Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

BevCanna Enterprises Inc. ("**BevCanna**" or the "**Company**")

PO Box 33957 Vancouver, BC V6J4L7

1.2 Executive Officer

Marcello Leone, Chief Executive Officer and Chairman

(604) 569-1414

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On February 19, 2021, the Company acquired all of the issued and outstanding securities of Naturo Group Investments Inc. ("**Naturo**") pursuant to the terms of a business combination agreement (the "**Agreement**") dated December 11, 2020, as amended January 31, 2021 (the "**Acquisition**").

Naturo develops and manufactures beverages and consumer products for its proprietary brands and white label clients. Naturo owns and operates nationally distributed house brands across Canada which are currently sold in more than 3,000 Canadian retailers, including 7/11, Loblaws, London Drugs, Metro and Farm Boy, as well as online direct-to-consumer (DTC). Based in British Columbia, Canada, Naturo owns an alkaline spring water aquifer and a 40,000 square foot HACCP certified manufacturing facility with a current bottling capacity of up to 210 million bottles per annum.

For more information on the Acquisition, see the Company's news releases dated November 24, 2020, December 14, 2020 and February 22, 2021 filed under the Company's profile on SEDAR at www.sedar.com.

2.2 Acquisition Date

February 19, 2021

2.3 Consideration

In consideration for the Acquisition, the Company issued 50,000,000 common shares (each, a "**Consideration Share**") to the former shareholders of Naturo, on a pro rata basis, at a deemed price of $0.40 per Consideration Share. The Consideration Shares were subject to voluntary escrow agreements that released the Consideration Shares in twelve equal releases on the last day of each month following the closing of the Acquisition.

In addition, the Company assumed the following obligations to issue common shares of the Company in connection with the Acquisition:

(a) up to 450,000 common shares (each, an "**Option Share**") upon the due exercise of outstanding stock options in Naturo exercisable at $0.25 per Option Share until July 31, 2024;

(b) up to 25,000,000 common shares (each, a "**Warrant Share**") issuable upon the due exercise of outstanding common share purchase warrants in Naturo exercisable at $0.50 per Warrant Share until August 19, 2021;

(c) up to 1,250,000 common shares (each, a "**Series A Warrant Share**") issuable upon the due exercise of outstanding series A preferred share purchase warrants in Naturo exercisable at $0.80 per Series A Warrant Share; and

(d) such number of common shares (each, a "**Debenture Share**") as may be issuable pursuant to a convertible debenture in Naturo in the principal amount of $1,468,373 that is convertible at $0.40 per Debenture Share, maturing on January 27, 2023 and accruing interest at an annual rate of 10% which interest is also convertible into Debenture Shares at $0.40 per Debenture Share.

2.4 Effect on Financial Position

Except as otherwise publicly disclosed and in the ordinary course of the Company's business, the Company does not currently have any plans or proposals for material changes in the business of Naturo acquired pursuant to the Acquisition which may have a significant impact on the financial performance and financial position of the Company.

2.5 Prior Valuations

To the knowledge of the Company, there has been no valuation opinion obtained in the last 12 months by the Company or Naturo required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company for Naturo.

2.6 Parties to Transaction

The Acquisition was with "informed persons" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**")) of the Company. The informed persons consisted of Marcello Leone and Martino Ciambrelli as they are both officers and directors of the Company and received Consideration Shares as part of the Acquisition.

The Acquisition constituted a "related party transaction" within the meaning of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") as Marcello Leone and Martino Ciambrelli are former shareholders of Naturo and also directors and the Chief Executive Officer and President, respectively, of the Company. The Acquisition was exempt from the formal valuation and minority shareholder approval requirements under MI 61-101 pursuant to sections 5.5(a) and 5.7(1)(a) as the fair market value of the Acquisition, insofar as it involves interested parties, did not exceed 25% of the Company's market capitalization at the time the Acquisition was agreed to.

2.7 Date of Report

March 14, 2022

Item 3 Financial Statements and Other Information

Pursuant to Part 8 of NI 51-102 and attached as Schedule A are the audited consolidated financial statements of Naturo as at and for the years ended December 31, 2020 and December 30, 2019, together with the notes thereto and the auditors' report thereon.

Forward-Looking Statements

This Report may contain certain "forward-looking statements" or "forward-looking information" under applicable securities laws. Forward-looking terms such as "may," "will," "could," "should," "would," "plan," "potential," "intend," "anticipate," "project," "target," "believe," "estimate" or "expect" and other words, terms and phrases of similar nature are often intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and represent management's best judgment based on facts and assumptions that management considers reasonable. Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and expectations to differ materially from the anticipated results or expectations expressed in this Report. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results the Company's most recent Management Discussion and Analysis and other documents on file with the Canadian securities regulatory authorities, which are available online under the Company's SEDAR profile at www.sedar.com. The forward-looking statements and information contained in this Report represent the Company's views only as of today's date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, other than as required by law, rule or regulation. You should not place undue reliance on forward-looking statements.

SCHEDULE A

NATURO FINANCIAL STATEMENTS

[see attached]

NATURO GROUP INVESTMENTS 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

Report of Independent Registered Public Accounting Firm

To the Shareholders of Naturo Group Investment Inc.

Opinion

We have audited the consolidated financial statements of Naturo Group Investment Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income (loss) and comprehensive income (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 indicates that the Company has incurred operating losses and negative operating cash flows since inception and the Company's ability to continue its operations is dependent on its ability to raise additional financing and to generate operational cash flow from product revenue. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC

March 11, 2022

MOORE

An independent firm
associated with Moore
Global Network Limited

NATURO GROUP INVESTMENTS INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Note		December 31, 2020		December 31, 2019
ASSETS					
Current assets					
Cash		$	157,164	$	204,124
Receivables	3		104,377		41,757
Inventory	4		178,639		329,939
Marketable securities	5		4,131,038		3,226,086
Deposits and prepaid expenses	6		130,288		76,765
Due from related parties	13		2,893,154		1,437,741
			7,594,660		5,316,412
Non-current assets					
Property, plant and equipment	7		4,674,616		4,958,090
Right-of-use assets	8		16,465		417,268
Intangible assets, including water source and license	9		8,000,737		8,001,475
TOTAL ASSETS		**$**	20,286,478	**$**	18,693,245
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	10	$	952,405	$	757,242
Current portion of lease obligations	11		9,071		213,228
Current portion of loans payable to related parties	13		2,448,215		-
Due to related parties	13		492,702		497,702
Deferred revenue	20		9,244,389		10,535,748
Promissory notes	12		3,061,079		424,931
Preferred share liability			409		409
			16,208,270		12,429,260
Non-current liabilities					
CEBA loans	14		57,837		-
Deposit liability	13		-		39,430
Lease obligations	11		7,890		207,646
Loans payable to related parties	13		-		2,353,417
Promissory notes	12		-		2,399,684
TOTAL LIABILITIES			16,273,997		17,429,437
SHAREHOLDERS' EQUITY					
Attributable to the shareholders of the Company:					
Share capital	15		11,014,792		11,014,792
Share-based payments reserve			97,461		97,461
Reserves			8,000,000		8,000,000
Deficit			(14,976,114)		(17,825,041)
Non-controlling interest	18		(123,588)		(23,404)
TOTAL SHAREHOLDERS' EQUITY			4,012,481		1,263,808
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	20,286,478	**$**	18,693,245

Nature of operations and going concern (Note 1)
Commitments (Note 19)
Subsequent events (Notes 1, 11, 12, 19, 20, 21)

Approved and authorized for issue by the Board of Directors on March 11, 2022.

"Martino Ciambrelli" Director *"Marcello Leone"* Director

The accompanying notes form an integral part of these consolidated financial statements.

NATURO GROUP INVESTMENTS INC.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

	Note	For the Year ended December 31, 2020	2019
Revenue:			
License agreement	20	$ 1,240,000	$ 1,240,000
Displacement fee	20	703,400	600,000
Beverage sales		538,948	598,492
		2,482,348	2,438,492
Cost of sales		(348,926)	(410,173)
Impairment of inventory	4	(83,139)	(47,198)
Gross profit		2,050,283	1,981,121
Operating expenses:			
Amortization	7,8	451,629	553,996
Automobile		13,870	13,482
Consulting	13	164,739	132,406
Legal and audit		136,558	70,037
Marketing		167,535	633,283
Office and miscellaneous	3, 13	341,942	322,635
Travel		989	16,295
Testing and research		32,071	4,936
Wages and salaries	13	337,848	582,441
		(1,647,181)	(2,329,511)
Income (loss) before other items		403,102	(348,390)
Other items:			
Foreign exchange gain		1,899	390
Government grants	14	45,350	-
Gain (loss) on marketable securities	5	3,826,881	(5,558,414)
Interest and financing	12, 13	(917,047)	(962,154)
Loss on debt settlements	5	(818,878)	(196)
Other income	13	207,366	191,126
Recovery of operating expenses	20	-	195,465
		2,345,571	(6,133,783)
Total income (loss) and comprehensive income (loss)		$ 2,748,673	$ (6,482,173)
Total comprehensive income (loss) attributable to:			
Shareholders of Naturo		$ 2,848,857	$ (6,393,101)
Non-controlling interest		(100,184)	(89,072)
		$ 2,748,673	$ (6,482,173)

The accompanying notes form an integral part of these consolidated financial statements.

NATURO GROUP INVESTMENTS INC.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Class A Common Shares		Class B Common Shares		Preferred Shares						
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Share-based payments reserve	Reserves	Deficit	Non-controlling interest	Total
Balance, December 31, 2018	**9,597,908**	**$ 2,312,668**	**7,573,194**	**$ 3,818,483**	**12,569,166**	**$ 6,884,986**	**$ 97,461**	**$ 8,000,000**	**$(11,446,822)**	**$ 65,668**	**$ 9,732,444**
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	-	-	14,882	-	14,882
Balance, January 1, 2019	**9,597,908**	**2,312,668**	**7,573,194**	**3,818,483**	**12,569,166**	**6,884,986**	**97,461**	**8,000,000**	**(11,431,940)**	**65,668**	**9,747,326**
Share issuance cost	-	-	-	-	-	(1,345)	-	-	-	-	(1,345)
Shares repurchased by the Company	-	-	(2,500,000)	(2,000,000)	-	-	-	-	-	-	(2,000,000)
Net loss for the year	-	-	-	-	-	-	-	-	(6,393,101)	(89,072)	(6,482,173)
Balance, December 31, 2019	**9,597,908**	**2,312,668**	**5,073,194**	**1,818,483**	**12,569,166**	**6,883,641**	**97,461**	**8,000,000**	**(17,825,041)**	**(23,404)**	**1,263,808**
Net income (loss) for the year	-	-	-	-	-	-	-	-	2,848,857	(100,184)	2,748,673
Balance, December 31, 2020	**9,597,908**	**$ 2,312,668**	**5,073,194**	**$ 1,818,483**	**12,569,166**	**$ 6,883,571**	**$ 97,461**	**$ 8,000,000**	**$(14,976,114)**	**$ (123,588)**	**$ 4,012,481**

The accompanying notes form an integral part of these consolidated financial statements.

NATURO GROUP INVESTMENTS INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2020	2019
Operating activities		
Net income (loss)	$ 2,748,673	$ (6,482,173)
Items not affecting cash:		
Amortization	451,629	553,997
Bad debt expense	27,405	-
Interest and financing	151,464	139,432
Foreign exchange gain	(1,899)	(390)
Impairment of inventory	83,139	47,198
Loss on debt settlement	818,878	196
Gain (Loss) on marketable securities	(3,826,881)	5,558,414
Changes in non-cash working capital:		
Receivables	(97,113)	(99,714)
Inventory	68,161	(80,008)
Deposits and prepaid expenses	(53,523)	58,141
Due from related parties	140,815	(146,583)
Accounts payable and accrued liabilities	203,657	131,524
Deferred revenue	(1,341,359)	(1,178,475)
Net cash flows used in operating activities	(626,954)	(1,498,441)
Investing activities		
Purchase of property and equipment	(33,887)	(56,656)
Purchase of marketable securities	-	(10,000)
Proceeds from sale of marketable securities	559,228	-
Net cash flows provided by (used in) investing activities	525,341	(66,656)
Financing activities		
Share issuance costs	-	(1,345)
Receipt of short-term loans	300,000	-
Repayment of short-term loans	(220,000)	(200,000)
CEBA Loan received	100,000	-
Due to/from related parties	-	(269,359)
Interest payments	-	(5,545)
Lease principal payments	(125,347)	(221,697)
Net cash flows provided by (used in) financing activities	54,653	(697,946)
Change in cash	(46,960)	(2,263,043)
Cash, beginning balance	204,124	2,467,167
Cash, ending balance	$ 157,164	$ 204,124

The accompanying notes form an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Naturo Group Investments Inc. (the "Company"), a Canadian-controlled private corporation, was incorporated on March 26, 2012 under the laws of the province of British Columbia. The Company develops and markets fulvic and humic acid-enriched beverage products in the health and wellness industry. The Company's products are available to consumers through its distributors across Canada. The Company's registered office is located at 800–885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The head office of the Company is located at 300 - 1008 Homer Street, Vancouver, British Columbia V6J 4L7.

On December 11, 2020 and as amended and restated on January 31, 2021, the Company entered into a Business Combination Agreement with BevCanna Enterprises Inc. ("BevCanna") and 1283045 B.C. Ltd. ("Newco"), whereby Newco and the Company amalgamated (the "Amalgamation"). Upon completion of the Amalgamation on February 19, 2021, the company resulted from the Amalgamation became a wholly owned subsidiary of BevCanna and operated under the name of Naturo Group Enterprises Inc. The acquisition was closed with the following:

- 50,000,000 common shares of BevCanna were received by the shareholders of the Company.
- BevCanna also assumed the obligations to issue:
  - 450,000 BevCanna shares pursuant to the Company's issued and outstanding 450,000 options exercisable at $0.25 per BevCanna share until July 31, 2024;
  - 25,000,000 BevCanna shares upon exercise of the Company's 25,000,000 outstanding share purchase warrants exercisable at $0.50 per BevCanna share until August 19, 2021;
  - 1,250,000 BevCanna shares upon exercise of the Company's 1,250,000 outstanding Series A preferred share purchase warrants exercisable at $0.50 per BevCanna share until August 19, 2021; and
  - Such BevCanna common shares as may be issuable pursuant to the Company's outstanding convertible debenture in the principal amount of $1,505,021 (note 21) convertible at $0.40 per BevCanna share, maturing on January 27, 2023 and accruing interest at an annual rate of 10%.

The Company has incurred operating 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, promissory notes, related party loans and through private placement 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 statement of financial position classifications used, which 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 known 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

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, and interpretations of the International Financial Reporting Issues Committee. The principal 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.

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.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, unless otherwise noted. The functional currency of the Company is the Canadian dollar, as it represents the main economic environment in which the Company operates.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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.

		Percentage owned	
Entity	Country of incorporation	December 31, 2020	December 31, 2019
Naturo Investments (USA) Inc. (Dissolved)*	United States	N/A	100%
Naturo Springs Inc. (formerly Miller Springs Ltd.)	Canada	79%	79%

* Naturo Investments (USA) Inc. was dissolved on June 29, 2020; this company had no assets and no liabilities or equity.

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 amounts of assets and liabilities within the current and next fiscal financial years:

- The Company makes estimates on the useful lives when determining depreciation of property and equipment and the amortization of intangible assets, which are determined through the exercise of judgment. In addition, the assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and useful lives of assets.
- 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.
- Estimates of future taxable income are based on forecasted 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 consolidated statement of financial position could be impacted.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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, twelve 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.

- 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.
- 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, such as Water Source and license. 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.
- 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.

Inventory

Inventory consists primarily of finished goods, raw ingredients and packaging materials. Inventory is valued at the lower of cost and net realizable value with cost based upon the weighted average method of inventory costing. The realizable value of finished goods is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of inventory is based on landed cost, which includes all costs incurred to bring inventory to the Company's distribution centres. If the Company determines that the estimated net realizable value of its inventory is less than the carrying value of such inventory, it records it as a charge to cost of sales.

Property, plant and equipment

Property and equipment are stated at cost less accumulated amortization and impairment charges. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the assets, to a maximum of 5 years. The estimated useful lives are:

Buildings and warehouse	25 years
Computers and software	3 years
Furniture and fixtures	5 years
Equipment	5 years
Vehicles	4 years
Leasehold improvements	5 years

The Company assesses the estimated useful life of the property and equipment on an annual basis. Upon sale or other disposition of a depreciable asset, cost and accumulated amortization are removed from property and equipment and any gain or loss is reflected as a gain or loss from operations.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Intangible assets

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or arises from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets include trademarks and water rights.

Intangible assets acquired externally are measured at cost less accumulated depreciation and impairment losses. The cost of a group of intangible assets acquired is allocated to the individual intangible assets based on their relative fair values. The cost of intangible assets acquired externally comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Intangible assets with finite useful lives are amortized straight-line over their estimated useful life, 4 years, from the date they are available for use.

Leases

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases, which replaces International Accounting Standard 17 *Leases* and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the asset. Control is considered to exist if the customer has the right to obtain substantially all the economic benefits from the use of an identified asset and the right to direct the use of that asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets.

For any new contracts entered into, the Company considers whether a contract is or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Company assesses whether the contract meets three key evaluations, which are whether:

i. The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
ii. The Company has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
iii. The Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

As lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability. A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate.

Revenue recognition

The Company's revenue is primarily derived from fee charged for the license agreement, non-recurring displacement fee, as well as from the sales of beverage products. The Company recognizes revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*.

The Company recognizes revenue when control over the promised product or service is transferred to the customer. Revenue is measured at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company accounts for contracts with customers when it has approval and commitment for both parties, each party's rights have been identified, payment terms are defined, the contract has commercial substance and collection is probable. For contracts that involve multiple performance obligations, the Company allocates the transaction price to each performance obligation in the contract based on the relative standalone selling prices and recognize revenue when, or as, performance obligations in the contacts are satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Revenue recognition *(continued)*
Revenue from license agreement:

Through the license agreement, the Company provides to its customer the right to access its water rights, manufacturing facility and premise. Revenue from granting the license is recognized over time when the right to access the water rights, manufacturing facility and premise is provided to the customer.

Payments received in advance are recorded as deferred revenue and recognized when the right to access is provided.

Revenue from displacement fee:

The Company charges non-recurring displacement fee when amending the lease agreement with its customer. Revenue from displacement fee is recognized at a point of time when the change in the scope of the right to access to the manufacturing facility and premise is granted to the customer.

Revenue from beverage sales:

Revenue from beverage sales includes direct sales to end customers through web orders and through its distributors. The Company recognize its revenue when the delivery of the goods has occurred and there is no unfulfilled obligation that could affect the customer's acceptance. These criteria are generally met at the time when goods leave the Company's premises, at which time control has passed to the customers. For sales orders where consideration is received before the goods are delivered, the Company accounts for those pending sales orders as deferred revenue. Revenue is measured based on the price specified in the Company's invoice provided to the customer. Revenues are recorded net of sales incentives, including discounts and shelving or slotting fees.

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.

Share-based payments
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 and are recorded at the date the goods or services are received. If it is determined the fair value of the goods or services cannot be reliably measured, the Company estimates the fair value of the equity instruments issued. The corresponding amount is recorded to the share-based payments reserve. The fair value of stock options is determined using the Black–Scholes option 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars, which is the parent company's and Spring's functional and presentation currency.

Transactions and balances:

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

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

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

Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Government grant

A government grant is recognized when there is a 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.

Non-controlling interest

Non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets or liabilities. Net income or loss and comprehensive income or loss for the period are allocated between non-controlling interest and shareholders of the parent. Non-controlling interest in subsidiaries is presented in the consolidated statements of financial position within equity, separately from the equity of the owners of the parent. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Impairment of non-financial assets

The carrying amount of the Company's assets (which includes property and equipment, Water Source and license, and right-of-use-assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

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

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Accounting standards issued but not yet effective

Several new standards and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2020, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future consolidated financial statements.

3. RECEIVABLES

	December 31, 2020	December 31, 2019
	$	$
Trade receivables	97,985	36,432
Goods and Services Tax receivables	6,392	994
Other receivables	-	4,331
	104,377	41,757

At December 31, 2020, receivables include an allowance for doubtful accounts of $91,383 (2019 - $38,877). During the year ended December 31, 2020, the Company incurred bad debt expense of $79,659 (2019 - $33,543) on receivables, which was included in office and miscellaneous expenses.

4. INVENTORY

The Company's inventory held as at December 31, 2020 and 2019 is comprised of the following:

	December 31, 2020	December 31, 2019
	$	$
Bottles and packaging	6,319	13,515
Finished goods	78,963	147,214
Raw materials	93,357	169,210
	178,639	329,939

During the year ended December 31, 2020, $83,139 (2019 - $47,198) in inventory was written off as impairment charge. During the year ended December 31, 2020, inventory of $242,404 (2019 - $310,904) was expensed in the cost of sales.

5. MARKETABLE SECURITIES

RYU marketable securities

On February 7, 2019, the Company subscribed for 5,333,333 common shares of RYU Apparel Inc. ("RYU"), a related party, at a unit price of $0.075 for $400,000. Each unit is comprised of one common share of RYU and one transferrable warrant. Each warrant is exercisable into one common share of RYU at price of $0.15 for a period three years from the date of closing.

On March 27, 2019, the Company subscribed for 1,333,333 common shares of RYU, a related party, at a unit price of $0.075 for $100,000. Each unit is comprised of one common share of RYU and one transferrable share purchase warrant. Each warrant is exercisable into one common share of RYU at price of $0.15 for a period of three years from the date of closing.

On April 16, 2020, the Company received 20,387,449 RYU common shares with a fair value of $203,874 to settle a debt in the amount of $815,498 owing from RYU (Note 13). As a result, the Company recognized a loss on settlement of debt of $611,624.

On July 22, 2020, RYU completed a share consolidation on the basis of one post-consolidation common share for every ten pre-consolidation common shares. The Company received 2,735,412 post-consolidation RYU shares in exchange for 27,354,115 pre-consolidation RYU shares.

During the year ended December 31, 2020, the Company had a loss of $8,812 (2019 - $493,517) on the fair value adjustment of marketable securities related to RYU shares.

(Expressed in Canadian Dollars)

5. MARKETABLE SECURITIES (continued)

RYU marketable securities *(continued)*
The continuity of the Company's RYU marketable securities is as follows:

	Common shares		Warrants		
	Number	Value	Number	Value	Total value
	#	$	#	$	$
Balance, December 31, 2018	300,000	34,500	-	-	34,500
Acquisitions	6,666,666	486,667	6,666,666	224,836	711,503
Fair value adjustment	-	(312,167)	-	(181,350)	(493,517)
Balance, December 31, 2019	6,966,666	209,000	6,666,666	43,486	252,486
Debt settlement	20,387,449	203,875	-	-	203,875
Share consolidation	(24,618,703)	-	(5,999,999)	-	-
Fair value adjustment	-	(2,563)	-	34,580	32,017
Balance, December 31, 2020	**2,735,412**	**410,312**	**666,667**	**78,066**	**488,378**

The fair value of the Company's RYU marketable securities is as follows:

As at December 31, 2020	Units	Cost	Unrealized income (loss)	Fair value
	#	$	$	$
Common shares	2,735,412	1,024,498	(614,186)	410,312
Warrants	666,667	43,486	34,580	78,066
		1,067,984	**(579,606)**	**488,378**

The fair value of the RYU warrants was determined using the Black-Scholes Option Pricing Model using the following assumptions:

	December 31, 2020	**December 31, 2019**
Expected life of warrants (years)	1.12 - 1.24	2.12 - 2.24
Annualized volatility	315% - 330%	103% - 104%
Risk-free interest rate	0.25%	1.69%
Dividend rate	-	-

BevCanna marketable securities
The continuity of the Company's BevCanna marketable securities is as follows:

	Common shares	
	Number	Value
	#	$
Balance, December 31, 2018	16,480,000	8,240,000
Share consolidation	(8,240,000)	-
Acquisition	20,000	20,000
Fair value adjustment	-	(5,286,400)
Balance, December 31, 2019	8,260,000	2,973,600
Disposals	(5,926,161)	(1,563,829)
Debt settlement with BevCanna	2,655,161	929,078
Transferred to vendors for debt settlement	(1,272,000)	(345,420)
Fair value adjustment	-	1,649,231
Balance, December 31, 2020	**3,717,000**	**3,642,660**

On January 22, 2019, BevCanna completed a share consolidation on the basis of one post-consolidation share for each two pre-consolidation shares issued and outstanding. The Company's investment in the related company remained unchanged and consists of 8,240,000 post-consolidation shares.

On March 26, 2019, the Company entered into a share transfer agreement to purchase 20,000 common shares of BevCanna from a third party for $10,000.

During the year ended December 31, 2020, the Company disposed of 5,926,161 BevCanna common shares for $3,724,468 and realized a $2,151,882 gain on sale of marketable securities.

(Expressed in Canadian Dollars)

5. MARKETABLE SECURITIES (continued)

***BevCanna marketable securities** (continued)*

In May, 2020, the Company received 1,537,411 BevCanna shares at a price of $0.425 per share as payment for the 653,400 displacement fee (Note 19). The Company also received 1,117,750 BevCanna shares for settlement of $447,100 debt receivable from BevCanna, resulting in $55,525 (2019 - $nil) gain on the settlement of debt receivable.

During the year ended December 31, 2020, the Company settled debt of $372,028 in total with four creditors by transferring 1,272,000 BevCanna common shares with a fair value of $345,420, of which $80,000 was settled with a related party creditor. As a result, the Company recognized a gain on debt settlement of $26,608.

6. DEPOSITS AND PREPAID EXPENSES

	December 31, 2020 $	December 31, 2019 $
Prepaid expenses	70,288	41,973
Prepaid office rent	-	34,572
Prepaid related party consulting fees	60,000	-
Security deposits	-	220
	130,288	76,765

7. PROPERTY, PLANT AND EQUIPMENT

	Computers and software $	Building and warehouse $	Furniture and fixtures $	Equipment $	Vehicles $	Leasehold improvements $	Land $	Total $
Cost:								
At December 31, 2018	38,496	1,978,593	63,985	1,163,305	86,478	60,886	2,675,000	6,066,743
Reclassification (IFRS 16 adoption)	-	-	-	-	(30,234)	-	-	(30,234)
Additions	1,251	28,001	-	323,135	-	-	-	352,387
At December 31, 2019	39,747	2,006,594	63,985	1,486,440	56,244	60,886	2,675,000	6,388,896
Additions	-	15,465	-	18,424	-	-	-	15,465
At December 31, 2020	39,747	2,022,059	63,985	1,504,864	56,244	60,886	2,675,000	6,422,785
Accumulated amortization:								
At December 31, 2018	36,891	495,457	61,823	414,369	56,735	43,957	-	1,109,232
Reclassification (IFRS 16 adoption)	-	-	-	-	(6,929)	-	-	(6,929)
Amortization	2,856	85,171	1,349	223,172	3,778	12,177	-	328,503
At December 31, 2019	39,747	580,628	63,172	637,541	53,584	56,134	-	1,430,806
Amortization	-	85,459	813	224,614	1,725	4,752	-	317,363
At December 31, 2020	39,747	666,087	63,985	862,155	55,309	60,886	-	1,748,169
Net book value:								
At December 31, 2019	**-**	**1,425,966**	**813**	**848,899**	**2,660**	**4,752**	**2,675,000**	**4,958,090**
At December 31, 2020	**-**	**1,355,972**	**-**	**642,709**	**935**	**-**	**2,675,000**	**4,674,616**

(Expressed in Canadian Dollars)

8. RIGHT-OF-USE-ASSETS

	Vehicles $	Equipment $	Building $	Total $
Cost:				
At January 1, 2019	18,868	-	180,765	199,633
Additions	-	14,755	427,634	442,389
At December 31, 2019	18,868	14,755	608,399	642,022
Cancellation of lease (Note 11)	-	-	(608,399)	(608,399)
At December 31, 2020	18,868	14,755	-	33,623
Accumulated amortization:				
At January 1, 2019	-	-	-	-
Amortization	6,119	2,236	216,399	224,754
At December 31, 2019	6,119	2,236	216,399	224,754
Amortization	6,120	2,683	124,727	133,530
Cancellation of lease (Note 11)	-	-	(341,126)	(341,126)
At December 31, 2020	12,239	4,919	-	17,158
Net book value:				
At December 31, 2019	**12,749**	**12,519**	**392,000**	**417,268**
At December 31, 2020	**6,629**	**9,836**	**-**	**16,465**

9. WATER SOURCE AND LICENSE

The Company has the right to use and extract groundwater from a certain property located in the Yale Land District of British Columbia (the "Water Source") pursuant to a license issued under the Water Sustainability Act of British Columbia. The Water Source is an aquifer. The bottling plant of the Company is connected to a production well and the Water Source. On initial recognition, the Water Source was measured at $8,000,000.

The Water Source was valued using the Relief from Royalty method (the "RFR Method"), which is based on the proposition that a company would be willing to pay a royalty in lieu of ownership, to possess the benefits of the Water Source.

The resulting cash flows are discounted using a rate to reflect the risks of achieving the projected royalty savings attributable to the Water Source. The assumptions used to estimate the fair value of the Water Source are subjective and require significant judgment, including estimated future volume, the royalty rate (which is estimated to be a reasonable market royalty charge that would be charged by a licensor of the Water Source) and the risk adjusted discount rate.

Significant valuation inputs include:

- Infinite useful life of the Water Source;
- Projected production volume on two production lines with volumes between 8,400,000 gallons per year and 21,000,000 gallons per year;
- Industry average royalty rate of 8%; and
- Range of discount rates adjusted for asset-specific risks to the Water Source of 23.9% to 26.1%.

Management believes that any reasonably possible change in the key assumptions would not cause the Water Source carrying amount to exceed its recoverable amount.

During the year ended December 31, 2020, the Company conducted impairment testing on the water source and license assets and determined no (2019 – no) impairment charge was required.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020 $	December 31, 2019 $
Trade payables	825,035	692,929
Accrued liabilities	32,878	22,454
Bottle deposit liability	94,492	41,859
	952,405	757,242

(Expressed in Canadian Dollars)

11. LEASE OBLIGATIONS

The following table details the movements in the Company's lease obligations for the year ended December 31, 2020 and 2019:

	Equipment	**Vehicle**	**Building**	**Total**
	$	$	$	$
At December 31, 2018	-	30,110	-	30,110
IFRS 16 adoption	-	(6,253)	180,765	174,512
At January 1, 2019	-	23,857	180,765	204,622
Additions	14,610	-	427,637	442,247
Interest expense	409	796	10,775	11,980
Lease payments	(2,449)	(11,149)	(224,377)	(237,975)
At December 31, 2019	12,570	13,504	394,800	420,874
Interest expense	420	517	15,550	16,487
Lease payments	(2,938)	(7,112)	(131,784)	(141,834)
Cancellation of lease	-	-	(278,566)	(278,566)
At December 31, 2020	**10,052**	**6,909**	**-**	**16,961**
Current portion	2,618	6,453	-	9,071
Non-current portion	7,434	456	-	7,890
	10,052	**6,909**	**-**	**16,961**

The office lease was to expire on July 31, 2020. On April 23, 2020, the Company exercised the option to terminate the office lease early. On June 15, 2020, the landlord applied for the Canada Emergency Commercial Rent Assistance ("CECRA") program on behalf of the Company and collected the remaining balance of the office lease through the CECRA program; $34,572 of prepaid office rent was forfeited. The Company recorded a gain of $37,558 (2019 - $nil) for the difference in carrying value upon derecognition of the office lease liabilities.

A schedule for the Company's future minimum lease payments over the term of the leases is as follows:

Year	**Lease payments**
	$
2021	9,573
2022	3,491
2023	2,938
Beyond 2023	1,959
Total lease payments	17,961
Less: amount representing implicit interest	(1,000)
Present value of minimum lease payments	16,961

(Expressed in Canadian Dollars)

12. PROMISSORY NOTES

	Promissory Note 1 (a)	Promissory Note 2 (b)	Promissory Note 3 (c)	Total
	$	$	$	$
Balance, December 31, 2018	414,235	2,270,948	-	2,685,183
Finance cost – accretion	10,696	128,736	-	139,432
Balance, December 31, 2019	424,931	2,399,684	-	2,824,615
Finance cost – accretion	5,850	118,947	-	124,797
Financing cost	26,667	-	-	26,667
Addition	-	-	300,000	300,000
Payment	-	-	(215,000)	(215,000)
Balance, December 31, 2020	**457,448**	**2,518,631**	**85,000**	**3,061,079**

	December 31, 2020	December 31, 2019
	$	$
Current portion	3,061,079	424,931
Non-current portion	-	2,399,684
Total	**3,061,079**	**2,824,615**

(a) During the year ended December 31, 2020, the promissory note was extended for one year. As at December 31, 2020, the promissory note has outstanding principal balance and accrued interest of $457,449 (2019 - $424,931) in total. Subsequent to the year ended December 31, 2020, the Company repaid $457,448 for the principal balance and accrued interest in full.

(b) During the year ended December 31, 2020, the promissory note was extended for one year. As at December 31, 2020, the promissory note has outstanding principal balance and accrued interest of $2,518,631 (2019 - $2,399,684) in total. The loan is secured by the land of the Company and the personal property of the Chief Executive Officer ("CEO") under the general security agreement.

(c) On January 6, 2020, the Company entered into a secured promissory note (the "Secured Note") for an aggregate amount of $300,000. In connection to the Secured Note, the Company also entered into a security agreement (the "Security Agreement") and a subscription agreement (the "Subscription Agreement"). The Secured Note is secured by certain assets and property of the Company and the principal balance was originally repayable on March 6, 2020 and bore no interest. The Secured Note may be converted to a private placement for a value equal to the principal balance at a price agreed to by both parties. During the year ended December 31, 2020, the Company repaid $215,000 of principal balance of the Secured Note and extended the remaining balance of the loan for another year. On January 25, 2021, the Company completed share for debt settlement by issuing 212,500 common shares of the Company for repaying the $85,000 principal balance (Note 21).

13. RELATED PARTY BALANCES AND TRANSACTIONS

Key management compensation

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 was as follows:

For the Year ended	December 31, 2020	December 31, 2019
	$	$
Consulting fee	20,000	-
Wages and salaries	36,126	144,504

During the year ended December 31, 2020, the Company and the president entered into a consulting agreement for a term up to the end of 2021. The Company paid 320,000 BevCanna shares at a deemed price of $0.25 per share to the president for his services, of which $20,000 was expensed as consulting fee in the year ended December 31, 2020.

(Expressed in Canadian Dollars)

13. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Due from related parties

	December 31, 2020	December 31, 2019
	$	$
Amounts due from related parties		
The CEO	-	225,468
Individuals related to the CEO	2,771,999	250,375
Related company of the CEO	121,155	961,898
	2,893,154	1,437,741

The outstanding amounts are non-interest-bearing, unsecured and due on demand.

On October 14, 2020, the Company disposed of 2,572,161 BevCanna shares for $1,800,513 (Note 5) to a person related to the CEO. On December 28, 2020, the Company disposed of 1,239,000 BevCanna shares for $1,239,000 to the same person related to the CEO. As at December 31, 2020, $519,660 (2019 - $nil) payments have been received and the amounts due from the person related to the CEO is $2,519,853. Subsequent to the year ended December 31, 2020, the balance of $2,519,853 has been received in full.

As at December 31, 2020, $nil (2019 - $175,774) is included in receivables for goods and services delivered to a company related to the CEO. As at December 31, 2020, $250,000 (2019 - $250,000) is included in amounts due to related parties for shares transferred to a related party.

As at December 31, 2019, the Company has a short-term loan with a principal balance of $580,000 outstanding from RYU, a company related to the CEO. The loan was provided to RYU and charged interest at 2% compounded monthly. On April 16, 2020, the Company entered into a debt settlement agreement with RYU and settled the outstanding balance of $815,498, including the principal balance and accrued interest, for 20,387,449 RYU common shares at a deemed price of $0.04 (Note 5). During the year ended December 31, 2020, a bad debt expense of $27,405 (2019 - $nil) was recorded to write off the remaining amount due from RYU.

Due to related parties

Terms and description	December 31, 2020	December 31, 2019
	$	$
(a) Non-interest-bearing, due to significant shareholders of Springs, unsecured with no fixed repayment terms (i)	462,702	467,702
(b) Non-interest-bearing, due to a company with a former director in common, unsecured with no fixed repayment terms	30,000	30,000
	492,702	497,702

(i) On July 1, 2020, the Company repaid $5,000 towards the principal balance.

(Expressed in Canadian Dollars)

13. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Loans payable to related parties

The Company has the following loans payable to the CEO, companies with common directors, common management or companies with parties containing significant influence over the Company. These are included in loans payable to related parties:

Terms and description	December 31, 2020 $	December 31, 2019 $
Due to a company controlled by a shareholder and relative of the CEO:		
(a) Interest at 7.5% per annum, due on the 26th day of each month, secured against the general asset of the Company and loan recurs annually on April 26 until being recalled (i)	525,000	500,000
(b) Interest at 7.5% per annum, due on the 11th day of each month, secured against the general asset of the Company and with principal due on March 6, 2020 (ii)	1,000,000	1,000,000
(c) Interest at 7.5% per annum, due on the last day of each month, secured against the general asset of the Company and loan recurs annually on December 27 until being recalled (iii)	367,500	350,292
Due to a shareholder and relative of the CEO:		
(d) Interest at 7.5% per annum, due on the 11th day of each month, secured against the general asset of the Company and with principal due on June 30, 2020 (ii)	250,000	250,000
(e) Interest at 7.5% per annum, due on the last day of each month, secured against the general asset of the Company and loan recurs annually on October 31 until being recalled (iii)	262,500	253,125
Loans payable to related parties	2,405,000	2,353,417

(i) On April 26, 2020, the loan was renewed for another year and is due April 26, 2021. As at December 31, 2020, the principal plus interest accrued is $525,000 (2019 - $500,000).

(ii) On March 14, 2019, the Company entered into a Return to Treasury Agreement with the CEO, whereby the CEO returned 2,500,000 Class B common shares to the treasury of the Company and the Company issued a $2,000,000 non-interest-bearing demand loan. The Return to Treasury Agreement is intended to cancel the Assignments of Debt signed on March 14, 2017. On the same date, the Company cancelled the Consulting Agreement with the principal of the Company that was originally signed on March 14, 2017. During the year ended December 31, 2018, the Company advanced $750,000, $500,000 in cash and $250,000 in BevCanna shares to the CEO. As at December 31, 2020, the principal balance and accrued interest is $1,250,000 (2019 – $1,250,000).

(iii) On December 27, 2020, the promissory note was renewed for one more year with a due date on December 27, 2021. As at December 31, 2020, the principal balance outstanding and accrued interest is $367,500 (2019 - $350,292).

(iv) On October 31, 2020, the promissory note was renewed for one more year with a due date on October 31, 2021. As at December 31, 2020, the principal balance outstanding and accrued interest is $262,500 (2019 - $253,125).

For the year ended December 31, 2020, interest and financing expenses of $404,059 (2019 - $442,152) were incurred for the loans payable to the related parties.

Other related party transactions

During the year ended December 31, 2020, the Company had sales to a company related to the CEO of $4,855 (2019 - $35,669).

During the year ended December 31, 2020, the Company earned rental income of $136,859 (2019 - $153,165) from two related party companies and a one-time income of $39,430 (2019 - $nil) from the forfeiture of security deposit from a company controlled by the CEO. The rental income and income from forfeiture of security deposit have been recorded as other income.

(Expressed in Canadian Dollars)

14. CEBA LOANS

The Company received $80,000 in April 2020 and an additional $20,000 in December 2020 under Canada Emergency Business Account ("CEBA") program funded by the Government of Canada, of which $70,000 is non-forgivable and $30,000 is forgivable if the non-forgivable $70,000 is repaid prior to December 31, 2022, which was subsequently extended to December 31, 2023. 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.

If the CEBA loans were not repaid prior to December 31, 2023, the loans will automatically renew with a maturity date of December 31, 2025, subject to interest at 5% per annum, with interest payment due monthly. In the event of default, the loan payable becomes due immediately.

	$
Balance, December 31, 2019 and 2018	-
Additions	54,650
Accretion expense	3,187
Balance, December 31, 2020	57,837

The CEBA loan is accounted for using the amortized cost discounted at an effective interest rate of 10%, with the discount portion recorded as government grant. As a result, $45,350 (2019 - $nil) was recognized as government grant for the year ended December 31, 2020.

15. SHARE CAPITAL

Authorized
Unlimited number of Class A and B common shares without par value.

Unlimited number of Series A Preferred Shares without par value. These shares are non-voting and are automatically convertible to common shares under certain conditions, including a change of control, a going public event or the date the Board of Directors of the Company resolves to effect a conversion of the Series A Preferred Shares into common shares in its sole discretion.

Issued
During the year ended December 31, 2020, the Company did not have any new issuances of Class A common shares, Class B common shares and Series A Preferred Shares.

Stock options
Common shares:

There are no stock options on common shares outstanding as at December 31, 2020 and 2019.

Series A Preferred Shares:

The following is a summary of the Company's stock options that entitle the holders to purchase Series A Preferred Shares:

	Number of options	**Weighted average exercise price** $	**Remaining life**
Options outstanding as at December 31, 2020 and 2019	450,000	0.25	3.58 years

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (continued)

Share purchase warrants
Common shares:

There are no share purchase warrants on common shares outstanding as at December 31, 2020 and 2019.

Series A Preferred Shares:

The following is a summary of the Company's share purchase warrants that entitle the holders to purchase Series A Preferred Shares:

	Number of warrants	Weighted average exercise price $	Remaining life
Warrants outstanding as at December 31, 2020 and 2019	1,250,000	0.80	2.95 years

16. FINANCIAL RISK AND CAPITAL MANAGEMENT

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 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying values of the Company's financial assets and liabilities as at December 31, 2020 and 2019 approximate their fair values due to their short terms to maturity.

Marketable securities consist of common shares and share purchase warrants (Note 5) of Canadian public companies. The fair value measurement of the common shares is classified as Level 1, and the share purchase warrants are classified as Level 3.

The carrying values of Company's cash, receivables, due from related parties, trade payables, loans payable to related parties, due to related parties and promissory notes approximate their fair values due to their short terms to maturity. The fair value measurement of the Company's lease obligations is calculated using Level 2 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

Classification of financial instruments
Financial assets included in the consolidated statements of financial position are as follows:

	December 31, 2020 $	December 31, 2019 $
Cash	157,164	204,124
Trade receivables (Note 3)	97,985	36,432
Due from related parties (Note 13)	2,893,154	1,437,741
Marketable securities (Note 5)	4,131,038	3,226,086
	7,279,341	4,904,383

(Expressed in Canadian Dollars)

16. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Financial liabilities included in the consolidated statements of financial position are as follows:

	December 31, 2020	December 31, 2019
	$	$
Non-derivative financial liabilities:		
Trade payables (Note 10)	825,035	692,929
Lease obligation	16,961	420,874
Loans payable to related parties	2,405,000	2,353,417
Due to related parties	492,702	497,702
Promissory notes	3,061,079	2,824,615
	6,800,777	6,789,537

Credit risk

The Company's principal financial assets exposed to credit risk are cash, trade receivables and due from related parties. The Company's credit risk is primarily concentrated in its cash held in bank accounts. The majority of cash is deposited in bank accounts held in Canada. As most of the Company's cash is held by one bank there is concentration of credit risk. This risk is managed by using a major bank that is a high credit financial institution, as determined by rating agencies.

The Company in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with trade receivables by credit management policies. The Company's aging of trade receivables (Note 3) was as follows:

	December 31, 2020	December 31, 2019
	$	$
0 – 30 days	36,546	21,683
31 – 60 days	5,662	11,497
61 – 90 days	55,777	3,252
	97,985	36,432

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

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

The Corporation has financial liabilities with the following maturities as at December 31, 2020:

	Contractual cash flows					
	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	5 years and over	Total
	$	$	$	$	$	$
Trade payables (Note 10)	825,035	-	-	-	-	825,035
Lease obligations (Note 11)	9,573	3,491	2,938	1,959	-	17,961
Promissory notes and unpaid interest (Note 12)	3,061,079	-	-	-	-	3,061,079
Loans payable to related parties and unpaid interest (Note 13)	2,448,215	-	-	-	-	2,448,215
Due to related parties (Note 13)	473,416	-	-	-	19,286	492,702
CEBA loan (Note 14)	-	-	70,000	-	-	70,000
	6,817,318	3,491	72,938	1,959	19,286	6,914,992

(Expressed in Canadian Dollars)

16. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate, as they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to significant foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's loan bears a fixed interest term, and therefore, is not exposed to significant interest rate risk.

Concentration risk

Our largest customer is based out of Chilliwack, British Columbia, and accounted for 30% and 31% of total beverage sales for the years ended December 31, 2020 and 2019, respectively.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, and safeguard the Company's ability to sustain future development of the business. The capital structure of the Company consists of cash, marketable securities, due to related parties and common shares as capital.

The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. To maintain or adjust the capital structure, the Company may issue new shares, incur debt or return capital to shareholders. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable.

The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the years ended December 31, 2020 and 2019.

17. INCOME TAXES

The income tax provisions differ from the expected amounts calculated by applying Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	December 31, 2020 $	December 31, 2019 $
Net income (loss)	2,748,673	(6,482,173)
Statutory income tax rate	27%	27%
Expected income tax (recovery)	742,100	(1,750,200)
Permanent differences and other	(622,700)	751,100
Share issuance costs	(400)	(1,400)
Change in unrecognized deductible temporary differences	(119,000)	1,000,500
	-	-

(Expressed in Canadian Dollars)

17. INCOME TAXES (continued)

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:

	December 31, 2020	December 31, 2019
	$	$
Deferred tax assets		
Non-capital losses	4,340,500	4,405,000
Capital losses	-	3,800
Share issuance costs	2,000	3,700
Property and equipment	762,000	573,000
	5,104,500	4,985,500
Unrecognized deferred tax assets	(5,104,500)	(4,985,500)
Net deferred tax assets	-	-

As at December 31, 2020, the Company has non-capital losses of approximately $16,696,000 that may be carried forward and applied against taxable income in future years. The non-capital losses may be carried forward and expire between 2032 and 2040.

Tax attributes are subject to review, and potential adjustments, by tax authorities.

18. NON-CONTROLLING INTEREST

The non-controlling interest consisted of the following:

	December 31, 2020	December 31, 2019
	$	$
Springs (2020 and 2019 - 21%)	(100,184)	(89,072)

The following is the summarized statements of financial position of Springs as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	$	$
Current		
Assets	900,031	863,765
Liabilities	(774,194)	(774,721)
Total current net assets	125,837	89,044
Non-current		
Assets	1,962,740	2,229,297
Liabilities	(2,900,108)	(2,643,481)
Total non-current net liabilities	(937,368)	(414,184)
Total net liabilities	(811,531)	(325,140)

The following is the summarized comprehensive income or loss of Springs for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	$	$
Revenue	206,051	519,971
Expenses	(692,442)	(952,413)
Loss and total comprehensive loss	(486,391)	(432,442)

19. COMMITMENTS AND CONTINGENCIES

On June 12, 2018, the Company entered into a 10-year lease agreement with BevCanna (the "Lease") whereby BevCanna will pay the Company a rent of 5% of BevCanna's annual gross revenues, with a minimum of $1 per year for the use of certain premises, lands and buildings of the Company where BevCanna will conduct its operations. The rent will be payable monthly. In addition, BevCanna will pay its proportional share of costs and taxes associated to the lease of premises, lands and buildings associated to the Lease.

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

The Company may be involved in claims arising in the normal course of operations. Management is of the opinion that the outcome of such litigation, if any, will not have a material adverse impact on the Company's financial position or results of operations. Accordingly, no provision was made for the outstanding claim as at the date of the consolidated statements of financial position.

20. DEFERRED REVENUE

On June 12, 2018, the Company entered into a license agreement (the "License Agreement") with BevCanna, a related party, whereby the Company would provide BevCanna with certain manufacturing and quality assurance services for manufacturing beverages in the Company's facilities, and whereby BevCanna entered into a lease agreement with the Company to lease a portion of land, aquifer and facilities controlled by the Company in order to facilitate the development of BevCanna's business. BevCanna paid $12,400,000 pursuant to the License Agreement, 50% of which $6,200,000 was paid with 24,800,000 Class A common shares of BevCanna with a fair value of $0.25 per share and the remaining portion in cash.

The License Agreement establishes a 10-year term, which can be renewed for two consecutive 10-year terms. As there is no assurance at this stage that the term may be renewed, the Company amortized the amount over the initial term of 10-year period, recognizing $1,240,000 (2019 - $1,240,000) as revenue from License Agreement for the year ended December 31, 2020. As at December 31, 2020, the Company has a remaining balance of deferred revenue of $9,244,389 (2019 - $10,535,748).

During the year ended December 31, 2019, the Company recovered $195,465 for overhead costs paid on behalf of BevCanna.

On February 14, 2020, the Company amended the lease agreement with BevCanna, allowing BevCanna an increased area of the premises for permitted use from 5,500 square feet to 12,289 square feet for the remaining term of the lease. The Company was paid $1,303,400 for the additional space and displacement fee, of which $650,000 cash was received during 2019, with $600,000 recognized as revenue and $50,000 remained in deferred revenue as at December 31, 2019. During the year ended December 31, 2020, the remaining $653,400 displacement fee was paid in the form of 1,537,411 BevCanna common shares at a price of $0.425 per share. Accordingly, revenue of $703,400 in total was recognized for 2020.

The Company was acquired by BevCanna on February 19, 2021, at which time the License Agreement is eliminated on consolidation.

On August 25, 2019, the Company leased an additional property unit situated on the Company's land to a related party. The terms of the lease are the same as the above License Agreement. The Company received $12,000 upfront and will amortize the amount over 10 years. For the year ended December 31, 2020, the Company recognized lease income of $1,358 (2019 - $475).

21. SUBSEQUENT EVENTS

a) On January 22, 2021, the Company entered into a securities exchange agreement with Skal Infused Drinks Inc. ("Skal") and paid 12,500,000 common shares at a price of $0.40 per share to the shareholders of Skal to acquire 100% of the outstanding shares of Skal. As part of the securities exchange agreement, the Company also issued 25,000,000 share purchase warrants for the acquisition of Skal. Each share purchase warrant is exercisable at $0.50 for one common share of the Company for a period of six months from the issue date. The acquisition of Skal includes $10,000 cash and intangibles consist of a list of intellectual property of proprietary flavored and non-flavored drink formulations. Upon the completion of the acquisition on January 25, 2021, Skal became the wholly owned subsidiary of the Company.

b) On January 25, 2021, the Company issued 7,547,232 common shares at a price of $0.40 per share to various consultants for payment of past services. Of the total amount, 4,197,232 shares were paid to related parties. On the same date, the Company settled a debt of $1,000,000 by issuing 2,500,000 common shares of the Company to a company owned by a related party. The share for debt settlement repaid the $1,000,000 loan of the Company (Note 13). On the same date, the Company also settled a debt of $85,000 by issuing 212,500 common shares of the Company at a price of $0.40 per share to the creditor (Note 12).

c) On January 27, 2021, the Company completed a debt settlement with a related party by issuing a convertible debenture of the Company for $1,505,021 bearing interest at 10% per annum, payable monthly and maturing in 24 months. The debenture is convertible at $0.40 per each common share of the Company at any time at the discretion of the debenture holder. On February 19, 2021 upon the acquisition by BevCanna, the Company's obligations to issue such common shares for the convertible debenture was assumed by BevCanna (note 1).

d) On February 16, 2021, the Company settled $118,817 debt with a consultant for $47,527 and recorded a gain on settlement of $71,290.

e) On February 18, 2021, the Company sold 100,000 BevCanna shares to a related party for $128,000 and realized a gain of $30,000.

f) Subsequent to the year ended December 31, 2020, the Company repaid $150,000 for the principal on the loan (Note 12 (b)).

g) Subsequent to the year ended December 31, 2020, the Company repaid $1,405,000 loan and accrued interest to a related party (Note 13).