



**Canbud Distribution Corporation**  
**Consolidated Financial Statements**

*For the years ended December 31, 2020 and 2019*

*(Expressed in Canadian Dollars)*

## Independent Auditor's Report

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To the Shareholders of Canbud Distribution Corporation:

### Opinion

We have audited the consolidated financial statements of Canbud Distribution Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and 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.

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

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had an accumulated deficit as at December 31, 2020. As stated in Note 1, this event or condition, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated

financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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 Jaspreet Chahal.

Burlington, Ontario

April 29, 2021

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**MNP**

**Canbud Distribution Corporation**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian dollars)

As at	Notes	December 31, 2020	December 31, 2019
<b>Assets</b>			
<i>Current</i>			
Cash		\$ 438,633	\$ 1,567,938
Prepaid and deposits	5	10,000	40,980
Accounts receivable	6	42,695	14,473
Promissory note receivable	7	11,000	19,270
<b>Total current assets</b>		<b>502,328</b>	<b>1,642,661</b>
<i>Non-current</i>			
Acquisition payment in advance	20	296,400	-
Property, plant and equipment	9	682,693	-
Intangible assets	10	221,478	243,821
<b>Total assets</b>		<b>\$ 1,702,899</b>	<b>\$ 1,886,482</b>
<b>Liabilities</b>			
<i>Current</i>			
Accounts payable and accrued liabilities	11	\$ 109,367	\$ 222,572
Current portion of lease liability	12	75,450	-
<b>Total current liabilities</b>		<b>184,817</b>	<b>222,572</b>
<i>Non-current</i>			
Canada Emergency Business Account ("CEBA") Loan	13	34,657	-
Lease liability	12	332,373	-
<b>Total liabilities</b>		<b>551,847</b>	<b>222,572</b>
<b>Shareholders' Equity</b>			
Share Capital	14	2,917,267	2,134,697
Reserves	15	824,438	-
Deficit		(2,543,323)	(470,787)
<b>Equity attributable to the Company's shareholders</b>		<b>1,198,382</b>	<b>1,663,910</b>
<b>Non-controlling interests</b>	16	(47,330)	-
<b>Total Equity</b>		<b>1,151,052</b>	<b>1,663,910</b>
<b>Total liabilities and Equity</b>		<b>\$ 1,702,899</b>	<b>\$ 1,886,482</b>

**NATURE OF OPERATIONS AND GOING CONCERN (Note 1)**  
**COMMITMENTS AND CONTINGENT LIABILITIES (Note 20)**  
**SUBSEQUENT EVENTS (Note 21)**

Approved on behalf of the board of directors:

"Raj Ravindran"  
Director

"Robert Tjandra"  
Director

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

**Canbud Distribution Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian dollars)**

<b>For the years ended</b>	<b>Notes</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Expenses			
Allowance for expected credit losses	7	\$ 13,770	\$ 1,230
Amortization of property, plant and equipment	9	113,341	-
Amortization of intangible assets	10	24,863	-
Business development costs		180,868	408,772
Business fees and licenses		8,490	18,230
Consulting fees	20	607,410	-
Office and general expenses		97,877	4,467
Professional fees		192,231	43,379
Rental		20,602	2,962
Regulatory, filing and listing fees		31,995	-
Salaries and wages		13,418	-
Share-based compensation	15	682,446	-
Supplies and utilities		8,478	-
Impairment of biological assets	8	118,776	-
Write-down of intangible assets	10	6,780	-
Operating loss		<b>(2,121,345)</b>	<b>(479,040)</b>
Other Income (expense)			
Finance expense		(30,078)	-
Interest income		3,833	8,253
CEBA loan grant	13	6,758	-
Net gain from deconsolidation of a subsidiary	7	20,966	-
<b>Net loss for the year</b>		<b>(2,119,866)</b>	<b>(470,787)</b>
<b>Total loss and comprehensive loss for the year</b>		<b>\$ (2,119,866)</b>	<b>\$ (470,787)</b>
<b>Net loss attributable to:</b>			
Equity holder of the Company		\$ (2,084,992)	\$ (470,787)
Non-controlling interests		\$ (34,874)	-
		<b>\$ (2,119,866)</b>	<b>\$ (470,787)</b>
<b>Net comprehensive loss attributable to:</b>			
Equity holder of the Company		\$ (2,084,992)	\$ (470,787)
Non-controlling interests		(34,874)	-
		<b>\$ (2,119,866)</b>	<b>\$ (470,787)</b>
Weighted average number of shares outstanding		<b>45,579,507</b>	<b>24,096,603</b>
Basic and diluted net loss per share		<b>\$ (0.05)</b>	<b>\$ (0.02)</b>

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

**Canbud Distribution Corporation**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(Expressed in Canadian dollars)

		RESERVES						
	Share capital	Share based payments	Warrants	Deficit	Attributable to owners of the Company	Non-controlling interest	Total shareholders' equity	
<b>Balance, December 31, 2019</b>	<b>\$ 2,134,697</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (470,787)</b>	<b>\$ 1,663,910</b>	<b>\$ -</b>	<b>\$ 1,663,910</b>	
Increase in non-controlling interests (Note 2)	-	-	-	12,456	12,456	(12,456)	-	
Share-based compensation (Note 15)	-	682,446	-	-	682,446	-	682,446	
Issued on private placement, net (Note 14)	337,970	-	141,992	-	479,962	-	479,962	
Issued as acquisition payment in advance (Note 20)	444,600	-	-	-	444,600	-	444,600	
Net loss	-	-	-	(2,084,992)	(2,084,992)	(34,874)	(2,119,866)	
<b>Balance, December 31, 2020</b>	<b>\$ 2,917,267</b>	<b>\$ 682,446</b>	<b>\$ 141,992</b>	<b>\$ (2,543,323)</b>	<b>\$ 1,198,382</b>	<b>\$ (47,330)</b>	<b>\$ 1,151,052</b>	
<b>Balance, December 31, 2018</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Incorporators' share issue (Note 14)	100	-	-	-	100	-	100	
Founders' shares issue (Note 14)	399,900	-	-	-	399,900	-	399,900	
Issued on private placements, net (Note 14)	1,734,697	-	-	-	1,734,697	-	1,734,697	
Net loss	-	-	-	(470,787)	(470,787)	-	(470,787)	
<b>Balance, December 31, 2019</b>	<b>\$ 2,134,697</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (470,787)</b>	<b>\$ 1,663,910</b>	<b>\$ -</b>	<b>\$ 1,663,910</b>	

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

**Canbud Distribution Corporation**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars)

For the years ended	December 31, 2020	December 31, 2019
<b>Operating activities</b>		
Net loss for the year	\$ (2,119,866)	\$ (470,787)
Non-cash items:		
Allowance for expected credit losses	13,770	1,230
Amortization of property, plant and equipment	113,341	-
Amortization of intangible assets	24,863	-
Consulting fees paid in shares	148,200	-
Write-down of intangible assets	6,780	-
Share-based compensation	682,446	-
Finance expense	30,078	-
Government grant	(6,758)	-
Net gain from deconsolidation of a subsidiary	(20,966)	-
Changes in non-cash working capital items:		
Accounts receivable	(28,222)	(14,473)
Promissory note receivable	8,270	-
Prepaid and deposits	5,000	(40,980)
Accounts payable and accrued liabilities	(108,227)	222,572
<b>Total cash flow used in operating activities</b>	<b>(1,251,291)</b>	<b>(302,438)</b>
<b>Investing activities</b>		
Addition to intangible assets	(26,250)	(243,821)
Purchase of property, plant and equipment	(287,231)	-
Proceeds from sale of subsidiary	11,000	-
Refund received from CannaProve	16,950	-
Promissory note receivable advance	-	(25,000)
Promissory note receivable repayments	5,500	4,500
<b>Total cash flow used in investing activities</b>	<b>(280,031)</b>	<b>(264,321)</b>
<b>Financing activities:</b>		
Proceeds on equity issuances and private placement	479,962	2,134,697
Proceeds from government loan	40,000	-
Payments of lease liability	(117,945)	-
<b>Total cash flow generated from financing activities</b>	<b>402,017</b>	<b>2,134,697</b>
<b>(Decrease) increase in cash during the year</b>	<b>(1,129,305)</b>	<b>1,567,938</b>
<b>Cash, beginning of the year</b>	<b>1,567,938</b>	<b>-</b>
<b>Cash, end of the year</b>	<b>\$ 438,633</b>	<b>\$ 1,567,938</b>

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



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## Canbud Distribution Corporation

### Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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#### 1. NATURE OF OPERATIONS AND GOING CONCERN

Canbud Distribution Corporation (the "Company" or "Canbud") was incorporated under the *Canadian Business Corporations Act* on October 4, 2018 as Cannabis Clonal Corporation. On September 9, 2019, the Company changed its name to Canbud Distribution Corporation. The Company is a publicly listed company on the Canada Securities Exchange ("CSE") and trades under the ticker symbol "CBDX". The Company is domiciled in Canada and its registered office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario, M5H 1T1.

The Company is a science and technology company focused on the global hemp space inclusive of hemp cannabinoids (CBD) regulated by Health Canada under the Industrial Hemp Regulations. As of December 31, 2020, the Company has obtained three licenses to grow Hemp CBD for the purposes of supplying the global market with medicinal and wellness CBD and other cannabinoids-based products on leased lands. Each licence allows the growing and harvesting of hemp CBD flowers for processing into CBD and other cannabinoids extracts.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds to meet current and future obligations. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

As at December 31, 2020, the Company had not commenced any commercial operations and had a deficit of \$2,543,323 (2019 - \$470,787). For the year ended December 31, 2020, the Company's net loss was \$2,119,866 (2019- \$470,787), working capital of \$317,511 (2019 - \$1,420,089) and negative cash flows from operating activities was \$1,253,727 (2019 - \$302,438). Whether, and when, the Company can start generating revenues, attain profitability and positive cash flows from operations has material uncertainty, which may cast significant doubt upon the Company's ability to continue as going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and by raising capital to fund its operations. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which differ from those shown in these financial statements.

In March 2020, the World Health Organization declared a global pandemic caused by the outbreak of the novel coronavirus, specifically identified as "COVID-19". The outbreak has resulted in governments worldwide enacting emergency measures to combat the spread of virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results of the Company in the future. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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**2. BASIS OF PREPARATION****Statement of Compliance**

These consolidated financial statements have been prepared in accordance with *Internal Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB"). The accounting policies, methods of computation and presentation applied in these consolidated financial statements are consistent with those of the previous financial years.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 29, 2021.

**Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis except for certain investments measured at fair value.

**Basis of consolidation**

These consolidated financial statements include the account of the Company and subsidiaries controlled by the Company from the date that control commenced until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and expose itself to the variable returns from the entity's activities. The Company attributes total loss and comprehensive loss of subsidiaries between the shareholders of the Company and the non-controlling ("NCI") interests based on their respective ownership interests.

Non-controlling interests exist in less than wholly owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. Non-controlling interests are recorded at their proportionate share of the fair value of identifiable net assets acquired as at the date of acquisition and are presented immediately after the equity section of the statement of financial position. When the subsidiary company issues its own shares to outside interests and does not result in a loss of control, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity, an equity transaction, is included in equity.

The Company's subsidiaries are as follows:

Alami Beauty Corporation ("Alami") – Incorporated on May 24, 2019 under the *Canadian Business Corporation Act*. The Company held 51% (2019 – 100%) in Alami up to June 4, 2020. Alami issued 4,900 common shares of Alami to Mikono Beauty Inc. ("Mikono") on April 23, 2020, representing 49% interest in Alami. The Company, subsequently, sold its controlling 51% interest to Mikono on June 4, 2020 (Note 8).

Canbud D580H124 Inc. ("D580 Inc.") – Incorporated July 23, 2019 under the *Ontario Business Corporation Act*. The Company holds 60% (2019 - 100%) interest in D580 Inc. D580 Inc. entered into an agreement to lease 50 acres of farmland to grow industrial hemp under a licence from Health Canada which was issued August 16, 2019. On June 18, 2020, D580 Inc. issued 480 Class B non-voting common shares to landowners and transaction facilitators, which represents 40% interest in D580 Inc.

Canbud D2385NR Inc. ("D238 Inc.")- Incorporated October 22, 2019 under the *Ontario Business Corporation Act*. The Company holds 88.89 % (2019 - 100%) interest in D238 Inc. D238Inc. entered into an agreement to lease 55 acres of farmland to grow industrial hemp under a licence from Health Canada which was issued November 15, 2019. On June 18, 2020, D238 Inc. issued 120 Class B non-voting common shares to transaction facilitators, which represents 11.11% interest in D238 Inc.

Canbud D1726KC Inc. ("D172 Inc.") - Incorporated October 31, 2019 under the *Ontario Business Corporation Act*. The Company holds 88.89 % (2019 - 100%) interest in D172 Inc. D172 Inc. entered into an agreement to lease 85 acres of farmland to grow industrial hemp under a licence from Health Canada

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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which was issued November 29, 2019. On June 18, 2020 and June 19, 2020, D172 Inc. issued 96 Class B non-voting common shares and 24 Class B non-voting common shares to transaction facilitators, respectively. The combined issuance of 120 class B non-voting common shares represents 11.11% interest in D172 Inc.

Canbud DEPL Corp ("DEPL Corp.") – Incorporated November 20, 2019 under the *Ontario Business Corporation Act*. The Company holds 94.75% (2019 - 100%) interest in D238 Inc. DEPL Corp. was established for distribution of CBD product into Germany and Poland in particular, and Europe in general. On June 18, 2020, DEPL Corp. issued 50 common shares to M. Ciuk, which represents 5.25% interest in DEPL Corp.

Intercompany balances, and any unrealized gains and losses or income and expenses arising from transactions with subsidiaries, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

**Functional and presentation currency**

The consolidated financial statements and the accompanying notes are presented in Canadian dollars which is the currency of the primary economic environment in which the Company and its subsidiaries operate in.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Company in these consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2019 except as described below:

**Cash**

Cash include cash on account and deposits in a financial institution.

**Biological assets**

The Company's biological assets consist of hemp plants which are not yet harvested. The Company measures biological assets at fair value less costs to complete and sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value, less costs to complete and sell during the period, are separately recorded in the consolidated statements of loss and comprehensive loss for the related period. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred, and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41 - *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 - *Inventories*. These include the direct cost of labor, seeds and growing material, as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as certain overhead costs related to the growing facility. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded within cost of goods sold in the period that the related products are sold.

**Inventory**

Inventories are measured at the lower of cost and net realizable value ("NRV"). The cost of inventories is based on the weighted-average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to complete and the estimated costs necessary to make the sale.

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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Inventories of harvested hemp flower are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred, and expensed when the related item is sold.

***Property, plant and equipment***

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is not recorded on property, plant and equipment that is not yet available for use. An asset's residual value, useful life and depreciation method are reviewed on an annual basis and adjusted prospectively.

Gains or losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statements of loss. Depreciation is calculated using the straight-line method over the useful life of property and equipment. The useful life of the property, plant and equipment is as follows:

- Right-of-use assets: term of the lease with ranges from 3-5 years
- Production and processing equipment: 2-8 years
- Computer and software: 3-5 years
- Vehicle: 3-5 years

***Intangible assets***

Intangible assets are stated at cost, net of accumulated amortization and accumulated impairment losses, if any. Amortization of intangible is recorded on a straight-line basis over the estimated useful life of five (5) years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

***Leases***

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Leases are recognized as a right-of-use asset ("ROU") and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to the profit or loss using the effective interest rate method and payments are applied against the lease obligation over the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, or a change in the Company's assessment of whether it will exercise a purchase, extension or termination option. Then there is a remeasurement, a corresponding adjustment is made to the carrying amount of the ROU or recorded in profit or loss if the ROU has been reduced to zero.

***Share capital and warrants******Share capital***

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

The Company may incur various costs when issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Costs related to a planned equity offering not completed at the financial statement date are recorded as deferred financing costs until the offering is either completed or abandoned. The costs of an equity transaction that is abandoned are recognized as an expense.

*Warrants*

Warrants may be granted to third parties as partial compensation for services or issued to shareholders as part of unit financings. Share purchase warrants are measured at the fair value of the equity instruments and are recognized as share issue costs with an offsetting credit as an increase to warrant capital.

Upon exercise of share purchase warrants, the Company issues new shares. The associated fair value amount is reclassified from the warrant capital to share capital. The proceeds received net of any directly attributable transaction costs are credited to share capital when the share purchase warrants are exercised.

The Company may modify the terms of the share purchase warrants originally granted. The Company has elected to recognize the changes in fair value of the warrants that result from the modification within equity. The fair value change is recorded as a reclassification within equity.

**Share-based payments**

The Company has an equity-settled share-based compensation plan for granting stock options to management, directors, and consultants. The Company recognizes compensation expense for this plan at fair value so that the fair value of each option grant is estimated on the date of the grant and amortized over the vesting year, with the resulting amortization credited to reserves. The Company uses the accelerated method (also referred to as graded vesting) for allocating stock option expense over the vesting year. Stock option expense incorporates an expected forfeiture rate. The forfeiture rate is based on expectations of future forfeitures rates. Adjustments are made if the actual forfeiture rate differs from the expected rate. The fair value of each grant is determined using the Black-Scholes option-pricing model. Consideration paid upon the exercise of stock options is recorded as share capital.

**Related party transactions**

A related party is a person or entity that is related to the Company; that has control or joint control over the Company; that has significant influence over the Company; or is a member of the key management personnel of the Company.

An entity is related to a Company if the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

A related party transaction is a transfer of resources, services or obligations between a Company, and a related party, regardless of whether a price is charged. All transactions with related parties are in the normal course of business and are measured at fair value.

**Income taxes**

Income taxes expense comprises current and deferred income taxes. Income taxes expense is recognized in the consolidated statements of income (loss) except to the extent that it relates to items recognized directly in equity.

*Current tax*

Current taxes are the expected taxes payable or recoverable on the taxable income or loss, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes payable in respect of previous years.

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*Deferred tax*

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences).

Deferred income taxes are measured using the tax rates that are expected to be in effect when the temporary differences are likely to reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect on deferred income tax assets and liabilities of a change in tax rates is included in earnings in the year in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the amount that is probable to be realized.

**Loss per share**

Loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. Total shares issuable from stock options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended December 31, 2020 and 2019.

**Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. The Company has made the following classifications:

	IFRS 9	
	Classification	Measurement
<b><u>Financial assets</u></b>		
Cash	Amortized cost	Amortized cost
Amount receivable	Amortized cost	Amortized cost
Promissory note receivable	Amortized cost	Amortized cost
<b><u>Financial liabilities</u></b>		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
CEBA loan	Amortized cost	Amortized cost

- (i) **FVTPL financial assets**  
Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of loss and comprehensive loss. Transaction costs are expensed as incurred.

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(ii) Amortized cost financial assets

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income (loss) and comprehensive income (loss).

(iv) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss.

**Impairment**

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amount's receivable using the ECL model and recognized an allowance for expected credit losses of \$13,770 (2019 - \$1,230) as at December 31, 2020.

**4. SIGNIFICANT ESTIMATES AND JUDGMENTS**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future

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periods if the revision affects both current and future periods. The estimates and underlying assumptions are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described as follows:

*Expected credit losses*

The Company applies the simplified approach as permitted by IFRS 9 for the expected credit loss (ECL) associated with financial assets. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

*Biological Assets and Inventory*

Biological assets, consisting solely of hemp plants, are measured at fair value less costs to sell up to the point of harvest. The valuation of biological assets at the point of harvest is the cost basis for all hemp-based inventory and thus, any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. In calculating the value of the biological assets and inventory, the estimates management make include estimating the stage of growth of the help up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and expected yields for the hemp plants. In calculating final inventory values, the Company compares the inventory cost to estimated net realizable value.

*Capitalization and write-off of intangible assets*

An intangible asset arising from development is recognised on satisfying the following criterions by the entity:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

*Estimated useful lives and amortization of long-lived assets*

Depreciation of Property and equipment and intangible assets are dependent upon estimates of useful lives which are determined through the exercise of judgments. The assessment of any impairment of these assets is dependent upon estimates recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

*Impairment of long-lived assets*

Long-lived assets, including property and equipment and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate



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of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

*Incremental borrowing rate and lease term on leases*

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions. The Company's incremental rates at the commencement of the leases on January 1, 2020 was range from 4% to 10%.

*Share-based Compensation*

In calculating share-based compensation expense, key estimates such as the rate of forfeiture of awards granted, the expected life of options, the volatility and the risk-free interest rate used.

*Deferred tax*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

*Going concern*

The Company's ability to execute its strategy by funding future working capital requirements requires significant 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.

**New accounting standards, amendments and interpretations issued but only effective for the Company beginning on or after January 1, 2021 are as follows:**

*Amendment to IAS 1*

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months;
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its financial statements.

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Amendment to IAS 16

On May 14, 2020, the IASB amended IAS 16 "Property, Plant and Equipment" to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted.

The Company is currently assessing the financial impact of these amendments and expects to apply the amendments at the effective date.

**5. PREPAID AND DEPOSITS**

	December 31, 2020	December 31, 2019
Private placement fees	\$ 10,000	\$ 5,000
Security deposit against office lease	-	3,638
Upfront office lease payment	-	6,542
Retainer for legal fees and services	-	10,000
Upfront farmland lease payments	-	4,500
Security deposit against farmland lease	-	11,300
<b>Total</b>	<b>\$ 10,000</b>	<b>\$ 40,980</b>

**6. ACCOUNTS RECEIVABLE**

	December 31, 2020	December 31, 2019
Consulting fee refund	\$ -	\$ 10,170
Harmonized Sales tax recoverable	42,877	4,303
<b>Total</b>	<b>\$ 42,877</b>	<b>\$ 14,473</b>

**7. PROMISSORY NOTE RECEIVABLE**

	HIP Beverages <sup>(i)</sup>	Alami <sup>(ii)</sup>	Total
Balance, December 31, 2018	\$ -	\$ -	\$ -
Promissory note principal amount	25,000	-	25,000
Repayments during the year	(4,500)	-	(4,500)
Allowance for expected credit losses	(1,230)	-	(1,230)
<b>Balance, December 31, 2019</b>	<b>19,270</b>	<b>-</b>	<b>19,270</b>
Promissory note principal amount	-	11,000	11,000
Repayments during the year	(5,500)	-	(5,500)
Allowance for expected credit losses	(13,770)	-	(13,770)
<b>Balance, December 31, 2020</b>	<b>\$ -</b>	<b>\$ 11,000</b>	<b>\$ 11,000</b>

- (i) The promissory note is a short-term non-interest-bearing loan to HIP Beverages Corporation ("HIP loan") with a maturity date of November 16, 2019. Given the HIP loan was not collected by the maturity date and the uncertainty of the recoverability of the HIP loan, the Company has recognized a full allowance or expected credit losses of \$13,770 (2019 - \$1,230) on the HIP loan for the year ended December 31, 2020.

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- (ii) On June 2, 2020, the Company entered into a share purchase agreement with the holder of non-controlling interest (the “purchaser”) of Alami Beauty Corporation to sell 5,100 Class A shares (“Alami shares”), representing 51% interest for \$22,000. Pursuant to the share purchase agreement, the purchaser paid \$11,000 upon signing and the remainder of \$11,000, included in the other assets, is due before or on June 30, 2021. The share purchase agreement was closed on June 4, 2020, the same day that the Company issued Alami shares to purchaser. As a result of the sale, the Company recognized a gain on sale of a subsidiary of \$20,966.

**8. BIOLOGICAL ASSETS**

The Company’s biological assets comprised of hemp plants. The changes in the carrying value of biological assets for the year ended December 31, 2020, consisted of the following

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Balance as at December 31, 2019	\$	–
Production costs capitalized		<b>118,776</b>
Impairment of biological assets		<b>(118,776)</b>
Transferred to inventory upon harvest		–
Balance as at December 31, 2020	\$	–

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The following table quantifies each significant unobservable input on the fair value of biological assets upon harvest:

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Expected weighted average selling price per gram	\$	0.04
Expected number of growing weeks		10
Expected average yields for hemp plants (grams)		54.83
Wastage		50%
Post-harvest cost per gram	\$	0.08

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The Company values biological assets at the end of each reporting period at fair value less costs to sell in accordance with IAS 41 – Agriculture (“IAS 41”). The Company’s biological assets are primarily hemp plants, and because there are no actively traded commodity assets for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based on unobservable market data (Level 3 in the IFRS fair value hierarchy). These estimates are subject to volatility in market prices and several uncontrollable factors, which will be reflected in gain or loss on biological assets in future period.

As of December 31, 2020, the biological assets were fully harvested and upon harvest, the Company estimated that the fair value of biological assets exceeded the production costs capitalized, and as such, the Company recognized an impairment of biological assets of \$118,776 and transferred \$nil to inventory. The Company plans to process and develop the harvested hemp plants with Hemsana Inc. (Note 21) to CBD products and distribute them through medical patient channel.

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**9. PROPERTY, PLANT AND EQUIPMENT**

	<u>Right-of-use assets</u>		Production and processing equipment	Computer and software	Vehicle	Total
	Office lease	Farms				
Balance December 31, 2018 and 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions during the year	76,859	420,344	280,710	2,503	15,618	796,034
Balance December 31, 2020	\$ 76,859	\$ 420,344	\$ 280,710	\$ 2,503	\$ 15,618	\$ 796,034

**Accumulated amortization**

Balance December 31, 2018 and 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions during the year	\$ 15,372	\$ 73,177	\$ 21,165	\$ 487	\$ 3,141	\$ 113,341
Balance December 31, 2020	\$ 15,372	\$ 73,177	\$ 21,165	\$ 487	\$ 3,141	\$ 113,341

**Net book value**

Balance December 31, 2018 and 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance December 31, 2020	\$ 61,487	\$ 347,167	\$ 259,544	\$ 2,017	\$ 12,478	\$ 682,693

Depreciation of right-of-use assets is calculated using the straight-line method over the remaining lease term.

**10. INTANGIBLE ASSETS**

	Clonal system development	IT Platform development	Total
<b>Cost</b>			
Balance December 31, 2018	\$ -	\$ -	\$ -
Additions during the year	217,800	26,021	243,821
<b>Balance December 31, 2019</b>	<b>217,800</b>	<b>26,021</b>	<b>243,821</b>
Additions during the year	26,250	-	26,250
Refund received during the year	-	(16,950)	(16,950)
Write-down during the year	-	(6,780)	(6,780)
<b>Balance December 31, 2020</b>	<b>\$ 244,050</b>	<b>\$ 2,291</b>	<b>\$ 246,341</b>
<b>Accumulated depreciation</b>			
Balance December 31, 2018	\$ -	\$ -	\$ -
Additions during the year	-	-	-
<b>Balance December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
Additions during the year	24,405	458	24,863
<b>Balance December 31, 2020</b>	<b>\$ 24,405</b>	<b>\$ 458</b>	<b>\$ 24,863</b>
<b>Net book value</b>			
Balance December 31, 2018	\$ -	\$ -	\$ -
Balance December 31, 2019	\$ 217,800	\$ 26,021	\$ 243,821
Balance December 31, 2020	\$ 219,645	\$ 1,833	\$ 221,478

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The Company entered into a Master Service Agreement (the "MSA") effective as of October 21, 2019 (the "Effective Date") between the Company and 2665397 Ontario Inc., a subsidiary of Northern Block, doing business as CannaProve ("CannaProve"), for CannaProve to perform information technology services and functions as detailed in the MSA. During the year ended December 31, 2019, the Company recognized a total of \$23,730 of intangible assets associated with MSA. The MSA was terminated effective January 10, 2020 by mutual consent of the parties and the Company received a refund of \$16,950. Due to the termination of the MSA, the Company recognized a write-down of intangible assets of \$6,780.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2020</b>		<b>December 31, 2019</b>	
Accounts payable	\$	<b>35,877</b>	\$	209,472
Accrued liabilities		<b>73,490</b>		13,100
Total	\$	<b>109,367</b>	\$	222,572

**12. LEASE LIABILITY**

The Company entered into three different lease agreements with various landowners for lease of farmlands and one lease agreement for renting office space.

*Canbud D580H124 Inc.*

The Company agreed to lease 50 acres of farmland to grow industrial hemp under a license from Health Canada which was issued August 16, 2019. The lease commenced January 1, 2020 for a term of five years at an initial annual lease cost of \$21,000 payable monthly with annual increase at the lesser of 3% or the prevailing local market price. The lease automatically renews for an additional term of five years unless the subsidiary gives ninety days' notice of non-renewal before expiry of the first term.

*Canbud D2385NR Inc.*

The Company agreed to lease 55 acres of farmland to grow industrial hemp under a license from Health Canada which was issued November 15, 2019. The lease commenced January 1, 2020 for a term of three years at an initial annual lease cost of \$6,000 payable monthly with annual increase at the lesser of 3% or the prevailing local market price. The lease can renew for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term.

*Canbud D1726KC Inc.*

Lease of 85 acres of farmland to grow industrial hemp under a license from Health Canada which was issued November 29, 2019. The lease commenced January 1, 2020 for a term of three years at an initial annual lease cost of \$60,000 payable monthly with annual increase at the lesser of 3% or the prevailing local market price. The lease can renew for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term.

*Grenvin Holdings Inc.*

The office lease commenced January 1, 2020 for a term of five years. The lease can be renewed for an additional term of five years provided the tenant does not default under the lease agreement and that six months prior notice is given before the expiry of the initial term.

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<b>As at</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Balance, beginning of the year	\$ -	\$ -
New leases	497,203	-
Interest lease expense	28,565	-
Lease payments	(117,945)	-
<b>Balance, end of the year</b>	<b>\$ 407,823</b>	<b>\$ -</b>

The future minimum lease payments due are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
No more than a year	\$ 107,053	\$ -
1-5 years	372,269	-
<b>Total future minimum lease payments</b>	<b>479,322</b>	<b>-</b>
Less: amount representing interest	(71,499)	-
Present value of minimum lease payments	407,823	-
<b>Less: current portion</b>	<b>(75,450)</b>	<b>-</b>
<b>Non-current portion</b>	<b>\$ 332,373</b>	<b>\$ -</b>

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Principal payments	\$ 89,380	\$ -
Lease expense	28,565	-
<b>Lease payments</b>	<b>\$ 117,945</b>	<b>\$ -</b>

On January 1, 2020, the Company recognized \$497,203 in lease liability using a discount rate in the range of 6% - 7%.

Leases' payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The Company recognized rent expense from short-term lease of \$614 (2019 – Nil), lease of low-value asset \$2,156 (2019 – Nil) and variable lease payments \$17,832 (2019 – Nil) for the year ended December 31, 2020 in rent expense.

### **13. CANADIAN EMERGENCY BUSINESS ACCOUNT (“CEBA”) LOAN**

On June 10, 2020, the Company received a loan of \$40,000 through the Canadian Emergency Business Account Program (“CEBA Loan”), which provides financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA Loan has an initial term date on December 31, 2022 (the “Initial Term Date”) and may be extended to December 31, 2025. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum. Repaying the balance of the CEBA loan on or before December 31, 2022 will result in a loan forgiveness of \$10,000.

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To estimate the fair value, the debt component was estimated first at \$33,242, using a 7.5% effective rate which corresponds to a rate that the Company would have obtained for a similar investment. The Company recognized a finance expense of \$1,415 the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

	December 31, 2020	December 31, 2019
Opening	\$ -	\$ -
Loan received	40,000	-
Value attributed to the governmental subsidy	(6,758)	-
Finance expense	1,415	-
Total	\$ 34,657	\$ -

#### 14. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

	Number of shares	Amount
<b>Balance December 31, 2018</b>	-	\$ -
Incorporators' share issue at \$0.02 per share	5,000	100
Founders' initial issue of shares at \$0.02 per share	19,995,000	399,900
First private placement of shares at \$0.1 per share	16,525,000	1,652,500
Second private placement at \$0.1 per share	380,000	38,000
Third private placement at \$0.1 per share	1,383,000	138,300
Share issuance cost	-	163,296
<b>Balance December 31, 2019</b>	<b>38,288,000</b>	<b>2,134,697</b>
Private placement, net <sup>(i)</sup>	5,000,000	337,970
Acquisition advance payment (Note 20 (b))	2,280,000	444,600
<b>Balance December 31, 2020</b>	<b>45,568,000</b>	<b>\$ 2,917,267</b>

- (i) On November 24, 2020, the Company closed a non-brokered private placement financing with gross proceeds of \$500,000 through issuance of 5,000,000 units at a price of \$0.10 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of \$0.20 on or before November 24, 2021, provided, however that if the closing price of the common shares is \$0.30 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

The proceeds of the private placement have been allocated as \$147,920 to warrant reserve (Note 15). The Company paid a total of \$20,038 of issuance costs.

#### *Net loss per share*

Basic net loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding, made up of common shares. Diluted net loss per share is calculated by adjusting the loss for the period and number of shares for the effects of dilutive options and other dilutive potential ordinary shares. However, there were no options or financial instruments with dilutive potential ordinary shares as at December 31, 2020 (2019 – nil). Thus, the

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diluted net loss per share was the same as the calculated basic net loss per share.

The weighted average number of shares outstanding used in the computation of loss per share for the year ended December 31, 2020 was 45,579,507 (December 31, 2020– 24,096,603).

For the years ended	December 31, 2020	December 31, 2019
Loss attributable to common shareholders	\$ (2,119,866)	\$ (470,787)
Weighted average number of common shares outstanding	45,579,507	24,096,603
Loss per share basic and diluted	\$ <b>(0.05)</b>	\$ <b>(0.02)</b>

## 15. RESERVES

Reserves include (i) the accumulated fair value of stock options recognized as share-based compensation, and (ii) the fair value of warrants issued in private placements and for share issue costs. Reserves are increased by the fair value of these items as they vest and are reduced by corresponding amounts when the options or warrants expire or are exercised or cancelled.

### SHARE-BASED COMPENSATION

The Company has a common share 20% Rolling Plan (the “Plan”) for designated directors, officers, employees, and consultants. Pursuant to the Plan, option awards are recommended by the Compensation Committee of the Board and then reviewed by the Board of Directors. Under the Plan, options on common shares may be issued for up to a cumulative amount that may not exceed 10% of shares outstanding at any given time. As at December 31, 2020, the Company had 3,063,600 options reserved on common shares.

The following table summarizes the stock option transactions for the years ended December 31, 2020 and 2019:

	Number of options	Weighted average exercise price \$
<b>Outstanding, December 31, 2018 and 2019</b>	-	-
Issued	6,050,000	0.125
<b>Outstanding, December 31, 2020</b>	<b>6,050,000</b>	<b>0.125</b>

On November 13, 2020, The Company granted 6,050,000 options to directors, officers and consultants of the Company exercisable at a price of \$0.125 per share for a period of five years, expiring on November 13, 2025.

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model, with the following assumptions:

	Year ended December 31, 2020
Volatility	148%
Expected life	5 years
Risk-free interest rate	0.46%
Forfeiture rate	0%
Expected dividend yield	0%



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As of December 31, 2020, the Company has a total of 6,050,000 stock options outstanding and exercisable with weighted average exercise price of \$0.125 and weighted average remaining life of 4.90 years.

**WARRANTS**

Warrants activity is presented below:

	Number of warrants	Weighted average exercise price \$
<b>Outstanding, December 31, 2018 and 2019</b>	-	-
Issued	5,000,000	0.20
<b>Outstanding, December 31, 2020</b>	<b>5,000,000</b>	<b>0.20</b>

The fair value of the warrants was estimated on the date of the issuance using the Black-Scholes option pricing model, with the following assumptions:

	Year ended December 31, 2020
Volatility	153%
Expected life	1 years
Risk-free interest rate	0.26%
Forfeiture rate	0%
Expected dividend yield	0%

On November 24, 2020, the Company closed a non-brokered private placement financing (Note 14) and issued a total of 5,000,000 warrants. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of \$0.20 on or before November 24, 2021, provided, however that if the closing price of the common shares is \$0.30 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

As of December 31, 2020, the Company has a total of 5,000,000 warrants outstanding and exercisable with weighted average exercise price of \$0.20 and weighted average remaining life of 0.90 years.

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**16. NON-CONTROLLING INTERESTS**

Summarized financial information, before intragroup eliminations, is set out as below:

	December 31, 2020		
	D580 Inc.	D238 Inc.	D172 Inc.
Current assets	\$ 120	\$ 80	\$ 5,572
Non-current assets	74,868	27,760	247,229
Total assets	<b>74,988</b>	<b>27,840</b>	<b>252,801</b>
Current liabilities	3,500	-	-
Non-current liabilities	101,622	46,467	490,204
Total liabilities	<b>105,122</b>	<b>46,467</b>	<b>490,204</b>
Equity attributable to shareholders of the Company	(18,080)	(16,557)	(204,197)
Non-controlling interests	<b>\$ (12,054)</b>	<b>\$ (2,070)</b>	<b>\$ (33,206)</b>

	December 31, 2020		
	D580 Inc.	D238 Inc.	D172 Inc.
Net loss and comprehensive loss attributable to shareholders of the Company	\$ (19,005)	\$ (13,148)	\$ (203,092)
Net loss and comprehensive loss attributable to NCI	<b>\$ (5,239)</b>	<b>\$ (407)</b>	<b>\$ (29,228)</b>

**17. RELATED PARTY TRANSACTIONS**

**Compensation awarded to key management personnel**

Key management personnel refer to the Company's members of its executive management team and directors.

For the year ended	December 31, 2020	December 31, 2019
Consulting fee	\$ 258,000	\$ 105,000
Shares issued	280,272	7,000
	<b>\$ 538,272</b>	<b>\$ 112,000</b>

**18. FINANCIAL RISK MANAGEMENT**

The Company's objective is to maintain sufficient capital to maintain investor, creditor and customer confidence and to sustain future development of the business and to provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management. The Company has not paid any dividends to its shareholders. The Company is not subject to any externally imposed capital requirements.

As at December 31, 2020, the Company's total managed capital comprised of equity attributable to the equity holders of the Company \$1,151,052 (December 31, 2019 - \$1,663,910). There were no changes in the Company's approach to capital management during the period.

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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**(a) Fair value**

Financial instruments included in the consolidated statement of financial position as at December 31, 2020 consist of cash, promissory note receivable, accrued liabilities and payables and CEBA loan with period-end carrying amounts which approximates their respective fair values.

**(b) Interest rate risk**

The Company does not have any debts or borrowings from any banks or institutional lenders as at December 31, 2020, except for CEBA loan (Note 13), which is non-interest bearing until December 31, 2022. However, the Company is exposed to interest rates risk through its bank deposits.

**(c) Currency risk**

The Company's balances are all in Canadian dollars as of December 31, 2020 so the Company is not exposed to any currency risks from its financial instruments.

**(d) Credit risk**

The maximum credit risk exposure as at December 31, 2020 is the carrying amount of cash and promissory note receivable. The expected loss allowance on its financial assets was determined based on factors such as the credit profile of individual counterparties, industry credit ratings, historical trends and other relevant credit-related information. The Company has determined that the expected loss allowance rate as at December 31, 2020 for promissory note receivable as 65%.

**(e) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to purchase services on credit, for which repayment is required at various maturity dates.

The Company manages the liquidity risk resulting from accounts payable and accrued liabilities and CEBA loan by ensuring that it documents when authorized payments are due and maintaining adequate cash reserves to meet its obligations as they come due.

In addition to the commitments in Note 20, the Company has the following undiscounted contractual obligations as at December 31, 2020 which are expected to be payable in the following respective periods:

	Within 1 year		Over 1 year		Total
Accounts payable and accrued liabilities	\$	109,367	\$	–	\$ 109,367
CEBA loan		–		40,000	40,000
Lease liability		107,053		372,269	479,322
Total	\$	216,420	\$	412,269	\$ 629,689

As of December 31, 2020, the Company had cash of \$438,633 (December 31, 2019 - \$1,567,938) and total equity attributable to the equity holders of the Company was \$2,084,992 (December 31, 2019 - \$1,663,910). The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting, and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. There are no externally imposed capital requirements to which the Company has not complied.

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**19. INCOME TAX**

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to income (loss) from operations before income taxes, shown as follows:

	December 31, 2020	December 31, 2019
<b>Expected Tax Rate</b>	<b>26.50%</b>	<b>26.50%</b>
Expected tax Benefit Resulting From Loss	\$ (561,765)	\$ (120,104)
Permanent Differences	178,746	-
Effect of losses not recognized and other deductible temporary differences not recognized	383,018	120,104
Other	-	-
<b>Income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	December 31, 2020	December 31, 2019
Deferred tax asset	\$ 108,293	\$ 6,885
Deferred tax liability	(108,293)	(6,885)
<b>Net deferred tax liability</b>	<b>\$ -</b>	<b>\$ -</b>

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

	December 31, 2019	Recognized in profit and loss	December 31, 2020
<b>Deferred tax asset</b>			
Loss carry forwards	\$ 6,885	\$ (5,948)	\$ 937
Lease liability	-	107,356	107,356
	6,885	101,408	108,293
<b>Deferred tax liability</b>			
ROU assets	\$ -	\$ (108,293)	\$ (108,293)
Prepaid and deposits	(6,885)	6,885	-
	(6,885)	(101,408)	(108,293)
<b>Net deferred tax liability</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The deductible temporary differences and unused tax losses for which no deferred tax asset is recognized, are approximately as follows:

	December 31, 2020	December 31, 2019
Property, plant and equipment	\$ 24,792	\$ -
Intangible assets	24,863	-
Loan payable	4,657	-
Financing fees	118,560	-
Non-capital losses	1,753,795	472,043
Share issuance costs	67,750	75,282
Other	2,703	-
<b>Total</b>	<b>\$ 1,997,120</b>	<b>\$ 547,325</b>

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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The company has the following non-capital losses available to reduce future years' federal and provincial taxable income, which expire as follows:

2039	\$	488,252
2040		1,269,077
	\$	1,757,329

**20. COMMITMENTS AND CONTINGENCIES****a) Non-controlling interest**

The Company entered into definitive lease agreements with various landowners and transaction facilitators in 2019 for its corporate office and hemp CBD cultivation lands. Additionally, the Company, through Alami, entered into a partnership agreement with Mikono Beauty Inc. for the sole purpose of developing and selling Hemp CBD derivative beauty and hemp CBD derivative skin care products; and another agreement, through DEPL Corp., with Martin Ciuk for the sole purpose of establishing a distribution and marketing channel for the sale of hemp CBD products in Europe (EU economic region).

Based on the following specified terms in each executed agreement, the Company is obligated to issue equity shares (membership interests) to the respective landowners and transaction counterparties:

*D238 Inc.*

In addition to the lease rentals (Note 12), landowners shall be paid 10% of the net profit from operations of D238 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D238 Inc.

*D172 Inc.*

In addition to the lease rentals (Note 12), landowners shall be paid 10% of the net profit from operations of the D172 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D172 Inc.

**b) 2688453 Ontario Ltd.**

On December 4, 2020 ("Effective date"), the Company entered into a definitive agreement to acquire 100% of the issued and outstanding shares of 2688453 Ontario Ltd in exchange for 7,600,000 common shares ("Consideration shares") of the Company ("Acquisition") to be issued as follows:

- (i) 1,520,000 shares, representing 20% of Consideration shares, within 30 days from the Effective date;
- (ii) 1,900,000 shares, representing 25% of Consideration shares, upon the earlier of completion of phase 1 of the business plan, which focuses primarily on the design and construction of the cultivation buildout facility, or six (6) months from the Effective date ("Second issuance");
- (iii) 2,280,000 shares, representing 30% of Consideration shares, on the date that is four (4) months from Second Issuance ("Third issuance");
- (iv) 1,900,000 shares, representing 25% of Consideration shares, on the date that is four (4) months from Third issuance.

On December 4, 2020, the Company issued 1,520,000 common shares to the shareholders of 2688453 Ontario Ltd. valued at \$296,400. Additionally, the Company issued 760,000 common shares as finders' fee valued at \$148,200, which has been recognized as consulting fee for the year ended December 31, 2020.

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**Canbud Distribution Corporation****Notes to Consolidated Financial Statements for Years Ended December 31, 2020 and 2019****(Expressed in Canadian dollars)**

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**21. SUBSEQUENT EVENTS***Stock options*

On January 15, 2021, the Company granted 300,000 stock options to a consultant with exercise price of \$0.22 for 4 years, expiring on January 15, 2025.

On January 18, 2021, the Company granted 300,000 stock options to a consultant with exercise price of \$0.22 for 4 years, expiring on January 18, 2025.

On January 20, 2021, the Company granted 300,000 stock options to a consultant with exercise price of \$0.22 for 4 years, expiring on January 20, 2025.

On March 30, 2021, the Company granted 600,000 stock options to a consultant with exercise price of \$0.22 for 4 years, expiring on March 30, 2025.

*Letter of Intent*

On January 19, 2021, the Company entered into a Letter of Intent (LOI) with Hemsana Inc. to develop and manufacture CBD products for distribution to the medical-patient channel through profit-sharing model. Hemsana's Health Canada Licenced EU GMP compliant facility provides access to wholesale and retail channels internationally, including the EU, Asia, South America, US, and Canada.

*Empathy Plant Co.*

On January 22, 2021, the Company incorporated Empathy Plant Company Inc. ("Empathy"), a wholly owned subsidiary of the Company. Empathy was formed primarily to launch and operate the Company's plant-based protein brand with products that are naturally sweetened, zero sugar added, non-GMO project verified, gluten-free, soy-free with 100% compostable packaging.

*Private placements*

In February and March 2021, the Company closed non-brokered private placements for combined total gross proceeds of \$4,730,000. The Company issued 39,409,346 of \$0.12 per Unit, with each Unit comprised of one common share in the capital of the company and one common share purchase warrant.

Each Warrant entitles the holder to purchase one additional common share at an exercise price of \$0.22 within 24 months of the closing of the private placement. If the closing price of the Common Shares on the CSE is \$0.25 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 days following the date a press release is issued by the company announcing the reduced warrant terms.

Finder's fees in the aggregate amount of \$151,481 in cash and 1,262,345 broker warrants (the "Broker Warrants") were paid to a syndicate of arm's-length finders, with the exception of \$87,426 and 728,548 Broker Warrants paid to Florence Wealth Management Inc. ("Florence"). Raj Ravindran, CFO and Director of the Company, is the ultimate designated person and CEO of Florence. The Broker Warrants were issued on the same terms as the Warrants.