of the Company approved a Stock Option Plan to attract and retain directors, employees, officers and consultants for contributions towards the long-term goals of the Company.

The Company recorded $nil for the period ended December 31, 2019 ($734,161 in the seven months ended December 31, 2018) in share-based compensation expense related to options.

At May 31, 2018, the weighed average exercise price of options outstanding was $0.40 and the weighed average remaining contractual life was 3.68 years based on a vesting period of four years.

(continues)

(Expressed in Canadian Dollars)

21. SHARE-BASED COMPENSATION *(continued)*

At December 31, 2018, the weighed average exercise price of options outstanding was $0.40 and the weighed average remaining contractual life was 4.10 years based on vesting periods of four to five years.

In the year ended December 31, 2019, all stock options expired or were cancelled when staff was terminated.

Balance June 1, 2017	**-**	$	-
Options granted	**12,470,000**		0.40
Balance May 31, 2018	**12,470,000**		0.40
Options granted	**50,000**		0.40
Options granted	**1,648,750**		0.40
Options granted	**600,000**		0.40
Options forfeited/cancelled	**(6,161,468)**		0.40
Balance December 31, 2018	**8,607,282**	$	0.40

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the year ended December 31, 2018 by applying the following assumptions:

Risk-free interest rate	1.93% - 2.04%
Expected life of options (years)	5
Expected annualized volatility	75%
Expected dividend yield	Nil
Weighted average Black-Scholes value of each option	$0.2400 - 0.5359

Volatility was established by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history.

22. SUPPLEMENTAL CASH FLOW INFORMATION

During the period ended December 31, 2018, 1,412,152 shares were issued for consideration of $621,647 to be used for the purchase of equipment; 664,366 shares were issued for consideration of $271,200 to be used for settlement of services provided; 562,500 shares were issued for $225,000 for consideration in the acquisition of First Circle Medical Clinic Ltd.; and 3,194,445 shares and warrants were issued for $1,150,000 for consideration for acquisition of properties in Pitt Meadows.

During the year ended December 31, 2019, obligation to issue shares in the First Circle Medical Pharmacy and Clinic acquisition was reversed in the amount of $250,000; exercise of warrants related to same acquisition was reversed in the amount of $298,597; and income taxes were paid in the amount of $2,154.

(Expressed in Canadian Dollars)

23. ACCRETION EXPENSE

During the seven months ended December 31, 2018 the Company recorded accretion expense in the amount of $74,467 in connection with the derivative liability. No accretion expense was recorded in 2019 due to disposal of the liability.

24. SEGMENTED INFORMATION

	Cannabis	Other	Total
For the year ended December 31, 2019			
Revenue	$ 744,040	**$ -**	$ 744,040
Gross profit (loss)	(1,004,928)	**-**	(1,004,928)
Income (loss) from operations	(10,974,818)	**-**	(10,974,818)
Net income (loss)	(10,974,818)	(11,421,566)	(22,396,384)
For the seven months ended December 31, 2018			
Revenue	$ 1,568,014	$ -	$ 1,568,014
Gross profit (loss)	(1,683,258)	-	(1,683,258)
Income (loss) from operations	(10,004,457)	(3,620,003)	(13,624,460)
Net income (loss)	(11,661,180)	(5,706,675)	(17,367,855)
As at December 31, 2019			
Total assets	$ 8,681,590	$ 4,983,804	$ 13,665,394
Total liabilities	30,611	432,756	463,367
As at December 31, 2018			
Total assets	$ 24,331,474	$ 22,921,131	$ 47,252,605
Total liabilities	1,188,671	10,342,370	11,531,041

(continues)

(Expressed in Canadian Dollars)

24. SEGMENTED INFORMATION *(continued)*

Cannabis

The Company generates revenue in two geographical locations: Canada and the USA. The Company has incorporated a wholly-owned subsidiary in Denmark. The activities as of December 31, 2018 of the Denmark subsidiary are immaterial. Accordingly, the operations of the Denmark subsidiary do not constitute a segment. All revenues during the year ended December 31, 2018 were generated in Canada and the USA and all material assets and liabilities were located in Canada and the USA.

	Canada	USA	Total
For the year ended December 31, 2019			
Revenue	-	744,040	744,040
Gross profit (loss)	-	(1,004,928)	(1,004,928)
Income (loss) from operations	(6,894,790)	(4,080,028)	(10,974,818)
Net income (loss)	(17,628,880)	(4,767,504)	(22,396,384)
For the period ended December 31, 2018			
Revenue	$ 26,465	$ 1,541,549	$ 1,568,014
Gross profit (loss)	(541,222)	(1,142,036)	(1,683,258)
Income (loss) from operations	(9,168,430)	(4,456,030)	(13,624,460)
Net income (loss)	(15,029,033)	(2,338,822)	(17,367,855)
As at December 31, 2019			
Total assets	$ 2,389,745	$ 11,275,649	$ 13,665,394
Total liabilities	383,272	80,095	463,367
As at December 31, 2018			
	$ 35,654,547	$ 11,589,058	$ 47,243,605
	11,193,949	337,092	11,531,041

(Expressed in Canadian Dollars)

25. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

	Year ended December 31 2019	7 months ended December 31 2018
Received from company connected to directors and shareholders of Ascent Industries Corp.	**$ -**	$ 17,907
Received from a director for the purchase of shares	**-**	11,700
Received from a company that is a shareholder for the purchase of shares	**-**	94,260
Received from a company controlled by a director for the purchase of shares	**-**	916,667
Key Employees *(Management)*		
Salaries and benefits	**$ 200,000**	$ 524,652
Share-based payments	**-**	386,698
Management fees to the CFO	**200,046**	-

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

26. INCOME TAXES

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences in Canada at December 31, 2019 and December 31, 2018 were as follows:

	December 31 2019	December 31 2018
Non-capital loss carry-forwards	**$ 12,076,240**	$ 7,186,211
Property and equipment	**7,036**	(1,753,773)
	$ 12,083,276	$ 5,432,438

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

(continues)

(Expressed in Canadian Dollars)

26. INCOME TAXES *(continued)*

The Corporation had non-capital loss carryforwards of approximately $47,462,573 at December 31, 2019 (December 31, 2018 – $25,951,858) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring between 2031 and 2039.

The Corporation had non-capital loss carryforwards of approximately $1,687,416 at December 31, 2019 (December 31, 2018 – $1,687,416) which may be carried forward to apply against future year income tax for US income tax purposes, subject to the final determination by taxation authorities, expiring between 2036 and 2039.

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the periods ended December 31, 2019 and December 31, 2018:

	Year ended December 31 2019	7 months ended December 31 2018
Loss before income taxes	**$ (22,396,384)**	$ (17,783,359)
Statutory tax rate	**25.00 %**	26.00 %
Expected recovery at statutory rate	**(5,599,096)**	(4,623,673)
Non-deductible items	**557,777**	997,187
Terminal loss	**(1,119,023)**	-
Change in estimates	**-**	286,096
Share issuance costs	**-**	186,804
Foreign tax credits	**34,672**	415,504
Accounting gain as per statements	**740,627**	-
Losses carried forward	**5,387,197**	3,153,586
Income tax	**$ 2,154**	$ 415,504

27. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the periods ended December 31, 2019 or December 31, 2018.

(Expressed in Canadian Dollars)

28. FINANCIAL INSTRUMENTS

The financial instruments recognized on the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, investments, trade and other payables, short term debt payable, derivative liability, contingent consideration, and loans payable.

Fair value

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

Fair value measurements of investments, short term debt payable, derivative liability, contingent consideration, and loans payable are as follows:

		Fair value measurements using		
	Carrying amount	Level 1	Level 2	Level 3
December 31, 2019				
Investments	**$ 376,502**	**$ 16,502**	$ -	$ 360,000
December 31, 2018				
Investments	**376,502**	**16,502**	-	360,000
Short term debt payable	**1,731,003**	**-**	1,731,003	-
Derivative liability	**1,976,063**	**-**	-	1,863,806
Contingent consideration	**500,000**	**-**	-	500,000
Loan payable	**3,895,745**	**-**	3,885,745	-

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

As at December 31, 2019 and 2018, the Company measured its investment in Sebastiani Ventures Corp. at Level 1 fair value.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

The fair value of short term debt payable approximates it carrying value as it bears a fixed rate of interest of 8.5% per annum compounded monthly, which approximates a market rate for comparable transactions.

The fair value of loan payable approximates it carrying value as it bears a fixed rate of interest of 8% per annum, which approximates a market rate for comparable transactions.

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28. FINANCIAL INSTRUMENTS *(continued)*

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The investment in Enhanced Pet Sciences Corp. is measured at fair value, but as the investment is privately held and there is no quoted market price for its common shares, fair value is deemed to be best represented by the initial acquisition price of the investment.

Contingent consideration classified as liabilities as part of the consideration paid for First Circle Medical Pharmacy and Clinic is a Level 3 financial liability. Contingent consideration was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in these calculations probability of achieving the necessary milestones associated with the acquisition. The settlement of contingent consideration could differ from current estimated based on the actual results of these financial measures.

Derivative liability classified as liabilities as part of the consideration paid for the acquisition of the mortgage for the Las Vegas, NV property is a Level 3 financial liability and represents the conversion privilege at the option of the lender, in whole or in part at any time during the term into common shares of the Company at $0.35 per share, and a prepayment right exercisable by the Company should there be an offering of shares or merger type transaction. The settlement of the derivative liability could differ from current estimated based on the actual results of these financial measures.

There were no transfers between levels 1, 2 and 3 inputs during the period.

Risk Management

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash and cash equivalents with highly rated Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its guaranteed investment certificates. Trade and other receivables primarily consist of trade accounts receivable and Goods and Services Tax recoverable (“GST”).

(continues)

(Expressed in Canadian Dollars)

28. FINANCIAL INSTRUMENTS *(continued)*

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of sales are transacted with credit cards.

As at December 31, 2019 and December 31, 2018 all of the Company's trade receivables were current.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company has obtained primarily fixed rate debt which limits its exposure to interest rate fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At December 31, 2019 the contractual obligations related to financial liabilities were as follows:

	Less than 1 year	1 to 5 years	Total
Trade and other payables	$ 413,888	$ -	$ 413,888
Right-of-use lease	27,447	22,032	49,479

29. SUBSEQUENT EVENTS

The outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Company or its clients, employees, contractors, suppliers, and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Company's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Company's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

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29. SUBSEQUENT EVENTS *(continued)*

On March 6, 2020, the Company announced that it had implemented its first amended and restated consolidated plan of compromise, arrangement and organization (the "Plan") under the Companies' Creditors Arrangement Act ("CCAA"). Distributions under the Plan, as well as the issuance of common shares of Ascent that were to be issued pursuant to the terms of the Plan, have been completed. The Company was unable, however, to obtain a further extension of the stay of proceedings provided by the order obtained by the Company on January 28, 2020. Accordingly, the stay of proceedings expired on March 6, 2020 and the Company's CCAA proceedings concluded upon expiry of the stay.

On January 28, 2020 the Company entered into a secured loan agreement with Enhanced Pet Sciences Corp for US$500,000. The loan bears interest at 8% per annum and is due on December 31, 2020. The principals of the borrower have provided guarantees and have provided collateral security.