

BEVCANNA ENTERPRISES INC.

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BevCanna Enterprises Inc.

Opinion

We have audited the consolidated financial statements of BevCanna Enterprises Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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 David Goertz.

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

May 5, 2021



An independent firm
associated with Moore
Global Network Limited

BevCanna Enterprises Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

| | Notes | December 31, 2020 | December 31, 2019 |
|---|----------|----------------------|----------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash | | 1,034,539 | 88,983 |
| Amounts receivable | 3 | 429,547 | 331,623 |
| Marketable securities | 4 | - | 149,460 |
| Prepaid expenses and deposits | 5 | 944,423 | 625,405 |
| | | 2,408,509 | 1,195,471 |
| Property and equipment | 6 | 5,693,361 | 4,566,983 |
| Licence agreement | 7 | 9,234,223 | 10,474,223 |
| Intangible assets | 8 | 3,788,831 | - |
| Goodwill | 8,9 | 3,209,198 | - |
| | | 24,334,122 | 16,236,677 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities | | | |
| Current | | | |
| Trade payable and accrued liabilities | 10 | 1,732,761 | 2,033,256 |
| Due to related parties | 11 | 66,342 | 66,728 |
| | | 1,799,103 | 2,099,984 |
| Non-Current | | | |
| Convertible debentures | 12 | 510,090 | - |
| Obligation to issue debentures | 12 | - | 630,000 |
| CEBA loan | 13 | 24,787 | - |
| | | 534,877 | 630,000 |
| Shareholders' equity | | | |
| Share capital | 14 | 44,834,949 | 24,751,580 |
| Common shares held in treasury | 14 | - | (300,858) |
| Obligation to issue shares | 14 | 2,046,500 | 1,000,000 |
| Reserve | 14,15,16 | 6,524,418 | 5,220,238 |
| Accumulated other comprehensive income | | 3,374 | - |
| Deficit | | (31,409,099) | (17,164,267) |
| | | 22,000,142 | 13,506,693 |
| | | 24,334,122 | 16,236,677 |
| Nature of operations and going concern | 1 | | |
| Commitments and contingencies | 19 | | |
| Subsequent events | 22 | | |

Approved and authorized for issue on behalf of the Board of Directors on May 5, 2021

"Marcello Leone"
Director, Marcello Leone

"John Campbell"
Director, John Campbell

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

BevCanna Enterprises Inc.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

| Year ended December 31, | Notes | 2020 | 2019 |
|--|-------|--------------|--------------|
| | | \$ | \$ |
| Revenue | | 396,317 | - |
| Cost of revenue | | 510,229 | - |
| Gross loss | | (113,912) | - |
| Administration expenses | | | |
| Amortization | 6,7,8 | 1,460,512 | 1,246,239 |
| Filing, listing and compliance | | 49,933 | 134,758 |
| Investors relations | | 1,027,336 | 275,058 |
| Marketing | | 242,058 | 1,122,049 |
| Management fee | 11 | 749,000 | 464,000 |
| Legal fee | | 498,718 | 364,456 |
| Plant operations and facilities | | 89,174 | 270,266 |
| Professional and consulting fee | | 3,265,528 | 1,793,132 |
| Rent | | 57,788 | 117,662 |
| Research and development | | 176,631 | 808,253 |
| Salaries | | 276,105 | 382,765 |
| Share-based payments | 11,15 | 2,152,841 | 2,737,133 |
| Travel | | 25,873 | 186,443 |
| | | 10,071,497 | 9,902,214 |
| Other expenses (income): | | | |
| Accretion expense | 12,13 | 35,053 | - |
| Finance cost | 13 | 49,385 | 273,758 |
| Foreign exchange loss (gain) | | 7,117 | (2,104) |
| Government grant | 13 | (16,798) | - |
| Impairment of intangible assets | 8 | 3,437,531 | - |
| Loss on marketable securities | 4 | 107,187 | 167,962 |
| Loss on acquisition | 8 | 207,353 | - |
| Loss (gain) on debt settlement | 14 | 232,595 | (149,843) |
| | | 4,059,423 | 289,773 |
| Net loss for the year | | (14,244,832) | (10,191,987) |
| Other comprehensive income | | | |
| <i>Item that may be reclassified subsequently to income or loss:</i> | | | |
| Exchange differences on the translation of foreign operation | | 3,374 | - |
| Comprehensive loss | | (14,241,458) | (10,191,987) |
| Loss per share (basic and diluted) | | (0.19) | (0.22) |
| Weighted average number of shares outstanding (basic and diluted) | | 75,449,067 | 45,430,661 |

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

BevCanna Enterprises Inc.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian dollars)

| | Common shares | | Common shares held in treasury | Reserve | Obligation to issue shares | Accumulated other comprehensive income | Deficit | Total |
|--|--------------------|-------------------|--------------------------------|------------------|----------------------------|--|---------------------|-------------------|
| | Number of shares | Amount (\$) | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2018 | 44,518,750 | 22,632,865 | - | 2,483,105 | - | - | (6,972,280) | 18,143,690 |
| Shares issued for cash | 501,000 | 500,500 | - | - | - | - | - | 500,500 |
| Shares issued for services | 400,000 | 400,000 | - | - | - | - | - | 400,000 |
| Shares issued for debt settlement | 2,495,136 | 1,271,680 | - | - | - | - | - | 1,271,680 |
| Share issuance costs | - | (53,465) | - | - | - | - | - | (53,465) |
| Share-based compensation | - | - | - | 2,737,133 | - | - | - | 2,737,133 |
| Funds received for warrants exercise | - | - | - | - | 1,000,000 | - | - | 1,000,000 |
| Shares acquired | - | - | (300,858) | - | - | - | - | (300,858) |
| Net loss | - | - | - | - | - | - | (10,191,987) | (10,191,987) |
| Balance, December 31, 2019 | 47,914,886 | 24,751,580 | (300,858) | 5,220,238 | 1,000,000 | - | (17,164,267) | 13,506,693 |
| Shares issued for cash | 3,100,914 | 914,200 | - | - | (340,500) | - | - | 573,700 |
| Shares issued for services | 5,040,084 | 1,676,059 | - | - | - | - | - | 1,676,059 |
| Shares issued for debt settlement | 8,013,241 | 3,575,444 | 300,858 | - | - | - | - | 3,876,302 |
| Shares issued for options exercised | 5,003,000 | 2,506,643 | - | (832,653) | - | - | - | 1,673,990 |
| Shares issued for acquisitions | 40,941,176 | 11,322,353 | - | - | - | - | - | 11,322,353 |
| Share issuance costs | - | (45,590) | - | - | - | - | - | (45,590) |
| Share-based compensation | 454,326 | 134,260 | - | 2,018,581 | - | - | - | 2,152,841 |
| Funds received for options exercise | - | - | - | - | 350,250 | - | - | 350,250 |
| Funds received for private placement | - | - | - | - | 1,036,750 | - | - | 1,036,750 |
| Equity component of convertible debentures | - | - | - | 118,252 | - | - | - | 118,252 |
| Translation difference | - | - | - | - | - | 3,374 | - | 3,374 |
| Net loss | - | - | - | - | - | - | (14,244,832) | (14,244,832) |
| Balance, December 31, 2020 | 110,467,627 | 44,834,949 | - | 6,524,418 | 2,046,500 | 3,374 | (31,409,099) | 22,000,142 |

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

BevCanna Enterprises Inc.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

| Year ended December 31, | 2020 | 2019 |
|--|--------------|--------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss | (14,244,832) | (10,191,987) |
| Items not affecting cash: | | |
| Amortization | 1,460,512 | 1,246,239 |
| Accretion expense | 35,053 | - |
| Finance costs | 49,385 | - |
| Government grant | (16,798) | - |
| Impairment of intangible assets | 3,437,531 | - |
| Loss on marketable securities | 107,187 | 167,962 |
| Loss (gain) on debt settlement | 232,595 | (149,843) |
| Loss on acquisition of Carmanah | 207,353 | - |
| Share-based payments | 2,152,841 | 2,737,133 |
| Shares issued for services | 1,676,059 | - |
| Unrealized foreign exchange loss (gain) | 5,470 | (2,104) |
| | (4,897,644) | (6,192,600) |
| Changes in non-cash working capital items: | | |
| Amounts receivable | (102,781) | (309,197) |
| Prepaid expenses and deposits | (319,018) | (508,323) |
| Trade payable and accrued liabilities | 3,022,060 | 1,825,357 |
| Due to related parties | (386) | 40,856 |
| Cash (used in) provided by operating activities | (2,297,772) | (5,143,907) |
| Investing activities | | |
| Purchase of property and equipment | (936,695) | (3,215,478) |
| Purchase of marketable securities | - | (550,000) |
| Proceeds from sale of marketable securities | 42,273 | 232,578 |
| Cash from acquisition of Carmanah | 300,000 | - |
| Cash from acquisition of Naturally Pure Therapy | 210,802 | - |
| Cash (used in) provided by investing activities | (383,620) | (3,532,900) |
| Financing activities | | |
| Cash received from debenture application | - | 630,000 |
| CEBA loan received | 40,000 | - |
| Proceeds from issues of shares | 573,700 | 842,809 |
| Proceeds from options exercised | 1,673,990 | - |
| Share subscriptions received | 1,387,000 | 1,000,000 |
| Shares acquired | - | (300,858) |
| Share issuance costs | (45,590) | (53,466) |
| Cash provided by financing activities | 3,629,100 | 2,118,485 |
| Increase (decrease) in cash | 947,708 | (6,558,322) |
| Effect of change in foreign exchange rate | (2,152) | - |
| Cash, beginning | 88,983 | 6,647,305 |
| Cash, ending | 1,034,539 | 88,983 |
| Supplemental non-cash information | | |
| Accrued costs in property and equipment | 206,894 | 1,337,501 |
| Shares issued for acquisition of intangible assets | 7,429,663 | - |
| Shares issued for acquisition of goodwill | 3,209,198 | - |

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

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

1) Nature of operations

BevCanna Enterprises Inc. (the “Company”) was incorporated under the Business Corporations Act in British Columbia on July 13, 2017. On July 2, 2019, the Company’s common shares commenced trading on the Canadian Securities Exchange (“CSE”) under the symbol “BEV” and in the United States on the OTCQB under symbol “BVNNF”, and in Germany on the Frankfurt Stock Exchange under the symbol “7BC”. The head office of the Company is 1672 West 2nd Avenue, Vancouver, BC, V6J 1H4 and the registered record office of the Company is 900 – 885 West Georgia Street, Vancouver, BC, V6C 3H1.

The Company develops and manufactures cannabidiol (“CBD”) and tetrahydrocannabinol (“THC”) beverages and supplements for both in-house brands and white-label customers. It also provides direct-to-customer sales of natural health products including nutraceutical and hemp-based CBD products.

The Company has incurred losses and negative cash flows from operations from inception that has primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, convertible debentures and through private placements of common shares. These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the consolidated statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The outbreak of the coronavirus, also know as “COVID-19”, continues to impact worldwide economic activity. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

2) Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Issues Committee (“IFRIC”). The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(c) Basis of consolidation

These consolidated financial statements include those of the Company and of the entities it controls (the “subsidiaries”). Control over an investee is achieved when the Company has power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of its returns. Convertible securities that give the Company voting rights or reduce another party’s voting rights to direct the relevant activities of another entity are considered when determining control. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interest. The subsidiaries’ total comprehensive income is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Entities are consolidated from the date on which control is acquired by the Company and consolidation ends when control no longer exists. The Company must reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Intercompany transactions, balances and unrealized gains and losses on intercompany transactions are eliminated on consolidation.

| Name of subsidiary or controlled entity | Principal activity | Place of incorporation | Ownership interest |
|--|-------------------------------|-------------------------------|---------------------------|
| BevCanna Enterprises Inc. | Holding company | Canada | 100% |
| BevCanna Operating Corp. | THC/CBD beverages | Canada | 100% |
| Naturally Pure Therapy Products Corp. (“Pure Therapy”) | Direct-to-consumer e-commerce | Canada | 100% |
| La Fortuna Ventures LLC | E-commerce merchant | U.S.A. | - |

The Company consolidates La Fortuna Ventures LLC as through Pure Therapy. The Company has an arrangement with La Fortuna Ventures LLC that gives the Company power over La Fortuna Ventures LLC to affect the amount of its returns and has exposure and rights to variable returns from La Fortuna Ventures LLC.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), the liabilities incurred by the Company on behalf of the acquiree, any contingent consideration and any equity interests issued by the Corporation. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

The acquisition date is the date when the Company obtains control of the acquiree. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates in accordance with the criteria and guidance provided under IFRS with corresponding gain or loss recorded in the statements of comprehensive loss.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Company, BevCanna Enterprises Inc., and BevCanna Operating Corp. is the Canadian dollar. The functional currency of Naturally Pure Therapy Products Corp. is the US dollar.

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 and in any future periods affected. Actual results could differ from these estimates.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. The Company makes estimates on the useful lives when determining depreciation of property and equipment and the amortization of intangible assets are dependent on 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 condition and useful lives of assets.
- ii. The Company uses the Black-Scholes option pricing model to value options and warrants granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual.
- iii. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. 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 date of the statement of financial position could be impacted.

Significant Judgments

Judgments made by management include the factors used to determine the assessment of whether the going concern assumption is appropriate. The assessment of the going concern assumption requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

Significant Judgments (continued)

- i. The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in Note 1.
- ii. The Company evaluated cash-generating units ("CGU") at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's intangible assets and goodwill. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account various factors such as economic and market condition and future use of these assets.
- iii. The determination of whether a set of assets acquired and liabilities assumed in an acquisition constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The reverse takeover as described in note 5 did not constitute a business combination as only net assets were acquired, and accordingly were accounted for as asset purchase transactions.
- iv. The identification of convertible debenture 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.
- v. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.

(f) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9 *Financial Instruments: Classification and Measurement*. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The following table shows classification of the financial assets and liabilities:

| Financial asset / liability | IFRS 9 Classification |
|---------------------------------------|------------------------------|
| Cash | FVTPL |
| Amounts receivable | Amortized cost |
| Marketable securities | FVTPL |
| Trade payable and accrued liabilities | Amortized cost |
| Due to related parties | Amortized cost |
| Convertible debentures | Amortized cost |
| Obligation to issue debentures | FVTPL |

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

CEBA loan

Amortized cost

2) Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

Impairment of financial assets

IFRS 9 uses the expected credit loss (“ECL”) model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company’s receivables.

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to an estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Trade payables and due to related parties are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial liabilities (continued)

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

(g) Intangible assets

Intangible assets are recorded as cost less accumulated amortization and any accumulated impairment losses. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful lives of intangible assets are assessed as either finite or indefinite. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of economic benefits embodied in the asset are accounted for by changing the amortization period or method as appropriate and are treated as a change in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of comprehensive loss. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the cash generating unit ("CGU") level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets are comprised of the library of cannabis genetics, the distribution network, the IBO relationships and the marketing intangibles acquired from recent external acquisitions and are classified as finite life intangible assets and are amortized as follows:

| | Useful Life (number of years) |
|--|--|
| Library of cannabis genetics | 5 |
| Distribution network | 5 |
| Independent business owner ("IBO") relationships | 2 |
| Marketing intangibles | 9 |

The Company has a long-term license agreement for plant operations and quality service assurance. The license is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization of the license is a straight-line basis over 10 years. The estimated useful life and amortization are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(h) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment charges. The cost of repair and maintenance is expensed as incurred. Depreciation is provided using the declining balance method over the estimated useful lives of the assets. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the property and equipment and any gain or loss is recorded to profit or loss.

The significant class of property and equipment is as follows:

| | |
|-------------------------|-----|
| Furniture and equipment | 20% |
| Leasehold improvements | 10% |
| Computers | 30% |

Leasehold improvements are depreciated when it is ready in use.

(i) Impairment of assets

The Company performs impairment tests on its long-lived assets, including property and equipment and intangible asset, when new events or circumstances occur, or when new information becomes available relating to their recoverability. When the recoverable amount of each separately identifiable asset or cash-generating unit ("CGU") is less than its carrying value, the asset or CGU's assets are written down to their recoverable amount with the impairment loss charged against profit or loss. A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

The CGU's recoverable amount is evaluated using fair value less costs to sell calculations. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques to determine fair value when it is not possible to determine fair value from active markets or a written offer to purchase. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

(j) Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(j) Leases (continued)

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

For the year ended December 31, 2020, the Company has not recognized right-use-asset and lease liabilities as its lease involves only variable lease payment (note 7).

(k) Foreign currency translation

The functional currency of each entity is determined using the currency of the primary economic environment in which that entity operates.

Translation of foreign currency transactions

Transactions in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period, except for exchange differences relating to borrowings hedging net investments denominated in the consolidated subsidiaries' currency. These differences are recognized in other comprehensive income as currency translation differences until the disposal of the net investment. Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized as finance costs or income, or in other comprehensive income.

Translation of foreign operations

The assets and liabilities of a foreign operation, including goodwill and fair value adjustments arising from the acquisition, are translated in Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of a foreign operation are translated in Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in equity. When a foreign operation is disposed of, the translation differences previously recognized in equity are reclassified to profit or loss.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(l) Convertible debenture

The components of the compound financial instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible debentures will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs related to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying value of the liability component and amortized over the estimated useful life of the debentures using the effective interest rate method.

(m) Revenue Recognition

The Company derives its revenue from direct online sales of products through its e-commerce platform operated by its subsidiary Naturally Pure Therapy. To recognize its revenue, the Company perform the five-step model analysis in accordance with IFRS 15 *Revenue from Contract with Customers* as follows:

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

The Company recognizes revenues from its sales when the products are delivered or drop-shipped to the customers and there is no unfulfilled obligation that could affect the customer's acceptance. These criteria are generally met at the time the products are dispatched, which is generally when control of the goods has passed to the customer. Revenue is recognized at the fair value of the consideration received or receivable.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(n) Government grant

A government grant is recognized when there is reasonable assurance it will be received, and all related conditions will be complied with. The Company recognizes government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. The Company carefully determines whether the grant compensates expenses already incurred or future costs.

The Company has an interest-free repayable funding obligation from the Government of Canada. The benefit of the government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(o) Share-based payments

The Company may receive or acquire goods or services in a share-based transaction. The Company recognizes a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction. For equity-settled share-based payment transactions, the Company measures the goods or services received and the corresponding increase in equity directly at the fair value of the goods or services received, unless the fair value of the goods or services received cannot be estimated reliably, the Company measures their value and the corresponding increase in equity by reference to the fair value of the equity instruments issued.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to equity reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and 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. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

(p) Share capital

The Company records proceeds from share issued net of issuance costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the common shares are issued.

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to the shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(q) Loss per share

Basic loss per share is computed using the weight average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

(r) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period. Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

2) Summary of significant accounting policies (continued)

(s) New accounting standards not yet adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of a liability as either current or non-current. On July 15, 2020, the IASB issued an amendment deferring the effective date by one year. Currently the amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

The amendments eliminated the requirement that the right to defer settlement or transfer of a liability for at least 12 months be unconditional to classify a liability as non-current. Instead, the right must be substantive and exist at the end of the reporting period.

The amendments also clarify how an entity classifies a liability that is convertible at the option of the counterparty. The amendments state that:

- The settlement of a liability includes the transfer of the entity's own equity instruments to the counterparty.
- When classifying a liability as current or non-current, an entity may only omit conversion options recognized as equity.

Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16)

On May 14, 2020, the IASB published *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

The amendments provide guidance for the recognition of proceeds from selling items that an entity produces and sells in the process of making an item of property, plant and equipment available for its intended use, as well as the associated production costs. Specifically, the proceeds from selling items produced before the related asset is available for use, as well as the related production costs, must be recognized in profit or loss.

3) Amounts receivable

| | December 31, 2020 | December 31, 2019 |
|----------------------|-------------------|-------------------|
| | \$ | \$ |
| Reserve income asset | 76,392 | - |
| GST receivable | 323,155 | 11,236 |
| Other receivable | 30,000 | 320,387 |
| | 429,547 | 331,623 |

Reserve income asset balance comprises amounts being processed by banks and not released yet as at December 31, 2020.

During the year ended December 31, 2020 and 2019, there is \$nil bad debt expense recognized on the consolidated statement of comprehensive loss.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

4) Marketable securities

| | December 31, 2020 | December 31, 2019 |
|--------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Balance, beginning of the year | 149,460 | - |
| Purchases | - | 550,000 |
| Disposition | (42,273) | (232,578) |
| Remeasurement loss (i) | (91,745) | (170,240) |
| Realized gain (loss) | (15,442) | 2,278 |
| Balance, end of the year | - | 149,460 |

- i. The fair value of the warrants was estimated using the Black Scholes Option Pricing Model with the following assumptions: risk-free rate of 0.20% (2019 – 1.71%), expected life of 0.2 years (1.2 years), expected volatility of 70% (2019 - 112%), and dividend yield of \$nil (2019 - \$nil).

During the year ended December 31, 2019, the Company participated in a private placement of Nextleaf Solutions Ltd. ("Nextleaf", a company listed on the CSE in Canada) and received a total of 714,286 units of Nextleaf for \$250,000. Each unit consisted of one common share and one warrant which entitled the holder to purchase one common share at \$0.70 until March 14, 2021. In addition, the Company participated in a private placement of Higharchy Ventures Ltd. ("Higharchy", a private company) and received 750,000 shares of Higharchy at the cost of \$300,000, which was fully impaired during the year ended December 31, 2019.

During the year ended December 31, 2020, the Company disposed of its marketable securities for \$42,273 and recognized a loss of \$15,442.

5) Prepaid expenses and deposits

| | December 31, 2020 | December 31, 2019 |
|--------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Prepaid expenses | 414,264 | 293,112 |
| Deposit on investment (i) (ii) | 530,159 | 332,293 |
| | 944,423 | 625,405 |

- (i) \$197,866 was deposit on investment made towards convertible debentures with Serovita under an exclusive license Agreement (note 18).
- (ii) \$332,293 was deposit for a private placement of 600,000 common shares of Capna under an intellectual property and trademark license agreement (note 18).

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

6) Property and equipment

| | Furniture and equipment \$ | Construction in progress \$ | Leasehold improvements \$ | Computers \$ | Total \$ |
|---------------------------------|-------------------------------------|-----------------------------------|---------------------------------|-----------------|-------------|
| <i>Cost</i> | | | | | |
| At December 31, 2018 | 12,752 | - | 2,845 | 2,049 | 17,646 |
| Additions | 154,331 | 4,360,824 | 32,072 | 9,931 | 4,557,158 |
| At December 31, 2019 | 167,083 | 4,360,824 | 34,917 | 11,980 | 4,574,804 |
| Additions | 65,404 | 1,077,221 | - | 964 | 1,143,589 |
| At December 31, 2020 | 232,487 | 5,438,045 | 34,917 | 12,944 | 5,718,393 |
| <i>Accumulated amortization</i> | | | | | |
| At December 31, 2018 | 1,275 | - | - | 307 | 1,582 |
| Depreciation | 4,474 | - | - | 1,765 | 6,239 |
| At December 31, 2019 | 5,749 | - | - | 2,072 | 7,821 |
| Depreciation | 14,130 | - | - | 3,081 | 17,211 |
| At December 31, 2020 | 19,879 | - | - | 5,153 | 25,032 |
| <i>Net book value</i> | | | | | |
| At December 31 2019 | 161,334 | 4,360,824 | 34,917 | 9,908 | 4,566,983 |
| At December 31, 2020 | 212,608 | 5,438,045 | 34,917 | 7,791 | 5,693,361 |

7) Licence agreement

On September 12, 2018, the Company entered into a 10-year licence agreement (the "Licence Agreement") with two 10-year renewal options with Naturo Group Investments Inc. ("Naturo") (note 20) and Naturo Springs Ltd. ("Springs"), both related parties. Pursuant to the agreement, the Company entered into a lease agreement with Naturo and Springs to lease a portion of the land, aquifer and facilities controlled by Naturo and/or Springs in order to facilitate the development of the Company's business, and Naturo will provide the Company with certain manufacturing and quality assurance services for manufacturing beverages in Naturo's facility. The Company paid Naturo \$12,400,000 pursuant to the Licence Agreement, 50% of which was paid in common shares and the remaining portion in cash.

On February 14, 2020, the Company entered into an amended second lease agreement with Naturo to increase the premises for permitted use by the Company from 5,500 square feet to 12,289 square feet for the remaining term of the lease. The Company agreed to pay \$1,253,400 for the additional space and displacement fee to Naturo. \$600,000 was paid in cash during the year ended December 31, 2019. On March 6, 2020, the Company issued 1,537,411 common shares at a price of \$0.425 per share for the remaining displacement fee (Note 14).

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

7) Licence agreement

The continuity of the carrying amount of the License Agreement is as following:

| | December 31, 2020 | December 31, 2019 |
|---------------------------------|-------------------|-------------------|
| | \$ | \$ |
| <i>Cost</i> | | |
| License | 12,400,000 | 12,400,000 |
| <i>Accumulated amortization</i> | | |
| Beginning | 1,925,777 | 685,777 |
| Amortization | 1,240,000 | 1,240,000 |
| Ending | 3,165,777 | 1,925,777 |
| <i>Net book value</i> | | |
| License | 9,234,223 | 10,474,223 |

8) Intangible assets

| | Cannabis genetics library (a) \$ | Distribution network (b) \$ | IBO relationships (c) \$ | Marketing intangibles (c) \$ | Total \$ |
|---------------------------------|--|--------------------------------------|-----------------------------------|---------------------------------------|-------------|
| <i>Cost</i> | | | | | |
| At December 31, 2019 | - | - | - | - | - |
| Additions | 2,959,600 | 540,063 | 3,400,000 | 590,000 | 7,349,664 |
| At December 31, 2020 | 2,959,600 | 540,063 | 3,400,000 | 590,000 | 7,349,664 |
| <i>Accumulated amortization</i> | | | | | |
| At December 31, 2019 | - | - | - | - | - |
| Depreciation | - | 62,132 | 119,976 | 21,193 | 203,301 |
| Impairment | 2,959,600 | 477,931 | - | - | 3,437,531 |
| At December 31, 2020 | 2,959,600 | 540,064 | 119,976 | 21,193 | 3,640,833 |
| <i>Net book value</i> | | | | | |
| At December 31 2019 | - | - | - | - | - |
| At December 31, 2020 | - | - | 3,220,024 | 568,807 | 3,788,831 |

(a) Acquisition of Carmanah Craft Corp.

On January 14, 2020, the Company concluded a share exchange agreement with Carmanah Craft Corp. ("Carmanah"), and issued 8,941,176 common shares to the shareholders of Carmanah to acquire 100% of the issued and outstanding shares of Carmanah. The acquisition of Carmanah included \$300,000 in cash and intangible assets consisting of a library of cannabis genetics and strains.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

8) Intangible assets (continued)

(a) Acquisition of Carmanah Craft Corp.(continued)

The acquisition of Carmanah has been accounted for as asset acquisition as the acquired assets do not constitute a business according to IFRS 3 *Business Combinations*; therefore, the excess of the consideration paid over the fair value of the assets acquired were expensed in profit and loss. The acquisition was recorded with the consideration as detailed in the table below:

| | |
|--|-----------|
| <i>Consideration:</i> | |
| Fair value of common shares issued (8,941,176 @ \$0.385 per share) | \$ 3,442 |
| Transaction costs paid | 24,600 |
| Total consideration | 3,466,953 |
| <i>Net assets acquired:</i> | |
| Cash | 300,000 |
| Intangible assets – cannabis genetics library | 2,959,600 |
| Total net assets | 3,259,600 |
| Loss on acquisition | \$ 207 |

As at December 31, 2020, the Company determined the cannabis genetics library was impaired due to the uncertainty in realizing future benefit from the intangible assets. Accordingly, a \$2,935,000 impairment loss was charged to the consolidated statements of comprehensive loss, and the carrying value of the intangible asset of cannabis genetics library were reduced to \$nil.

(b) Acquisition of Exceler Holdings Ltd.

On June 15, 2020, the Company concluded a share exchange agreement with Exceler Holdings Ltd. ("Exceler"), and issued 2,000,000 common shares to the shareholders of Exceler to acquire 100% of the issued and outstanding shares of Exceler. The acquisition was completed on June 18, 2020 and includes intangible assets consisting of Exceler's distribution network across Europe and Asia.

The acquisition has been accounted for as an acquisition of assets and liabilities as the transferred assets do not meet the definition of a business under IFRS 3; therefore, the excess of the consideration paid over the fair value of the monetary assets and liabilities assumed was expensed. The acquisition was recorded at the fair value of the consideration transferred of \$530,000 as detailed in the table below. Upon closing of the acquisition, Exceler became a wholly-owned subsidiary. The \$10,064 in transaction costs was capitalized to assets in the asset acquisition.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

8) Intangible assets (continued)

((b) Acquisition of Exceler Holdings Ltd. (continued))

| | |
|--|---------------|
| <i>Consideration:</i> | |
| Fair value of common shares issued (2,000,000 @ \$0.265 per share) | \$ 530 |
| Transaction costs paid | 10,063 |
| | <hr/> 540,063 |
| <i>Assets acquired:</i> | |
| Intangible asset – distribution network | 540,063 |
| | <hr/> 540,063 |

As at December 31, 2020, the Company determined the distribution network was impaired due to the uncertainty in realizing future benefit from the intangible assets. Accordingly, a \$477,931 impairment loss was charged to the consolidated statements of comprehensive loss, and the carrying value of the distribution network was reduced to \$nil.

(c) Acquisition of Naturally Pure Therapy Products Corp.

On September 4, 2020, the Company concluded a share exchange agreement with Pure Therapy and acquired all of the issued and outstanding common shares of Pure Therapy who operates direct-to-consumer e-commerce product sales. The intangible assets acquired includes a list of customers acquired through contracts of partnership with Independent Business Owners (“IBOs”) to sell Pure Therapy products through online campaigns, brands and websites and associated marketing intangibles (the “Marketing Intangibles”).

The acquisition has been accounted for as a business combination in accordance with IFRS 3 *Business Combinations*, using the acquisition method whereby the net assets acquired are recorded at fair value. The following table presents the fair value of the assets acquired at the date of the acquisition:

| | |
|---|-----------------|
| <i>Consideration:</i> | |
| Fair value of common shares issued (30,000,000 @ \$0.245 per share) | \$ 7,350 |
| <i>Net assets acquired:</i> | |
| Cash | 210,802 |
| Intangible asset – IBO relationships | 3,340,000 |
| Intangible asset – Marketing intangibles | 590,000 |
| Total net assets | <hr/> 4,140,802 |
| Goodwill (note 9) | \$ 3,209 |

For the year ended December 31, 2020, Pure Therapy has contributed a net loss of 169,310 (2019 - \$nil) to the consolidated statements of comprehensive loss of the Company.

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

9. Goodwill

As described in note 8, the Company recognized goodwill of \$3,209,198 (2019 - \$nil) upon the completion of the acquisition of Pure Therapy. This goodwill represents the excess purchase price paid by the Company over the fair value of net tangible and intangible assets identified in the calculated purchase price. The goodwill recognized on acquisition is attributable mainly to the expected future growth potential and expanded customer base as a result of the completion of the NPT acquisition.

The Company tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. As at December 31, 2020, the Company recorded \$nil impairment charge related to its goodwill.

10. Accounts payable and accrued liabilities

| | December 31, 2020 \$ | December 31, 2019 \$ |
|---------------------|----------------------------|----------------------------|
| Trade payables | 1,505,218 | 695,755 |
| Other payables | 206,894 | 1,337,501 |
| Accrued liabilities | 20,649 | - |
| Total | 1,732,761 | 2,033,256 |

11) Related party transactions and balances

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the years ended December 31, 2020 and 2019 was as follows:

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

11) Related party transactions and balances

| Year ended | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Management fees | | |
| Chief Strategic Officer (“CSO”) | 240,000 | 240,000 |
| Former Chief Financial Officer (“CFO”) | - | 35,000 |
| President | - | 32,500 |
| Share-based payments | | |
| CSO | 189,251 | 194,525 |
| Former CFO | - | 28,348 |
| Chief Executive Officer (“CEO”) | 544,740 | 950,819 |
| President | 183,818 | 135,129 |
| Director | 35,049 | 28,348 |
| Former Director | - | 28,348 |
| Former CFO | - | 29,841 |
| Former Director | - | 24,700 |
| Related to CEO | 113,153 | 78,079 |
| | 1,306,012 | 1,805,637 |

Accounts payable and accrued liabilities:

At December 31, 2020, the following amounts were included in accounts payable and accrued liabilities in relation to transactions with related parties, which were non-interest bearing, unsecured and due on demand:

- \$15,565 (2019 - \$nil) for services provided by the CEO of the Company;
- \$3,245 (2019 - \$22,331) for services provided by the CSO of the Company;
- \$43,306 (2019 - \$126,517) for products provided by Naturo.

Due to related parties:

As at December 31, 2020, the Company owed \$168,704 (2019 - \$66,728) for products and services and short-term loans provided by a company owned by the President and the CEO of the Company. The amount was non-interest bearing, unsecured and due on demand:

12) Convertible debentures

On April 14, 2020, the Company completed a non-brokered financing of \$630,000 by issuing convertible debentures (“Debentures”). The Debentures carry interest at the rate of 8% per annum payable semi-annually and mature on April 14, 2023. The Debentures are convertible to common shares of the Company at \$0.75 per share. Interest expense of \$12,600 was accrued for the year ended December 31, 2020 and was included in the accounts payable and accrued liabilities.

BevCanna Enterprises Inc.

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Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

12) Convertible debentures (continued)

| | \$ |
|-------------------------------------|-----------|
| Balance, December 31, 2019 and 2018 | - |
| Addition: | 630,000 |
| Transaction cost | (35,126) |
| Allocation of equity component | (118,252) |
| Accretion expense | 33,468 |
| Balance, December 31, 2020 | 510,090 |

The Company estimates 16% to be the market interest rate for a similar debt instrument without a conversion option. The initial liability component of the Debentures was calculated at the present value of interest payments and expected return using a discount rate of 16%. The equity component was determined using the residual method whereby, the fair value of the equity component is arrived at by deducting the amount determined separately for the liability from the face value of the instrument. Using this method, the Company determined that the fair value of the conversion feature was \$118,252 which was recorded in the Company's equity reserve.

The holders of the Debentures are entitled to convert the unpaid principal and interest into common shares of the Company at a conversion price of \$0.75 per common shares. If any time the daily weighted average trading price of the Company's shares is greater than \$1.00 for the preceding 10 days, the Company will have the option to convert the outstanding principal amount at the price of \$0.75 per common shares.

13) CEBA loan

In April 2020, the Company received a loan of \$40,000 under Canada Emergency Business Account ("CEBA") program funded by the Government of Canada, of which \$30,000 are non-forgivable and \$10,000 are forgivable if the non-forgivable \$30,000 is repaid prior to December 31, 2022. The CEBA loan is non-interest bearing, subject to restriction on disbursements for non-deferrable expenditures of the Company, and are repayable at any time without penalty, but amounts repaid cannot be readvanced.

The CEBA loan was initially due on December 31, 2020, and if not repaid by December 31, 2020, the loan will convert to a non-interest-bearing term loan with a maturity date of December 31, 2022. If the term loan is not repaid by that time, the term loan will automatically renew with a maturity date of December 31, 2025, subject to interest at 5% per annum, with payments of interest due on a monthly basis. In the event of default, the loan payable becomes due immediately.

| | \$ |
|-------------------------------------|--------|
| Balance, December 31, 2019 and 2018 | - |
| Addition | 23,202 |
| Accretion expense | 1,585 |
| Balance, December 31, 2020 | 24,787 |

The CEBA is accounted for using the amortized cost method discounted at an effective interest rate with the discount portion recorded as government grant. As a result, \$16,798 (2019 - \$nil) was recognized as government grant for the year ended December 31, 2020.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

14) Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

On January 22, 2019, the Company consolidated its share capital on the basis of one post-consolidated share for each two pre-consolidated shares issued and outstanding. These consolidated financial statements disclose all share on a post-consolidation basis.

Issued

During the year ended December 31, 2020, the Company entered into the following share capital transactions:

- On January 14, 2020, the Company issued 8,941,176 common shares valued at \$0.385 for the acquisition of Carmanah for \$3,442,353 (Note 8).
- During the year ended December 31, 2020, the Company issued 5,040,084 common shares with an aggregate value of \$1,676,059 for services received from consultants or contractors.
- On April 14, 2020, the Company issued 705,879 common shares valued at \$0.425 for \$300,000.
- On May 28, 2020, the Company issued 88,235 common shares at a price of \$0.425 for \$37,500.
- On June 18, 2020, the Company issued 2,000,000 common shares valued at \$0.265 for the acquisition of Exceler for \$530,000 (Note 8).
- On September 4, 2020, the Company issued 30,000,000 common shares valued at \$0.245 for the acquisition of Pure Therapy for \$7,350,000 (Note 8).
- On September 18, 2020, the Company completed non-brokered private placement offering consisting of 844,800 units at a price of \$0.25 per unit for \$211,200 proceeds. Each unit consists of one common share of the Company and one non-transferable warrant, exercisable at \$0.40 per warrant and expiring in two years.
- On October 6, 2020, the Company completed a non-brokered private placement of \$115,500 for 462,000 units of the Company. Each unit consists of one common share of the Company and one non-transferable common share purchase warrant, exercisable at \$0.30 per warrant and expiring in two years. The warrants were valued at \$nil using residual method.
- On October 23, 2020, the Company completed a non-brokered private placement of \$250,000 for 1,000,000 units of the Company. Each unit consists of one common share of the Company and one-half of one transferable common share purchase warrant, exercisable at \$0.40 per warrant and expiring in two years. The warrants were valued at \$nil using residual method.
- The Company settled \$3,643,707 debts owed to various vendors, consultants and related parties by issuing 8,013,241 common shares, of which 667,000 shares were issued from treasury, with fair value of \$3,876,302 and recognized a loss on debt settlement of \$232,595.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

14) Share capital (continued)

Issued (continued)

- 5,003,000 stock options were exercised for proceeds of \$1,673,990. In addition, the Company reclassified the grant date fair value of the exercised stock options of \$832,653 from stock options reserve to share capital.
- The share issuance costs associated with these transactions amounted to \$45,590.

During the year ended December 31, 2019, the Company entered into the following share capital transactions:

- On March 25, 2019, the Company issued 500,000 common shares for proceeds of \$500,000.
- On May 1, 2019, the Company issued 100,000 common shares at a price of \$1.00 for \$100,000 pursuant to the management services agreement with a company controlled by a director.
- On May 1, 2019, the Company issued 300,000 common shares at a price of \$1.00 for \$300,000 pursuant to the services agreement with a company controlled by a director.
- On November 14, 2019, the Company issued 1,000 common shares at a price of \$0.50 for the stock option exercise.
- the Company repurchased on the open market 667,000 common shares at a cost of \$300,858.
- the Company issued 2,495,136 common shares with a fair value of \$1,271,681 to settle total of \$1,421,524 debts owned to various vendors, consultants and related parties and recognized a gain on debt settlement of \$149,843.
- The share issuance costs for these transactions amounted to \$53,466.

15) Stock options

In 2018, the Company adopted an incentive stock option plan ("Plan"). Pursuant to the Company's stock option plan, directors may authorize the granting of options to directors, officers, employees and consultants of the Company. The expiry date for each option is determined by the board of directors at the time such option is granted. All options under the plan are non-assignable, non-transferrable and only exercisable by the optionee.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

15) Stock options (continued)

A summary of the changes in the share options are presented below:

| | Options outstanding | Weighted average exercise price |
|----------------------|------------------------|------------------------------------|
| | # | \$ |
| At December 31, 2018 | - | - |
| Granted | 5,000,000 | 0.47 |
| Exercised | (1,000) | 0.50 |
| At December 31, 2019 | 4,999,000 | 0.47 |
| Granted | 12,266,667 | 0.37 |
| Exercised (i) | (5,628,000) | 0.35 |
| At December 31, 2020 | 11,637,667 | 0.43 |

(i) These excised options include 5,003,000 options exercised with shares issued during the year ended December 31, 2020. The remaining 625,000 options were exercised during the year ended December 31, 2020, however, the shares were issued subsequent to December 31, 2020.

During the year ended December 31, 2020

- On January 23, 2020, the Company granted 100,000 options with an exercise price of \$0.50 to a consultant. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.
- On March 25, 2020, the Company granted 2,566,667 options with an exercise price of \$0.30 to certain directors and consultants. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.
- On July 20, 2020, the Company granted 500,000 options with an exercise price of \$0.30 to a consultant. The options are exercisable for a period of two years. All of the options granted vested immediately at the date of grant.
- On September 18, 2020, the Company granted 500,000 options with an exercise price of \$0.30 to two consultants. The options are exercisable for a period of two years. All of the options granted vested immediately at the date of grant.
- On October 6, 2020, the Company granted 100,000 options with an exercise price of \$0.30 to a consultant. The options are exercisable for a period of two years. All of the options granted vested immediately at the date of grant.
- On November 20, 2020, the Company granted 7,200,000 options with an exercise price of \$0.40 to certain directors and consultants. The options are exercisable for a period of one year. All of the options granted vested immediately at the date of grant.

On November 20, 2020, the Company granted 600,000 options with an exercise price of \$0.40 to a consultant. 300,000 options are exercisable for a period of two years and one-fourth vest on date of grant and one-fourth will vest every three months thereafter. The remaining 300,000 options will vest based upon achieving certain performance milestones:

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

15) Stock options (continued)

During the year ended December 31, 2020 (continued)

- On December 4, 2020, the Company granted 700,000 options with an exercise price of \$0.47 to two consultants. The options are exercisable for a period of one year. All of the options granted vested immediately at the date of grant.

During the year ended December 31, 2019

- On February 28, 2019, the Company granted 1,250,000 options with an exercise price of \$0.50 to certain directors. The options are exercisable for a period of five years. All of the options granted vested immediately at the date of grant.
- On July 5, 2019, the Company granted 2,000,000 options with an exercise price of \$0.50 to certain consultants, employees and directors. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.
- On September 3, 2019, the Company granted 50,000 options with an exercise price of \$0.59 to an employee. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.
- On October 25, 2019, the Company granted 700,000 options with an exercise price of \$0.50 to certain consultants, employees and directors. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.
- On December 23, 2019, the Company granted 1,000,000 options with an exercise price of \$0.33 to certain consultants, employees and directors. The options are exercisable for a period of three years. All of the options granted vested immediately at the date of grant.

The estimated grant date fair value of the options granted during the years ended December 31, 2020 and 2019 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2020 | 2019 |
|-------------------------|-------|-------|
| Risk-free interest rate | 0.37% | 1.66% |
| Expected life (years) | 1.6 | 3.5 |
| Annualized volatility | 89% | 79% |
| Dividend rate | 0% | 0% |

During the years ended December 31, 2020 and 2019, the Company recognized share-based payments expense of \$2,152,841 and \$2,737,133, respectively.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollar, unless otherwise noted)

15) Stock options (continued)

The following table summarizes information about the share options outstanding and exercisable at December 31, 2020:

| Exercise price | Number of shares options outstanding | Number of shares options exercisable | Weighted average exercise price | Weighted average remaining contractual life |
|----------------|--|--|---------------------------------------|--|
| \$ | # | # | \$ | |
| 0.50 | 950,000 | 950,000 | 0.50 | 3.2 |
| 0.50 | 1,899,000 | 1,899,000 | 0.50 | 1.5 |
| 0.59 | 50,000 | 50,000 | 0.59 | 1.7 |
| 0.50 | 450,000 | 450,000 | 0.50 | 1.8 |
| 0.33 | 63,667 | 63,667 | 0.33 | 2.0 |
| 0.50 | 100,000 | 100,000 | 0.50 | 2.1 |
| 0.30 | 1,050,000 | 1,050,000 | 0.30 | 1.6 |
| 0.40 | 6,450,000 | 5,925,000 | 0.40 | 0.9 |
| 0.47 | 625,000 | 625,000 | 0.47 | 0.9 |
| | 11,637,667 | 11,112,667 | 0.43 | 1.3 |

16) Share purchase warrants

A summary of the changes in the share purchase warrants are presented below:

| | Warrants outstanding | Weighted average exercise price |
|-------------------------------|-------------------------|------------------------------------|
| | # | \$ |
| At December 31, 2019 and 2018 | 3,000,000 | 0.50 |
| Granted | 1,306,800 | 0.38 |
| At December 31, 2020 | 4,306,800 | 0.38 |

The following table summarizes information about the share options outstanding and exercisable at December 31, 2020:

| Exercise price | Number of shares options outstanding | Weighted average remaining contractual life |
|----------------|--|--|
| \$ | # | |
| 0.30 | 462,000 | 1.76 |
| 0.40 | 844,800 | 1.72 |
| 0.49 | 3,000,000 | 1.81 |
| | 4,306,800 | 1.77 |

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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17) Financial instruments

Fair value

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

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying value of the Company's financial assets and liabilities including cash, amounts receivable and deposits and trade and other payables included in the consolidated statement of financial position at December 31, 2020 and 2019 approximate their fair value due to their short terms to maturity.

The marketable securities were measured at their fair value at December 31, 2019 consisted of the Nextleaf shares, which is measured using level 1 input and Nextleaf warrants, which is measured using level 3 inputs.

Financial risks

The Company's activities expose it to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk and interest rate risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. There have been no significant changes in the Company's exposure to these financial risks in the year ended December 31, 2020.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its holdings of cash and amounts receivable. Cash is held with major Canadian bank or U.S. chartered banks. Amounts receivable primarily comprises balances either held back by the banks or amount recoverable from the government authority. management believes the risk of loss to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rate. The Company is exposed to interest rate risk on its cash and debt instruments and has determined there is no material exposure related to interest rate risk as the debt is fixed rate.

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

17) Financial instruments

Foreign currency risk

The Company's functional and reporting currency is the U.S. dollar and major purchases are transacted in U.S. dollars. As a result, the Company's exposure to foreign currency risk is minimal.

18) Geographic segments

The Company's financial information by geography is as follows:

| | Canada | U.S.A. | Total |
|-----------------------|--------------|------------|--------------|
| Revenue: | | | |
| 2020 | \$ - | \$ 396,317 | \$ 396,317 |
| 2019 | - | - | - |
| Loss from operations: | | | |
| 2020 | (13,681,634) | (563,198) | (14,244,832) |
| 2019 | (10,191,987) | - | (10,191,987) |
| Total assets | | | |
| 2020 | 24,207,528 | 126,595 | 24,334,123 |
| 2019 | 16,235,677 | - | 16,235,677 |
| Total liabilities | | | |
| 2020 | 2,216,096 | 117,884 | 2,333,980 |
| 2019 | \$ 2,729,984 | \$ - | \$ 2,729,984 |

19) Commitments and contingencies

(a) Commitments

JD Agreement

On April 1, 2019, the Company entered into a joint development agreement ("JD Agreement") to develop cannabis infused beverages. The Company committed to provide funding of up to US\$500,000. As of December 31, 2019, US\$500,000 had been funded. The funding was expensed during the year ended December 31, 2019 as the project is still in the research phase. The Company has an irrevocable and exclusive right and option to purchase and acquire any or all of the right title and interest in and to other party of the JD Agreement and/or its assets and the other party's intellectual property ("Option").

The option is exercisable through the issuance of common shares and released on performance milestones being met as follows:

- US\$1,000,000 within 3 months on launch of a powdered drink line;
- US\$1,000,000 within 9 months on launch of a line of water drinks;
- US\$1,400,000 on attainment of US\$7,500,000 in revenues;
- US\$1,400,000 on attainment of US\$16,500,000 in revenue.

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19) Commitments and contingencies

(a) Commitments (continued)

Upon exercise of the option, the Company will commit to injecting an additional US\$1,000,000 to support the working capital needs of the JD Agreement.

As at December 31, 2020, none of the above milestones have been met, therefore, no additional funding has been provided during the year ended December 31, 2020.

Exclusive License Agreement (Keef)

On April 30, 2020, the Company entered into an exclusive license agreement ("Keef Agreement") with CanCore Concepts Inc., ("Licensor"), a Colorado corporation whereby granting exclusive rights to the Company using Intellectual Property of the Licensor including name, logo and artwork. The Company will also obtain the license to use the intellectual property to manufacture and sell Licensed Products in Canada. The initial term of the agreement is three years and the Company will pay the Licensor through an exclusive purchase of Goods under the Sale of Goods Agreement. As part of the contract, the Company is also committed to invest US\$150,000 in Serovita Holding Corp. ("Serovita") pursuant to convertible debentures as follows:

- US\$50,000 to be paid, in two payments: US\$25,000 by April 30 and US\$25,000 by May 15, 2020;
- US\$50,000 by May 31, 2020;
- US\$50,000 by June 30, 2020

As of December 31, 2020, US\$50,000 has been funded in cash. For the remaining US\$100,000, the Company issued 182,500 common shares of the Company at a price of \$0.70 per share on December 21, 2020 as a share for debt settlement in return for the Company's principal amount of Keef Brands's existing convertible debenture previously issued to the Company on April 30, 2020, which is convertible to shares of Keef. Upon the share for debt settlement completed on December 21, 2020, there is no future additional funding outstanding.

The total funding of \$197,866 including cash and the share for debt settlement is recorded under deposit on investment (note 5).

Intellectual property and trademark license agreement

On May 8, 2020, the Company entered into an intellectual property and trademark license agreement with Capna Intellectual, Inc. ("Capna"), a California company whereby granting rights to use Capna's Licensed IP to manufacture, advertise, distribute and sell certain products. The initial term of the agreement is five years with automatic extension of additional five years unless terminated. The Company will pay Capna a fixed percentage of royalty of net profits.

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19) Commitments and contingencies (continued)

(a) Commitments (continued)

Definitive agreement (Argentia Gold Corp.)

On June 8, 2020, the Company signed a definitive agreement with Argentia Gold Corp. (“Argentia”), a Maritime-based licensed cannabis producer, to exclusively represent the Company’s line of cannabis-infused beverages in Newfoundland, PEI and New Brunswick. The Company will obtain the supply chain, distribution and sales infrastructure and services in these three Maritime provinces and pay Argentia a service fee of 15 percent, with up to an additional 5 percent bonus based upon achievement of mutually agreed sales milestones. The initial term of the agreement is for one year.

Consulting agreement

On November 10, 2020, the Company entered into an independent consulting agreement with a consultant to provide executive advisory services and lead revenue and profit generation for the Company from consumer products and B2B beverage co-packing business. The Company will pay \$10,000 monthly in cash and \$6,667 monthly, which may be settled as a shares-for-debt transaction in common shares of the Company. The Company also granted 600,000 stock options to purchase up to 600,000 common shares of the Company to the consultant. The option vests based on certain conditions:

- 300,000 options vest 25% per quarter, exercisable at \$0.40 per share for a term of 2 years
- The remaining 300,000 options will vest based upon achieving the following milestones:
 - 100,000 options vest upon successfully commercializing Keef in Canada;
 - 100,000 options vest upon successfully commercializing Cali-Bloom in Canada;
 - 100,000 options vest upon successfully executing on 3 white-label client manufacturing agreements.

(b) Contingencies

The Company is a party to a variety of agreements in the ordinary course of operation, under which it may be obligated to indemnify third parties with respect to certain matters. Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company. Management assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to claims, proceedings or litigation that are pending against the Company or unasserted claims that may result in such proceedings, if the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company’s consolidated financial statements. Management believes these proceedings will not have a materially adverse effect on the Company.

20) Capital management

The Company’s objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company’s main source of funds is from its ability to raise public and/or private equity or loan financing. The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

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20) Capital management (continued)

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash to include amounts held in banks. The Company places its cash with institutions of high credit worthiness.

The Company is not subject to any externally imposed capital requirements.

21) Income taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| | \$ | \$ |
| Net loss | (14,244,832) | (10,191,987) |
| Statutory income tax rate | 27.00% | 27.00% |
| Expected income tax (recovery) | (3,846,000) | (2,752,000) |
| Change in foreign exchange rates and other | 47,000 | 362,000 |
| Permanent Difference | 597,000 | 771,000 |
| Share issue cost | - | 1,000 |
| Change in unrecognized deductible temporary differences and other | 3,202,000 | 1,618,000 |
| Total income tax recovery | - | - |

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

| | 2020 | 2019 |
|-----------------------------------|-------------|-------------|
| | \$ | \$ |
| Deferred tax assets (liabilities) | | |
| Non-capital losses | 2,815,000 | 1,951,000 |
| Property and equipment | 263,000 | - |
| Canadian eligible capital (CEC) | 569,000 | 520,000 |
| Share issue costs and other | 478,000 | 93,000 |
| Intangible assets | (733,000) | - |
| | 3,392,000 | 2,564,000 |
| Unrecognized deferred tax assets | (3,392,000) | (2,564,000) |
| Net deferred tax assets | - | - |

BevCanna Enterprises Inc.

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22) Subsequent Events

Debt

Subsequent to the period ended December 31, 2020, the Company provided a loan of \$450,000 to Naturo. The loan is non-interest bearing, unsecured and due on demand.

On January 8, 2021, the Company completed issued 25,000 common shares at a price of \$1.50 to settle debt in the amount of \$37,500 with a consultant.

On February 8, 2021, the Company exercised the right to early redeem the \$115,000 debenture and paid a total of \$124,532 consisting of the principal balance and accrued interest. On the same date, the Company converted \$15,000 of its outstanding debentures into common shares by issuing 20,000 common shares of the Company. The remaining principal outstanding for the debenture is \$500,000.

On February 8, 2021, the Company issued 58,810 common shares to settle \$51,501 debt owned to various vendors.

On March 25, 2021, the Company provided a \$125,000 short-term loan to a third party. The loan is unsecured and due within 30 days. The loan bears 4% interest per annum and is due on demand.

Equity

Subsequent to the year ended December 31, 2020, total 8,160,000 stock options were exercised for gross proceeds of \$3,266,500.

Subsequent to the year ended December 31, 2020, total 1,649,500 share purchase warrants were exercised for gross proceeds of \$836,750.

On January 8, 2021, the Company completed a non-brokered private placement of \$3,500,000 for 2,333,333 units of the Company. Each unit consists of one common share and one transferable common share purchase warrant, exercisable at \$2.00 per warrant and expiring in one year from the date of closing. \$696,250 was received in advance in December 2020 and the remaining subscriptions were received in January 2021.

On February 8, 2021, the Company granted 100,000 stock options to purchase up to 100,000 common shares of the Company to a consultant and a director. Each option vests immediately upon the grant and is exercisable for a period of one year from the date of grant at a price of \$1.00 per common share.

On March 15, 2021, the Company completed a non-brokered private placement of 100,000 common shares of the Company for proceeds of \$100,000.

On April 19, 2021, the Company entered into a sales agency agreement with a consultant to provide sales agent and promotion services. The Company granted 1,000,000 stock options to the consultant. The options vested based on certain revenue performance conditions and are exercisable at \$1.50 per share.

BevCanna Enterprises Inc.

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22) Subsequent Events (continued)

Acquisition

On February 22, 2021, the Company issued 50,000,000 common shares to acquire all of the issued and outstanding common shares of Naturo which develops and manufactures beverages and consumer products for in-house brands and private label clients. The acquisition of Naturo was closed with the following:

- a) 50,000,000 common shares of the Company were issued to the former shareholders of Naturo;
- b) The Company assumed the obligation to issue:
 - (i) 450,000 common shares (each, an "Option Share") in the capital of the Company pursuant to outstanding options in Naturo exercisable at \$0.25 per Option Share until July 31, 2024,
 - (ii) 26,250,000 common shares (each, a "Warrant Share") in the capital of the Company issuable upon exercise of outstanding warrants in Naturo exercisable at \$0.50 per Warrant Share until August 19, 2021, and
 - (iii) Such common shares (each, a "Debenture Share") in the capital of the Company as may be issuable pursuant to a convertible debenture in Naturo in the principal amount of \$1,505,021 convertible at \$0.40 per Debenture Share, maturing on January 27, 2023 and accruing interest at an annual rate of 10% which is also convertible into Debenture Shares.