LUFF ENTERPRISES LTD.

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

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April 12, 2022
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Luff Enterprises Ltd.

Opinion

We have audited the consolidated financial statements of Luff Enterprises Ltd. (the Company), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations, shareholders' equity and cash flows for the years 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, 2021 and 2020, and the consolidated financial performance and consolidated cash flows for the years 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.

Emphasis of Matter - 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 $2,395,752 during the year ended December 31, 2021 and, as of that date, the Company had an accumulated deficit of $68,647,709. As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

(continues)

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 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.

(continues)

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

LUFF ENTERPRISES LTD.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian dollars)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 3,880,602	$ 1,932,363
Trade and other receivables *(Note 4)*	359,614	679,318
Prepaid expenses	35,614	60,729
Investments *(Note 6)*	754,422	408,204
Inventory *(Note 5)*	344,952	143,330
Loan receivable *(Note 9)*	686,221	727,925
Total current assets	6,061,425	3,951,869
Long-term assets		
Property held for sale *(Note 7)*	1,050,201	5,342,463
Property, plant & equipment *(Note 7)*	-	2,020,379
Intangible assets *(Note 8)*	34,791	23,344
Goodwill *(Note 10)*	-	6,396
Accrued loan fees	-	66,477
Right of use asset *(Note 7)*	105,072	138,868
Total assets	$ 7,251,489	$ 11,549,796
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 229,671	$ 460,736
Current portion of right of use lease *(Note 11)*	111,062	141,758
Short-term note payable *(Note 12)*	-	2,000,000
Total current liabilities	340,733	2,602,494
Long-term liabilities		
Right of use lease *(Note 11)*	-	74,156
Loans payable *(Note 13)*	427,339	427,339
Total liabilities	768,072	3,103,989
Shareholders' equity		
Share capital *(Note 14)*	72,709,115	72,046,643
Contributed surplus	3,244,154	3,004,907
Accumulated other comprehensive loss	(822,143)	(353,786)
Deficit	(68,647,709)	(66,251,957)
Total shareholders' equity	6,483,417	8,445,807
Total liabilities and shareholders' equity	$ 7,251,489	$ 11,549,796

On behalf of the Board:

"Philip Campbell" — Chief Executive Officer and Director

"Jeremy South" — Director

LUFF ENTERPRISES LTD.

Consolidated Statements of Operations

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Sales	$ 684,238	$ 20,080
Cost of sales	444,577	3,547
Gross profit	239,661	16,533
Expenses:		
General and administration	2,089,092	2,841,531
Selling and marketing	806,475	204,156
Pre-production costs	-	84,245
Share based compensation *(Note 16)*	310,943	29,583
Depreciation & amortization *(Notes 7, 8)*	665,268	954,615
	3,871,778	4,114,130
Loss from operations	(3,632,117)	(4,097,597)
Other (income) expenses		
Interest and other	66,881	37,790
Share issuance cost	-	167,811
Gain on sale of assets *(Note 7)*	(1,062,994)	-
Gain on investments *(Note 6)*	(326,219)	(31,702)
Forgiveness of loan	(163,716)	-
CCAA settlement *(Note 3)*	67,233	1,716,216
Impairment loss *(Note 10)*	6,396	323,610
Bad debt expense *(Note 4)*	50,035	111,670
Loss on foreign exchange *(Note 9)*	85,146	-
Accretion expense *(Note 13)*	26,377	11,915
	(1,250,861)	2,337,310
Loss before income taxes	(2,381,256)	(6,434,907)
Income tax expense *(Note 20)*	14,496	3,140
Net loss	(2,395,752)	(6,438,047)
Other comprehensive loss		
Currency translation adjustment	(468,357)	(42,330)
Comprehensive loss	$ (2,864,109)	$ (6,480,377)
Basic and diluted loss per share	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding	404,222,922	361,659,263

LUFF ENTERPRISES LTD.

Consolidated Statements of Shareholders' Equity

As at December 31, 2021 and 2020

(Expressed in Canadian Dollars)

	Common Shares		Contributed Surplus	Accumulated other comprehensive loss	Deficit	Shareholder's Equity
	Number	$	$	$	$	$
As at December 31, 2019	**320,151,457**	**70,513,445**	**2,813,951**	**(311,456)**	**(59,813,910)**	**13,202,030**
Shares issued for Service *(Note 14)*	7,200,000	180,000				180,000
Shares issued for debt *(Note 14)*	35,572,372	889,309				889,309
Shares issued in private placement *(Note 14)*	27,159,203	434,875				434,875
Warrants issued *(Note 15)*		10,999	161,373			172,372
Convertible Debenture *(Note 13)*		22,576				22,576
Share issuance costs		(4,561)				(4,561)
Share based compensation *(Note 16)*			29,583			29,583
Currency translation adjustment				(42,330)		(42,330)
Net loss for the period					(6,438,047)	(6,438,047)
As at December 31, 2020	**390,083,032**	**72,046,643**	**3,004,907**	**(353,786)**	**(66,251,957)**	**8,445,807**
Shares issued - exercise of restricted shares *(Note 14)*	13,300,000	313,500	(313,500)			-
Shares issued - exercise of stock options *(Note 14)*	500,000	17,100	(7,100)			10,000
Shares issued - private placement *(Note 14)*	27,656,000	331,872	248,904			580,776
Share based compensation *(Note 16)*			310,943			310,943
Currency translation adjustment				(468,357)		(468,357)
Net loss for the period					(2,395,752)	(2,395,752)
Balance, December 31, 2021	**431,539,032**	**72,709,115**	**3,244,154**	**(822,143)**	**(68,647,709)**	**6,483,417**

LUFF ENTERPRISES LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
Cash provided by (used for):		
Operating activities:		
Net loss for the period	$ (2,395,752)	$ (6,438,047)
Items not affecting cash:		
Depreciation & amortization	665,268	954,615
Accretion expense	26,377	11,915
Gain on sale of assets	(1,062,994)	-
Warrants	-	172,372
Share based compensation	310,943	29,583
Shares issued for service	-	180,000
Forgiveness of loan	(163,716)	-
Loss on foreign exchange	85,146	-
Debenture	-	438,000
CCAA settlement	-	889,309
Impairment loss	6,396	323,610
Gain on investments	(326,219)	(31,702)
Bad debt expense	-	111,670
Changes in non-cash working capital balances:		
Trade and other receivables	261,820	(44,111)
Prepaid expenses	24,839	10,557
Inventory	(197,257)	(148,771)
Accrued loan fees	-	(66,824)
Accounts payable and accrued liabilities	(194,327)	208,861
Cash used in operating activities	(2,959,478)	(3,398,963)
Investing activities:		
Purchase of intangible assets	(12,535)	(25,676)
Purchase property, plant and equipment	(82,599)	(86,505)
Proceeds on sale of assets	6,455,128	-
Cash paid for acquisition	-	(20,445)
Loan receivable	-	(727,925)
Cash provided by (used) in investing activities	6,359,993	(860,551)
Financing activities:		
Shares issued - private placement	580,776	434,875
Shares issued - exercise of stock options	10,000	-
Repayment of right of use lease liability	(168,680)	(73,627)
Repayments on note payable	(2,000,000)	-
Proceeds on note payable	163,716	2,000,000
Cash (used in) provided by financing activities	(1,414,188)	2,361,248
Increase (decrease) in cash and cash equivalents	1,986,327	(1,898,266)
Effect of exchange rate changes in cash	(38,089)	(162,392)
Cash and cash equivalents, beginning of period	1,932,364	3,993,021
Cash and cash equivalents, end of period	$ 3,880,602	$ 1,932,363

Note 1 – Nature of operations and going concern

Luff Enterprises Ltd. ("Luff" or the "Company") manufactures and distributes hemp based Cannabidiol ("CBD") wellness products in the United States through two brands on its innovative e-commerce platforms. The Company focuses on formulations leveraging unique cannabinoids, such as CBG and CBN; and boost them with superfood ingredients. The Company, through its subsidiaries, owns the assets related to hemp cultivation, production, distribution, and product development in the States of Oregon and Nevada. On December 10, 2021, the Company sold its manufacturing facility in Nevada.

The Company was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013 under the name Ascent Industries Corp. ("Ascent"). On May 15, 2020 the Company changed its name to Luff Enterprises Ltd. The Company's head office and principal address is located at Suite 800 – 543 Granville Street, Vancouver, BC V6C 1X8.

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 year ended December 31, 2021 the Company incurred a net loss of $2,395,752 (net loss of $6,438,047 for the year ended December 31, 2020). However, the Company had a strong cash position of $3,880,602 and positive working capital of $5,720,692 as at December 31, 2021. The Company believes it currently as sufficient cash and working capital to fund its operating expenditures and capital investments for the foreseeable future.

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.

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 substantially restricted access to continue operations and, as a result, the Company filed for protection under the Companies' Creditors Arrangement Act (the "CCAA"). Effective May 26, 2020 the Company was discharged from this process, having settled with all claimants. See note 3 – CCAA Settlement, for additional information.

Note 2 – Summary of significant accounting policies

a) <u>Statement of compliance and basis of presentation</u>

The accompanying consolidated financial statements have been presented 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 5, 2022.

Note 2 – Summary of significant accounting policies, continued

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., and Luff Enterprises NV Inc. All inter- company balances and transactions have been eliminated on consolidation.

c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for assets classified as held for sale, which are measured at the lower of their carrying amount and fair value less costs to sell, and investment and derivatives, which are measured at fair value through profit or loss.

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.

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 of operations. 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) Cash and cash equivalents

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

f) Inventory

Inventories of ingredients, purchased cannabinoids, finished goods and packaging materials are initially measured at cost and subsequently at the lower of cost and 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 reviews inventory for obsolete, redundant and slow-moving goods and any such inventories were written down to net realizable value.

Note 2 – Summary of significant accounting policies, continued

g) Property, plant and equipment 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 consolidated statement of operations 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, 2021 and 2020, 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 mobile equipment - 3 years
- Software - 3 years
- Laboratory and production equipment - 4 to 5 years
- Furniture, fixtures and security equipment - 4 to 5 years
- 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 consolidated statement of operations 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.

Property, plant and equipment acquired, but not available for use are not amortized until they are available for use.

Right of use assets are recorded on a present value basis and amortized on a straight-line basis over the life of the lease. The cost of asset is adjusted for any re-measurement of the lease liability and is less any accumulated depreciation and accumulated impairment losses, if any.

Note 2 – Summary of significant accounting policies, continued

h) Assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

i) Intangible assets and goodwill

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.

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test.

For the periods ending December 31, 2021 and 2020, 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 the useful lives for its licenses to be 40 years.

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 the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

Note 2 – Summary of significant accounting policies, continued

j) Right of use lease, continued

- The Company has the right to operate the asset: or
- The Company designed the asset in a way that predetermines how and for what purpose it will be used.

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.

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 (loss). 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.

k) 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 or loss.

The recoverable amount of an asset or CGU is the greater of its 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. Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

Note 2 – Summary of significant accounting policies, continued

l) 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 contributed surplus over the vesting periods are recorded as share capital. Share capital issued for nonmonetary consideration is recorded at an amount based on the fair market value of the shares on the date of issue.

m) 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.

n) Comprehensive (loss) income

Comprehensive (loss) 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 foreign currency translation.

o) 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.

p) 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.

Note 2 – Summary of significant accounting policies, continued

q) Revenue recognition

The Company generates revenue primarily from the sale of cannabidiol (CBD) and CBD 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
5. Recognizing revenue when or as the Company satisfies the performance obligation(s)

Revenue from the sale of CBD 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) 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 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.

Note 2 – Summary of significant accounting policies, continued

r) Income taxes, continued

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.

s) Statement of cash flow

The Company is using the indirect method in its presentation of the statement of cash flow.

t) 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.

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, loans receivable, and investments.

Subsequent measurement

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

Financial assets at fair value through profit or loss
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.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

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

Amortized cost
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, loans receivable, and trade and other receivables at amortized cost.

Fair value through other comprehensive income
Financial assets measured at fair value through other comprehensive income is permitted 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
- 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.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

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 recognizes 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 recognized on the financial asset regardless of whether an actual loss event has occurred.

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 profit or loss. 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 profit or loss. 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 profit or loss.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

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.

The Company's financial liabilities include accounts payable and accrued liabilities, short-term notes payable, loans payable and right of use leases.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss
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 profit or loss.

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

Amortized cost
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 profit or loss 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 profit or loss.

The Company's financial liabilities measured at amortized cost include accounts payable and accrued liabilities, short-term notes payable, loans payable, and right of use leases.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

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

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 22.

u) Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, 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 judgements estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Note 2 – Summary of significant accounting policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

Significant judgements

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 judgement 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 judgement 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 22.

b. Estimated useful lives and depreciation of property, plant and equipment, intangible assets and impairment of non-financial assets

Depreciation of property, plant and equipment and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgement. 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.

c. Going concern assumption

The Company exercises judgement in determining its ability to continue to operate for the foreseeable future and to be able to discharge its liabilities in its normal course of business. The Company assesses its current and forecasted cash and working capital balances to make this determination.

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 judgement 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.

Note 2 – Summary of significant accounting policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

b. Deferred tax assets

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.

c. Revenue from contracts with customers

The Company has determined that goods and services rendered are capable of being distinct and it recognizes revenue when the customer receives and continuously uses the benefits of the goods and services provided. The transaction price is based on specific contract rates and does not contain variable consideration or significant financing components.

d. Share based payments and warrants

All equity-settled, share based awards and share purchase warrants issued by the Company are fair valued using the Black-Scholes option-pricing model or other fair value techniques. In assessing fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

e. Leased assets

Leases require assumptions and estimates in order to determine the value of the right of use asset and lease liabilities. Judgement must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

f. Investments in associates

Management has applied significant judgement in the determination of whether or not the Company exerts significant influence with respect to its investments, which then allows the Company to account for investments under the cost accounting method. Further, management has applied significant judgement and made use of management estimates and assumptions in determining and quantifying any impairment losses that may need to be recorded against its investments in associates.

Note 2 – Summary of significant accounting policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

g. Inventory valuation

Management has applied judgement in the determination of the net realizable value of its inventory. Management estimates net realizable value by estimating selling prices in the ordinary course of business less estimated cost of completion and estimated cost necessary to make the sale.

v) 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.

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.

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.

Note 2 – Summary of significant accounting policies, continued

w) Measurement uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

x) Government grants

The Company received certain government assistance in the form of Canada Emergency Wage Subsidy and U.S. Paycheck Protection Program in connection with the COVID-19 pandemic. These subsidies are recognized in profit or loss on a systematic basis, over the periods in which the entity recognizes as expenses the related costs, for which the subsidies are intended to compensate.

Note 3 – CCAA settlement

On March 1, 2019, by order of the Supreme Court of British Columbia, Ascent, along with its 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 the Companies' Creditors Arrangement Act ("CCAA") from its creditors under Vancouver Registry No. S-192188. Ernst & Young Inc. was appointed as Monitor of the Petitioners.

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 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, were completed. The stay of proceedings expired on March 6, 2020 and the Company's CCAA proceedings concluded upon expiry of the stay.

The allowable claims were 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 was paid.

In addition to the cash settlement of $9,361,913 paid in final settlement, the Company issued the affected claimants 35,572,372 common shares with an aggregate value of $889,309 on March 3, 2020.

During the year ended December 31, 2021, the Company recorded a loss on CCAA settlement in the amount of $67,233 (2020 - $1,716,216). The loss incurred in 2021 related to the finalization of certain goods and services tax/harmonized sales tax audits related to pre-CCAA periods. The Company does not expect to incur any further costs related to the CCAA.

(Expressed in Canadian Dollars)

Note 4 – Trade and other receivables

	December 31 2021 $	December 31 2020 $
Trade receivables	**27,299**	15,279
GST recoverable	**271,064**	664,039
Other receivables	**61,251**	-
Total receivables	**359,614**	679,318

In the year ended December 31, 2021, $50,035 of trade receivable were recognized as a bad debt expense (December 31, 2020 - $111,670).

Included in other receivables was a USD $25,000 (CAD $31,338) extension fee related to the amendment of the closing sale date of the Nevada facility (see Note 7). This was subsequently received within the first quarter of 2022. The remaining balance relates to holdbacks of invoiced amounts.

Note 5 – Inventory

	December 31 2021 $	December 31 2020 $
Packaging	**92,152**	48,971
Ingredients and cannabinoids	**46,511**	31,956
Finished goods	**206,289**	62,403
Total inventory	**344,952**	143,330

Inventory expensed in direct costs for the year ended December 31, 2021 was $444,577 (year ended December 31, 2020 - $3,547). For the years ended December 31, 2021 and December 31, 2020 there were no write downs of inventory.

Note 6 – Investments

	December 31 2021 $	December 31 2020 $
Enhanced Pet Sciences Corp.	**740,000**	360,000
Golden Ridge Resources Ltd.	**14,422**	31,702
Sebastiani Ventures Corp.	**-**	16,502
Total investments	**754,422**	408,204

(Expressed in Canadian Dollars)

Note 6 – Investments, continued

The Company holds an equity investment in Enhanced Pet Sciences Corp. ("EPS"), a privately held, startup company that is developing consumer packaged goods 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. EPS issued an additional 100,000 shares to the Company at the price of $0.20 per share in May 2021 pursuant to a loan receivable agreement (see Note 9). The investment in EPS is recognized at fair value through profit or loss and recognized a gain of $360,000 during the year ended December 31, 2021 (December 31, 2020 - $nil).

The Company holds an investment in Golden Ridge Resources Ltd. ("Golden Ridge"), a publicly traded company on the TSX Venture Exchange. The investment in Golden Ridge is recognized at fair value through profit or loss and recognized a loss of $17,279 during the year ended December 31, 2021 (December 31, 2020 - $nil).

The Company holds an investment in Sebastiani Ventures Corp, a publicly traded company. Management estimated the fair value of this investment to be $nil at December 31, 2021 ($16,502 at December 31, 2020).

Note 7 – Property, plant and equipment and right of use assets

Cost	December 31 2020 $	Additions $	Disposals $	Other/ Foreign exchange $	December 31 2021 $
Land	666,159	-	(624,013)	(42,146)	**-**
Buildings	4,301,602	-	(4,029,449)	(272,153)	**-**
Computer equipment	74,259	-	(25,034)	(4,812)	**44,413**
Software	7,146	-	-	(452)	**6,694**
Mobile equipment	32,950	-	-	(2,085)	**30,865**
Furniture and fixtures	52,653	-	(21,341)	(3,329)	**27,983**
Security equipment	185,359	-	(99,741)	(11,727)	**73,891**
Lab equipment	1,419,637	42,082	(164,769)	(85,772)	**1,211,178**
Leasehold improvements	2,355,748	42,124	(524,006)	(149,043)	**1,724,823**
Right of use assets	277,737	67,816	-	1,023	**346,576**
	9,373,250	152,022	(5,488,353)	(570,496)	**3,466,423**

(Expressed in Canadian Dollars)

Note 7 – Property, plant and equipment and right of use assets, continued

Accumulated Amortization	December 31 2020 $	Depreciation $	Disposals $	Other/ Foreign Exchange $	December 31 2021 $
Buildings	(331,924)	-	310,603	21,321	**-**
Computer equipment	(69,403)	(4,383)	25,034	4,339	**(44,413)**
Software	(6,253)	(820)	-	379	**(6,694)**
Mobile equipment	(26,772)	(5,677)	-	1,584	**(30,865)**
Furniture and fixtures	(30,690)	(9,638)	16,081	1,715	**(22,531)**
Security equipment	(169,757)	(8,496)	99,741	10,575	**(67,937)**
Lab equipment	(1,026,707)	(326,719)	163,441	58,450	**(1,131,535)**
Leasehold improvements	(777,791)	(208,012)	174,971	45,162	**(765,670)**
Right of use assets	(138,869)	(100,794)	-	(1,842)	**(241,504)**
	(2,578,166)	(664,538)	789,871	141,684	**(2,311,149)**

Cost	December 31 2019 $	Additions $	Disposals $	Other/Foreign Exchange $	December 31 2020 $
Land	667,177	-	-	(1,018)	**666,159**
Buildings	4,308,175	-	-	(6,573)	**4,301,602**
Computer equipment	71,211	3,157	-	(109)	**74,259**
Software	7,157	-	-	(11)	**7,146**
Mobile equipment	33,000	-	-	(50)	**32,950**
Furniture and fixtures	52,733	-	-	(80)	**52,653**
Security equipment	185,642	-	-	(283)	**185,359**
Tools and equipment	1,114,513	-	-	(1,114,513)	**-**
Lab equipment	223,818	83,348	-	1,112,471	**1,419,637**
Leasehold improvements	2,359,348	-	-	(3,600)	**2,355,748**
Right of use assets	244,589	277,737	-	(244,589)	**277,737**
	9,267,363	364,242	-	(258,355)	**9,373,250**

(Expressed in Canadian Dollars)

Note 7 – Property, plant and equipment and right of use assets, continued

Accumulated Amortization	December 31 2019 $	Depreciation $	Disposals $	Other/Foreign Exchange $	December 31 2020 $
Buildings	(224,384)	(107,540)	-	-	**(331,924)**
Computer equipment	(44,850)	(24,621)	-	68	**(69,403)**
Software	(3,877)	(2,382)	-	6	**(6,253)**
Mobile equipment	(17,875)	(8,924)	-	27	**(26,772)**
Furniture and fixtures	(20,191)	(10,531)	-	32	**(30,690)**
Security equipment	(111,119)	(58,808)	-	170	**(169,757)**
Tools and equipment	(570,426)	-	-	570,426	**-**
Lab equipment	(118,149)	(339,183)	-	(569,375)	**(1,026,707)**
Leasehold improvements	(543,044)	(235,574)	-	827	**(777,791)**
Right of use assets	(192,569)	(138,869)	-	192,569	**(138,869)**
	(1,846,484)	(926,432)	-	194,750	**(2,578,166)**

Net Book Value	December 31 2021 $	December 31 2020 $
Land	**-**	666,159
Buildings	**-**	3,969,678
Computer equipment	**-**	4,856
Software	**-**	893
Mobile equipment	**-**	6,178
Furniture and fixtures	**5,451**	21,963
Security equipment	**5,954**	15,602
Lab equipment	**79,643**	392,930
Leasehold improvements	**959,153**	1,577,957
Right of use assets	**105,072**	138,868
	1,155,273	6,795,084

During the year ended December 31, 2021, the Company sold its Nevada, USA facility and associated licenses for proceeds of $6,455,128 and recognized a gain on sale of $1,062,994.

At December 31, 2021, property, plant and equipment with a carrying value of $1,050,201 related to the Company's facility in Oregon, USA were reclassified to assets held for sale. The Company plans to dispose of these assets in 2022.

(Expressed in Canadian Dollars)

Note 8 – Intangible assets

Licenses	December 31 2020 $	Additions/ Amortization $	Disposals $	Foreign Exchange $	December 31 2021 $
Cost	1,131,475	12,779	(1,043,888)	(64,202)	**36,164**
Accumulated amortization	(77,895)	(26,329)	104,930	(2,079)	**(1,373)**
Net book value	1,053,580				**34,791**

Amortization expense of $26,329 (2020 - $28,183) related to intangible assets was recorded in the year ended December 31, 2021 and included with depreciation and amortization in the consolidated statement of operations. Of the net book value at December 31, 2020, $1,030,236 was classified as held for sale.

Note 9 – Loan receivable

On January 28, 2020 the Company entered into a secured loan agreement with EPS for USD $500,000 (CAD $727,925). The loan bears interest at 8% per annum, is secured by collateral security as well as guarantees from certain principals of EPS, and was initially due on December 31, 2020.

On April 15, 2021, the loan agreement was revised and the maturity date extended to December 31, 2021. Outstanding interest of USD $36,995 (CAD $49,629) was rolled into the principal balance of the loan making the new outstanding loan balance USD $536,995 (CAD $777,554). The revised agreement also provided the option for the Company to convert the loan into common shares of EPS at a fixed value of $0.20 per common share with 10 days written notice at any time up to the maturity date. The interest and security collateral terms remained the same.

On November 24, 2021, the Company signed an additional extension agreement for the loan receivable. Under the terms of the extension, the loan now matures on December 31, 2022. EPS made a USD $40,000 (CAD $51,116) prepayment and has agreed to an additional USD $40,000 payment to be made by June 30, 2022. In addition, EPS has agreed to pay to the Company either a USD $10,000 payment or an additional USD $20,000 in common shares of the Borrower at CAD $0.20 per share by February 28, 2022, at the election EPS. On February 28, 2022, EPS elected to issue the Company 50,880 common shares at a deemed price of CAD $0.50 per share (post 2.5 to 1 share consolidation).

During the year ended December 31, 2021, a loss of CAD $88,836, related to the foreign exchange impact on changes in the US dollar, was recognized to adjust the carrying value of the loan receivable to CAD $686,221 at December 31, 2021.

(Expressed in Canadian Dollars)

Note 10 – Goodwill

On October 23, 2020, the Company purchased Wholesome Holdings, Inc. for a purchase price of $6,396, which was recorded as goodwill on the consolidated statement of financial position at December 31, 2020. The acquisition provided the Company with access to already established CBD merchant service accounts, bank accounts and a fulfillment account with a third-party logistics provider. The acquisition was a strategic decision in line with the Company's business plan to launch ecommerce marketplaces to access the national CBD market in the United States. The Company recognized an impairment loss of $6,396 related to the goodwill during the year ended December 31, 2021.

Note 11 – Obligations under right of use lease

The Company recognizes obligations under right of use leases, which represent the present value of future lease payments due pursuant to real property leases. Obligations under right of use leases bear interest at annual rates of 4.25% (December 31, 2020 – 4.25%) per annum and are repayable in current monthly blended principal and interest payments of $16,320 (December 31, 2020 - $12,680), maturing at dates ranging from June 2022 to December 2022. These lease liabilities correspond with right of use assets with a net book value of $105,072 at December 31, 2021 (December 31, 2020 - $138,868).

	December 31 2021 $	December 31 2020 $
Lease liability	**111,062**	215,914
Amounts payable within one year	**(111,062)**	(141,758)
	-	74,156

Future minimum lease payments required over the five years for obligations under right of use lease were as follows:

	December 31 2021 $	December 31 2020 $
Within one year	**115,782**	150,935
Thereafter	**-**	77,308
Total minimum lease payments	**115,782**	228,243
Less: amount representing interest	**(4,720)**	(12,329)
Present value of minimum lease payments	**111,062**	215,914
Less: current portion	**(111,062)**	(141,758)
	-	74,156

Note 12 – Short term note payable

On December 18, 2020, the Company closed a $2,000,000 short term debt financing, consisting of $500,000 from Safeco Developments Ltd and $1,500,000 from Interdiam Investments Corp. The loans incurred interest at an annual rate of 12.0% and originally matured on September 18, 2021, but were extended for six months. The Company also issued 12,000,000 warrants to the lenders, exercisable at a price of $0.025 expiring on December 23, 2022. Interest expense recognized in the consolidated statement of operations was $220,000 for the year ended December 31, 2021 (December 31, 2020 - $9,836). The Company also paid a $40,000 loan extension fee and recognized $60,000 of closing fees during the year ended December 31, 2021.

The short term notes payable were fully repaid in December 2021.

Note 13 – Convertible debenture and long-term liabilities

Convertible Debenture

On May 28, 2020, the Company issued a three-year unsecured convertible debenture having a principal amount of $438,000 (the “Convertible Debenture”) to a company controlled by a director and shareholder of the Company for the reimbursement of costs incurred by the director and shareholder in connection with the CCAA proceedings deemed of benefit and in the interest of the Company. The Convertible Debenture is convertible into 17,520,000 Common shares of the Company at the election of the shareholder, at any time and by the Company’s election, during any period where the 20-day weighted average trading price of the Company’s common shares is $0.10 or greater.

The Convertible Debenture has been discounted to its net present value using a coupon rate of 6% and a yield rate of 8%. The debt discount balance of $22,576 is being amortized over the term of the note using the effective interest rate.

Paycheck Protection Program Loan

On February 16, 2021, the Company received loan proceeds in the amount of USD $130,607 (CAD $164,238) under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid Relief and Economic Security (“CARES”) Act, provided loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying businesses. The loans and accrued interest are forgivable after 24 weeks as long as the borrower used the loan proceeds for eligible purposes including payroll, benefits, rent and utilities in addition to maintaining payroll levels. The Company received notification that the loan was forgiven on June 14, 2021 and recognized the forgiveness of loan in the consolidated statement of operations.

(Expressed in Canadian Dollars)

Note 14 – Share capital

Authorized – Unlimited common shares with no par value	**Number of shares**	Amount $
Issued – common shares		
As at December 31, 2019	320,151,457	70,513,445
Activity during the year ended December 31, 2020:		
Shares issued – debt	35,572,372	889,309
Shares issued – services	7,200,000	180,000
Shares issued – private placement	27,159,203	434,875
Shares issued – other		29,341
As at December 31, 2020	390,083,032	72,046,643
Activity during the year ended December 31, 2021:		
Shares issued – exercise of restricted shares	13,300,000	313,500
Shares issued – exercise of stock options	500,000	17,100
Shares issued – private placement	27,656,000	331,872
Issued and outstanding at December 31, 2021	**431,539,032**	**72,709,115**

In November 2021, the Company completed a non-brokered private placement of 27,656,000 units at a price of $0.021 per unit for gross proceeds of $580,776. Each unit consisted of one common share of the Company and one common share purchase warrant. Of the total gross proceeds, $331,872 was allocated to the common shares with the remainder allocated to the value of the share purchase warrants.

During the year ended December 31, 2021, 13,300,000 common shares were issued pursuant to the exercise of restricted share units and 500,000 common shares were issued pursuant to the exercise of stock options (see Note 16).

On March 3, 2020, the Company issued 35,572,372 common shares at a price of $0.025 per share under the Plan of Compromise, Arrangement and Reorganization (Note 3). In addition, on May 15, 2020, the Company issued 7,200,000 common shares at a price of $.025 per share to settle professional services debts.

On September 22, 2020, the Company completed a non-brokered Private Placement issuing 27,159,203 common shares at a price of $0.016 per share for gross proceeds of $434,875. Finder's fees of $1,340 were paid in connection with the offering.

(Expressed in Canadian Dollars)

Note 15 – Share purchase warrants

	Amount	Weighted Average Exercise Price per Share $
As at December 31, 2019	88,428,742	0.050
Warrants issued	12,000,000	0.025
As at December 31, 2020	100,428,742	0.038
Warrants expired	(88,428,742)	0.050
Warrants issued	27,656,000	0.050
Balance, December 31, 2021	**39,656,000**	**0.042**

In November 2021, the Company completed a non-brokered private placement of 27,656,000 units for gross proceeds of $580,776. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire a common share of the Company at a price of $0.05, expiring on October 26, 2024. The fair value of the warrants at the date of grant was estimated to be $248,904 based on the following weight average assumptions: stock price volatility – 100%, risk free rate – 1.39%, dividend yield – 0.00% and expected life of 36 months.

During the year ended December 31, 2020, the Company also issued 12,000,000 warrants in connection with a short-term financing that was completed in December 2020 (see Note 12). These warrants are exercisable at a price of $0.025 and expire on December 23, 2022. The fair value of the warrants at the date of grant was estimated to be $10,999 based on the following weight average assumptions: stock price volatility – 85%, risk free rate - 0.25%, dividend yield – 0.00% and expected life of 24 months.

On June 11, 2020, the Company issued a Supplemental Indenture whereby all outstanding warrants were repriced to a reduced exercise price of $0.05 per warrant and an extended expiration date of June 24, 2021. The fair value of the warrants at the date of grant was estimated to be $161,373 based on the following weight average assumptions: stock price volatility – 85%, risk free rate - 0.25%, dividend yield – 0.00% and expected life of 12 months.

The following table summarizes the warrants that remain outstanding as at December 31, 2021:

Exercise Price	Number of Warrants	Expiry Date
$0.05	27,656,000	October 26, 2024
$0.025	12,000,000	December 23, 2022

(Expressed in Canadian Dollars)

Note 16 – Share-based compensation

During the year ended May 31, 2018, the shareholders of the Company initially 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 directors approved the continuance of this plan in June 2020 by reserving 10% of the issued and outstanding shares for stock options. At the October 29, 2020 board meeting the Directors of the Company voted to adopt the Amended and Restated Stock Option and Restricted Share Unit Plan (the Amended Plan). The Amended Plan now includes Restricted Share Units (RSUs) as a form of employee compensation. This plan was ratified by the shareholders at the Annual General Meeting of the Company on September 22, 2021.

Stock options

During the prior year ended December 31, 2020, 4,000,000 stock options were granted to employees, vesting over a four-year period and exercisable a $0.02 per share. The fair value of the stock options issued were estimated based on the following weight average assumptions: stock price volatility – 100%, risk free rate - 0.24%, dividend yield – 0.00% and expected life of 4 years. The Company recorded the following activity related to stock options:

	Amount	Exercise Price per Share $
As at December 31, 2019	-	0.02
Stock options issued	4,000,000	0.02
As at December 31, 2020	4,000,000	0.02
Stock options forfeited	(1,500,000)	0.02
Stock options exercised	(500,000)	0.02
Balance, December 31, 2021	**2,000,000**	**0.02**

Subsequent to December 31, 2021, 1,600,000 additional stock options were forfeited. The remaining outstanding 400,000 stock options expire on July 28, 2025. Of this amount, 200,000 stock options were vested and exercisable at December 31, 2021. Share based compensation recovery of $6,627 (2020 – expense of $29,583) was recognized during the year ended December 31, 2021 related to stock options.

Restricted share units

In October 2020, the Directors of the Company approved 15,000,000 RSUs to be granted to executive management and directors, vesting over a two-year period. During the year ended December 31, 2021, 13,300,000 RSUs were exercised and converted into common shares. At December 31, 2021, 900,000 RSUs remained outstanding and are scheduled to vest on May 26, 2022.

Share based compensation expense of $317,570 was recognized in the consolidated statements of operations for the year ended December 31, 2021 (2020 - $nil) related to RSUs.

(Expressed in Canadian Dollars)

Note 17 – Supplemental cash flow information

On March 3, 2020 the Company issued 35,572,372 common shares having an inferred value of $889,309 in relation to the final settlement of Affected Creditor claims under CCAA proceedings.

On May 15, 2020, the Company issued 7,200,000 common shares at a price of $0.025 per share to settle professional services debts.

On May 28, 2020, the Company issued the Convertible Debenture having a principal amount of $438,000 to a company controlled by a director shareholder for the reimbursement of costs incurred by the shareholder in connection with the CCAA proceedings. (See Note 13).

Note 18 – Segmented information

The Company generates revenue in one distinct segment: hemp products, and its activities are conducted in two geographic segments: Canada and the United States. All activities in both segments are related to hemp products and all material assets and liabilities are related to hemp products.

During the years ended December 31, 2021 and 2020, all the Company's revenue of $655,494 (2020 - $20,080) was generated in the United States. All the Company's property, plant and equipment and intangible assets are also located in the United States.

Note 19 – 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:

	December 31 2021 $	December 31 2020 $
Salaries and benefits and management fees	**683,609**	377,960
Directors' fees	**114,000**	115,500
Share-based compensation expense	**317,570**	-
Total compensation to key management	**1,115,179**	493,460

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel and directors during the respective reporting periods.

During the year ended December 31, 2021, the Company incurred interest expense of $26,270 (year ended December 31, 2020 - $42,689) related to a Convertible Debenture owing to a director and shareholder of the Company.

(Expressed in Canadian Dollars)

Note 20 – Income taxes

Deferred income 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 were as follows:

		December 31 2021		December 31 2020
Property, plant and equipment and intangible assets	**$**	**213,670**	$	40,248
Investments		**(81,555)**		-
Loan receivable		**21,287**		-
Right of use assets and other		**(1,167)**		-
Losses carried forward		**15,750,840**		14,930,194
		15,903,075		14,970,442
Unrecognized deferred tax asset		**(15,903,075)**		(14,970,442)
Deferred tax asset	$	-	$	-

The Company had no provision for income taxes in the years ending December 31, 2021 and 2020, and also had an effective tax rate of 25% in both years for the combined federal and provincial income tax rate. The Company's statutory rate is the combined federal, provincial and state tax rates in the jurisdictions in which the Company operations.

The Company had non-capital loss carryforwards of approximately $56,595,605 at December 31, 2021 ($54,814,526 at December 31, 2020), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to final determination by taxation authorities, expiring between 2036 and 2041.

The Company had non-capital loss carryforwards of approximately $6,407,757 at December 31, 2021 ($4,906,250 at December 31, 2020), which may be carried forward to apply against future year income tax for US income tax purposes, subject to final determination by taxation authorities, expiring between 2036 and 2041.

(Expressed in Canadian Dollars)

Note 20 – Income taxes, continued

The following table reconciles the expected income tax expense (recovery) at the estimated effective tax rate to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2021 and 2020.

		December 31 2021		December 31 2020
Loss before income taxes	$	**(2,441,338)**	$	(6,434,907)
Effective tax rate		**25.00%**		25.00%
Expected income tax expense (recovery)		**(610,335)**		(1,608,727)
Increase (decrease) related to:				
Non-deductible items		**141**		86,130
Other		**14,496**		3,140
Deferred income tax assets not recognized		**610,194**		1,522,597
Total income tax expense	$	**14,496**	$	3,140

Note 21 – 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.

The Company's capital consists of items included in shareholders' equity and debt, which was as follows at December 31, 2021 and 2020:

	December 31 2021 $	December 31 2020 $
Current portion of right of use lease	**111,062**	141,758
Short-term note payable	-	2,000,000
Right of use lease	-	74,156
Loans payable	**427,339**	427,339
Funded debt	**538,401**	2,643,253
Shareholders' equity	**6,483,417**	8,445,807
Total capital	**7,021,818**	11,089,060

(Expressed in Canadian Dollars)

Note 21 – Capital management, continued

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. During the year ended December 31, 2021, the Company modified the way it calculates total capital. The comparative capital figures at December 31, 2020 have been restated to conform to the current period presentation.

Note 22 – 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, loan receivable, accounts payable and accrued liabilities, right of use lease, short-term note payable, and loans payable.

Fair value

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

In evaluating fair value information, considerable judgement 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 and loan receivable are as follows:

		Fair Value Measurements		
	Carrying Amount	Level 1	Level 2	Level 3
	$	$	$	$
December 30, 2021				
Investments	754,422	14,422	-	740,000
Loan receivable	686,221	-	686,221	-
December 30, 2020				
Investments	408,204	48,204	-	360,000
Loan receivable	727,925	-	727,925	-

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, 2021 and 2020 the Company measured its investment in Golden Ridge Resources Ltd. and Sebastiani Ventures Corp. using Level 1 fair value inputs.

Note 22 – Financial instruments, continued

Fair value, continued

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.

> As at December 31, 2021 and 2020, the Company measured its loan to Enhanced Pet Sciences Corp., its short term loans payable and loans payable using Level 2 fair value inputs as there is no active market for these items.

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 was estimated using Level 3 inputs.

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 financial institutions. Trade and other receivables primarily consist of trade accounts receivable and Goods and Services Tax recoverable (“GST”).

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.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in 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.

(Expressed in Canadian Dollars)

Note 22 – Financial instruments, continued

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, 2021 the undiscounted contractual obligations related to financial liabilities were as follows:

As at December 31, 2021	Less than 1 year $	1-5 Years $	Total $
Accounts payable and accrued liabilities	229,671	-	**229,671**
Loans payable	-	438,000	**438,000**
Right of use lease	115,782	-	**115,782**

Note 23 – Comparative figures

Certain figures in the comparative year have been reclassified to conform to the current year's presentation.