FORM 51-102F4
BUSINESS ACQUISITION REPORT

Item 1 – Identity of Company

1.1 Name and Address of Company

Canbud Distribution Corp. (“**Canbud**” or the “**Company**”)
120 Adelaide Street West
Suite 2500
Toronto, Ontario
M5H 1T1

1.2 Executive Officer

The following executive officer of the Company who is knowledgeable about the details of the Acquisition (as defined below) and this report is:

Raj Ravindran, Chief Financial Officer
Telephone: (416) 839-7424

Item 2 - Details of Acquisition

2.1 Nature of Business Acquired

On June 17, 2021, the Company entered into a definitive acquisition agreement (the “**Acquisition Agreement**”) with Molecular Science Corp. (“**MSC**”) and 2847719 Ontario Inc. (“**Subco**”), a wholly owned subsidiary of the Company, pursuant to which it agreed to acquire all of the outstanding securities of MSC by way of a three-cornered amalgamation (the “**Acquisition**”). In accordance to the terms of the Acquisition Agreement, upon completion of the Acquisition, Subco amalgamated with MSC and continue as a new company, **MSC Corp**., a wholly owned subsidiary of the Company.

MSC is a privately held analytical science and services company, carrying on the business of testing cannabis and related pharmaceutical products. The business operations of MSC are conducted primarily through Molecular Science Labs Corp.(“**MSLC**”), MSC’s wholly owned subsidiary at its laboratory facilities in Scarborough, Ontario and pursuant to an analytical testing license issued by Health Canada under the *Cannabis Act*.

2.2 Acquisition Date

July 8, 2021 (the “**Closing Date**”).

2.3 Consideration

Pursuant to the Acquisition agreement, the Company issued an aggregate of 68,212,896 common shares (the "**Canbud Shares**") of the Company to the former shareholders of MSC on the basis (the "**Exchange Basis**") of approximately 3.313 Canbud Shares for each MSC common share (each, an "**MSC Share**") outstanding, representing approximately 43.7% of the issued and outstanding Canbud Shares. All outstanding common share purchase warrants of MSC were replaced with common share purchase warrants of the Company, entitling the holders thereof to purchase an aggregate of up to 3,958,800 Canbud Shares for a purchase price of $0.30 per share until July 8, 2024.

In accordance with the terms of the Acquisition Agreement, the Company advanced a bridge loan (the “**Bridge Loan**”) of $500,000 to MSC, to be used for the repayment of certain debt and for working capital purposes. The Bridge Loan bears interest at 5% per annum, matures sixty days from the date of the Bridge Loan, and is secured against the shares and assets of each of MSC and its main operating subsidiary.

2.4 Effect on Financial Position

Canbud does not currently have any plan or proposal for material changes in its business, affairs or the business or affairs of MSC Corp. which may have a significant effect on the financial performance or financial position of Canbud.

2.5 Prior Valuations

No valuation required by securities legislation or a Canadian exchange or market to support the consideration paid by Canbud pursuant to the Acquisition has been obtained within the past 12 months.

2.6 Parties to Transaction

The Acquisition was not with an “informed person” (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of Canbud was involved in the Acquisition.

2.7 Date of Report

September 17, 2021

Item 3 - Financial Statements and Other Information

The following financial information included in Schedule A hereto forms part of this report:

- The audited consolidated financial statements of MSC for the years ended December 31, 2020 and 2019 and the notes related thereto; and
- The unaudited interim consolidated financial statements of MSC for the six months ended June 30, 2021, and the notes related thereto.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this business acquisition report constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "budget", "plan", "endeavor”, “continue", "estimate", "evaluate", "expect", "forecast", "monitor", "may", "will", "can", "able", "potential", "target", "intend", "consider", "focus", "identify", "use", "utilize", "manage", "maintain", "remain", "result", "cultivate", "could", "should", "believe" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Without limitation, this business acquisition report contains forward-looking statements pertaining to the Acquisition. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions concerning the business plan of the Company and the successful integration of the Canbud assets into the Company's operations. Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that they will prove to be correct. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, fluctuations in commodity prices, changes in industry regulations and political landscape both domestically and abroad, foreign exchange or interest rates, stock market volatility, impacts of the current COVID-19 pandemic and the retention of key management and employees. Please refer to the Company's most recent annual information form and management’s discussion and analysis for additional risk factors relating to the Company, which can be accessed either on the Company's website at www.canbudcorp.com or under the Company's profile on www.sedar.com . Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

SCHEDULE A

MOLECULAR SCIENCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2020 and DECEMBER 31, 2019
(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Molecular Science Corp.:

Opinion

We have audited the consolidated financial statements of Molecular Science Corp. 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 incurred a comprehensive loss during the year ended December 31, 2020 and, as of that date, the Company had an accumulated deficit. 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

MNP LLP

Toronto, Ontario
July 8, 2021

Chartered Professional Accountants
Licensed Public Accountants

Molecular Science Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	December 31, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	$202,985	$469,558
Trade receivables, net (Note 3)	416,756	278,658
Advances and other receivables (Note 4)	48,089	217,567
Prepaid expenses	60,066	81,401
Total Current Assets	**727,896**	**1,047,184**
Investment (Note 5)	43,590	138,000
Property and equipment (Note 6)	2,476,815	3,542,941
Right-of-use assets (Note 7)	130,472	613,270
Intangible assets (Note 8)	8,518	24,184
TOTAL ASSETS	**$3,387,291**	**$5,365,579**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$946,488	$1,123,845
Lease liabilities - current (Note 7)	92,317	178,533
Deferred revenue	12,311	38,436
	1,051,116	**1,340,814**
Non-Current Liabilities	-	
Lease liabilities – non-current (Note 7)	57,745	449,707
Total Liabilities	**1,108,861**	**1,790,521**
Shareholders' Equity		
Share capital (Note 9)	14,550,632	14,203,268
Shares to be issued (Note 9)	30,375	-
Share-based payments (Note 10)	1,285,556	1,447,677
Warrants (Note 11)	867,923	867,923
Contributed surplus (Note 10)	1,352,382	1,190,261
Accumulated other comprehensive loss	(163,910)	(62,000)
Accumulated Deficit	(15,644,528)	(14,072,071)
Total Shareholders' Equity	**$2,278,430**	**$3,575,058**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$3,387,291**	**$5,365,579**

Nature of operations and going concern (note 1)
Subsequent events (note 15)

Approved on behalf of the Board of Directors.

David Forster
Director (signed)

Ted Witek
Director (signed)

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

Molecular Science Corp.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except per share amounts)

	Year ended December 31, 2020	Year ended December 31, 2019
Service revenue	$2,742,208	$1,175,890
Revenue from sale of equipment	-	486,902
Total Revenue (Note 2)	**$2,742,208**	**$1,662,792**
Cost of goods sold	**-**	**486,902**
Gross profit	**2,742,208**	**1,175,890**
Operating expenses		
Management and consulting	85,343	164,889
Professional fees	235,216	428,530
Office expenses	425,785	468,817
Share-based payments (Note 9)	188,653	440,400
Research and development	46,087	23,043
Laboratory expenses	677,269	404,693
Business development and promotion	1,010	47,252
Travel, meals and entertainment	13,123	97,378
Salaries and benefits	1,913,784	2,044,117
Depreciation and Amortization (Note 6,7 & 8)	1,304,532	1,299,035
Total Operating Loss	**(2,148,594)**	**(4,242,264)**
Net interest and other income (expense) (Note 7)	576,137	(30,497)
Loss before income taxes	**(1,572,457)**	**(4,272,761)**
Income tax expense (Note 13)	-	(87,071)
Net Loss	**(1,572,457)**	**(4,359,832)**
Other comprehensive income (loss)		
Change in fair value of investment (Note 5)	(101,910)	(719,142)
Deferred tax expense (Note 13)	-	87,071
Total other comprehensive loss	**(101,910)**	**(632,071)**
Total comprehensive loss	**(1,674,367)**	**(4,991,903)**
Basic and diluted net loss per share	**(0.08)**	**(0.25)**
Weighted average number of common shares Outstanding – basic and diluted	**20,034,695**	**19,626,141**

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

Molecular Science Corp.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating activities		
Total comprehensive loss	$(1,674,367)	$(4,991,903)
Add items not involving cash:		
Share-based payments	188,653	440,400
Depreciation and amortization (Note 6, 7&8)	1,304,532	1,299,035
Loss on property and equipment disposed	12,234	-
Intangible assets write-off	11,020	-
Gain on settlement of accounts payable	(336,963)	-
Expected credit loss	126,760	12,439
Loss on termination of lease agreement	28,850	-
Change in fair value of investment	101,910	719,142
Changes in non-cash operating items:		
Trade receivable (gross amount)	(264,858)	(195,506)
Advances and other receivables	169,478	860,948
Prepaid	46,335	(17,442)
Inventory	-	486,902
Accounts payable and accrued liabilities	315,742	(399,267)
Deferred revenue	(26,125)	(22,862)
Cash used in operating activities	**3,201**	**(1,808,114)**
Investing activities		
Purchase of property and equipment (Note 6)	(33,489)	(115,284)
Purchase of intangible asset	-	(24,958)
Investments	(7,500)	
Cash used in investing activities	**(40,989)**	**(140,242)**
Financing activities		
Payment of lease liabilities (Note 7)	(228,785)	(296,366)
Cash used in financing activities	**(228,785)**	**(296,366)**
Net change in cash and cash equivalents	**(266,573)**	**(2,244,722)**
Cash and cash equivalents, beginning of year	**469,558**	**2,714,280**
Cash and cash equivalents, end of year	**$202,985**	**$469,558**

Supplemental disclosure

In 2020, the Company settled certain 2019 accrued liabilities with common shares. The total amount settled was $526,051.

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

Molecular Science Corp.

Consolidated Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

		Share to be issued	Share-based payments	Warrants reserve	Contributed surplus	AOCI – Fair value reserve	Accumulated Deficit	Total
Balance, December 31, 2019	**$14,203,268**	**-**	**$1,447,677**	**$867,923**	**$1,190,261**	**$(62,000)**	**$(14,072,071)**	**$3,575,058**
Shares issued for services (Note 9)	347,364	-	-	-	-	-	-	**347,364**
Shares to be issued for services (Note 9)	-	30,375						**30,375**
Stock options expired/ forfeited (Note10)	-	-	(162,121)	-	162,121	-	-	**-**
Fair Value of investment	-	-	-	-	-	(101,910)	-	**(101,910)**
Loss for the year	-	-	-	-	-	-	(1,572,457)	**(1,572,457)**
Balance of December 31, 2020	**$14,550,632**	**$30,375**	**$1,285,556**	**$867,923**	**$1,352,382**	**$(163,910)**	**(15,644,528)**	**$2, 278,430**
Balance, December 31, 2018	**$14,127,267**	**-**	**$1,950,118**	**$867,923**	**$323,419**	**$570,071**	**$(9,712,239)**	**$8,126,559**
Shares issued for services	76,001	-	-	-	-	-	-	**76,001**
Stock options expired/cancelled (Note10)	-	-	(866,842)	-	866,842	-	-	**-**
Share based payments (Note 10)	-	-	364,401	-	-	-	-	**364,401**
Fair Value of investment (Note 5)	-	-	-	-	-	(632,071)	-	**(632,071)**
Loss for the year	-	-	-	-	-	-	(4,359,832)	**(4,359,832)**
Balance of December 31, 2019	**$14,203,268**	**-**	**$1,447,677**	**$867,923**	**$1,190,261**	**$(62,000)**	**$(14,072,071)**	**$3,575,058**

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

1. Nature of operations and going concern

Molecular Science Corp. (formerly known as BCP Science Corp.) ("Molecular" or the "Company") was incorporated under the Ontario Business Corporations Act on January 24, 2017. On March 1, 2017, BCP Science Corp. changed its name to Molecular Science Corp. The Company provides scientific testing, services based on projects, develops new scientific standards and methods and develops new products and services through its research and development programs. The Company focuses on the regulated cannabis medical and consumer sector. The Company's registered office is 55 Town Centre Court suite 902, Scarborough, ON M1P 4X4.

As at December 31, 2020, the Company had one lab which was operational.

Going concern

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Management's view is that the success of the Company is dependent upon utilizing its existing capacity.

The Company has not yet achieved profitable operations and incurred loss and comprehensive loss of $1,674,367 during the year ended December 31, 2020 and the Company has an accumulated deficit of $15,644,528. The Company earned testing revenues $2,742,208, which was not adequate to meet its ongoing levels of corporate overhead to discharge its liabilities and commitments as they come due. The Company had a negative working capital of $323,220 as at December 31, 2020. However, the Company is actively seeking additional financing to fund the business operation, as well as controlling cost, and also expects to generate more revenue in 2021 to fund operations. The Company's ability to continue as a going concern is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flow from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful of if the Company will attain profitable levels of operations. The unpredictability of the cannabis business, a limited working capital and the continued impact of COVID-19 pandemic represent material uncertainties which may cast significant doubt on the Company's ability to continue as a going concern. Although the Company's services have been deemed an essential in the provinces it operates in, if the impact of COVID-19 continues for an extended period, it may materially adversely affect the business operations and future financial results.

The consolidated financial statements do not include any adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and their classifications. Such adjustments if required, could be material.

2. Significant accounting policies

Basis of presentation and statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS's issued and outstanding as of July 8, 2021, the date the Board of Directors approved the statements.

2. Significant accounting policies (continued)

Basis of presentation and statement of compliance (continued)

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value as explained in the accounting policies.

These consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

Basis of consolidation

The consolidated financial statements as at December 31, 2020 and 2019, reflect the assets, liabilities, and results of operations of Molecular Science Corp. and its wholly owned subsidiaries Molecular Science Product Corp., Molecular Science Genetics Corp. and Molecular Science Labs Corp. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the following:

- the inputs used in the Black-Scholes option pricing model (volatility; interest rate; expected life and forfeiture rate) in accounting for share-based payment transactions;
- the valuation allowance of income tax accounts - provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
- accrued liabilities;
- going concern assumption;
- Impairment of intangible assets;
- fair value measurements; and
- the expected credit loss ("ECL") on accounts receivable

2. Significant accounting policies (continued)

Financial instruments

Recognition and derecognition

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risk and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories;

i) those to be measured subsequently at fair value through profit or loss (FVTPL);
ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI);
iii) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition).
For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive loss.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company's financial assets include cash, trade receivables, advances and other receivables, and investments. The Company's financial liabilities include its accounts payable and accrued liabilities.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

2. Significant accounting policies (continued)

Financial instruments (continued)

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the consolidated statements of loss and comprehensive loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability

Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Expected credit loss impairment model

IFRS 9 – Financial Instruments introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The simplified ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss (see Note 3 for details).

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Derecognition

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

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

2. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition (continued)

Gains and losses on derecognition are generally recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes cash on deposit and guaranteed investment certificates ("GIC's") at banking institutions, and amounts held in trust on behalf of the Company. The GICs are highly liquid investments and readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cost of goods sold

Cost of goods sold expense relate to the Company's equipment sale operations, and includes cost of inventory.

Inventories

Inventories are stated at the lower of cost and net realisable value. The costs of inventories are determined using the first- in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The above inventories are generally used within 2 years of their purchase.

The cost of Inventories, which consists of chemical and its related products, comprises all costs of purchase including equipment for sales and other costs incurred in bringing the inventories to their present location and condition. The cost of purchase comprises the purchase price, non-recoverable taxes, transport, handling, and other costs directly attributable to the acquisition of goods.

Inventory allowances are recorded in the period in which management determines the inventory to be obsolete.

Revenue recognition

Revenue is recognized when control of a good or services transfers to a customer. Control either transfers "over time" or "at a point in time". When the control transfers "over time" the entity can recognize revenue with a counterpart in percentage of completion over the duration of the contract. When the control transfers "at a point in time" the revenue is then recognized only when the performance obligation is fulfilled. The Company will recognize the revenue upon satisfaction of following condition;

- All parties to the contract have approved the contract and are committed to perform their respective obligations;
- Each party's rights in relation to the goods or services to be transferred can be identified;
- The payments can be identified;
- The contract has commercial substance (i.e., the entity expects the risks, timing or amount of the entity's future cash flows to change as a result of the contract); and
- It is possible (i.e., more likely than not) that the entity will collect the consideration it is entitled to in exchange for the goods or services.

2. Significant accounting policies (continued)

Revenue recognition (continued)

Company provides a comprehensive range of testing methods to clients in the regulated cannabis sector. The Company recognizes revenue from services and rentals from mobile lab.

Revenue recognition from services rendered

The Company recognizes revenue when certificates of assessment (CoA) are delivered to a customer or the control of goods are transferred. Revenue is measured at the fair value of the consideration received or receivable from customers for the sale of goods and services provided by the Company, net of sales taxes.

The major part of the Company's business is based on testing samples provided by customers. The sample-based activity is a repetitive business, generally with relatively small transactions with short turnaround times. These transactions do not include multiple performance obligations. The Company considers the input method to measure the progress of services rendered to its customers.

Revenue recognition from rentals

Company operates mobile lab which is available for rent on a pre - booking basis. Revenue from rentals is recognized over time in accordance with IFRS 16 – Leases. The Company has determined that its leases are operating leases as they do not transfer the risks and rewards incidental to owning the mobile lab to the lessee. As such, lease payments are recognized as income on a straight-line basis when a customer commences use. Revenue received in advance of these criteria is deferred until future periods.

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Revenue from sale of equipment as part of contracts

From time to time, the Company will sell equipment that includes installation and training their staff as part of its contract with customers. Such project related revenue will be recorded based on the arrangement in the corresponding contracts, and usually coincides with when the Company transfers control of the asset to the customer.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following terms and methods:

Estimated useful life / Asset depreciation method

Lab equipment and furniture	Straight-line 5 years
Office equipment	Straight-line 3 years
Leasehold improvements	Straight-line over lease term

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of loss and comprehensive loss in the period the asset is derecognized.

2. Significant accounting policies (continued)

Property and equipment (continued)

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

Intangible asset

The Company capitalizes the cost of intangible assets in accordance with IAS38 – Intangible Assets. Management identifies these acquired or created intangible assets if it determines that a future economic value exists, and the costs are reliably measurable. Intangible assets are recorded at cost less accumulated amortization. They are amortized over their estimated useful lives using the following methods and rates:

Estimated useful life / Asset depreciation method

Company website	Straight-line 3 years
License	Straight-line 2 years

An asset's residual value, useful life and amortization method are reviewed at each consolidated statements of financial position date and adjusted if appropriate.

Impairment of non-financial assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

Share capital and warrants

Common shares and warrants are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes option pricing model to determine the fair value of warrants issued.

*Share-based payment transaction*s

The Company has a share-based payment plan that grants stock options to employees and non-employees. This plan is an equity-settled plan. For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, using an option pricing model.

2. Significant accounting policies (continued)

*Share-based payment transaction*s (continued)

The expense is recognized over the vesting period of the options granted and is recognized as an expense in earnings with a corresponding credit to reserve for share-based payments. At the end of each reporting period the Company re-assesses its estimate of the number of stock options expected to vest and recognizes the impact of the revisions in the consolidated statement of loss and comprehensive loss. Any consideration paid by employees and directors on exercise of stock options is credited to share capital combined with any related share-based compensation expense originally recorded in reserve for share-based payments.

In the case of cancellation or forfeiture, the recognized amount will be transferred from Share-based payment reserve to Contributed Surplus.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares to the extent that that are not antidilutive.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in the statement of loss and comprehensive loss as incurred. To date, no development costs have been capitalized.

2. Significant accounting policies (continued)

Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight- line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depends on as index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property as "right-of-use assets" and as "lease liabilities" in the statement of financial position.

The Company recognizes right-of-use assets and lease liabilities for short-term leases for office space and equipment that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. During the year, Company had no leased IT equipment qualified for any low- value assets.

Capital risk management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As at December 31, 2020, the Company has not entered any debt financing. The Company is not subject to externally imposed restriction on capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers its Shareholders equity as capital which as at December 31, 2020 is $2,278,430 (December 31, 2019- $ 3,575,058).

2. Significant accounting policies (continued)

Financial instruments

All financial assets not classified at amortized cost or FVOCI are measured at FVTPL. On initial recognition. The Company has elected to irrevocable designate any of the equity investments at fair value with changes presented in other comprehensive income.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss;
- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the consolidated statement of loss and comprehensive loss for the year. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method. The equity investments are valued at fair value, any changes are presented in other comprehensive income.

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 affected.

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

Fair values

At December 31, 2020, the Company's financial instruments consist of cash and cash equivalents, other assets and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments. The investments are valued at fair value through other comprehensive income.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfer of amounts between levels. Investments are valued at level 3.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

The Company manages risk through established policies that provide management control to mitigate risk over operations. These policies provide for risk identification and assessment, and that appropriate and effective procedures are in place to mitigate risk. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Company has exposure to the following risks from its use of financial instruments:

- Credit risk; and
- Liquidity risk

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and trade receivables. All of the Company's cash is held at financial institutions which are Canadian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

As at December 31, 2020, the aggregate credit risk exposure related to cash and trade receivables were $619,741 (December 31,2019- $748,216).

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the excepted credit loss rate at each aging category of receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged 60-90 days past due	Aged >90 days past due	Total
Expected collection rate	99.41%	99.52%	94.71%	34.27%	2.96%	-
Gross carrying amount	200,038	198,220	14,842	7,534	135,321	555,955
Loss allowance provision, end of the period	$1,184	$956	$785	$4,952	$131,321	$139,199

Individual receivables which are known to be uncollectible are expensed by reducing the carrying amount to zero. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred, but not yet been identified. The Company maintains an allowance for doubtful accounts that represents an estimate of the uncollectible amounts based on historical experience. The loss allowance provision is reduced by collections of receivables after the reporting date.

The Company considers an impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Financial instruments(continued)

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 currently settles its financial obligations with cash. As at December 31, 2020, the Company's financial liabilities consist of accounts payable, accrued liabilities and lease liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year. As at December 31, 2020, the Company had a total of cash $ 202,985 (December 31,2019- $ 469,558) which was not enough to settle the total liabilities of $ 1,108,861(December 31,2019- $1,790,521).

3. Trade receivables

	December 31, 2020	December 31, 2019
Trade Receivables Gross	$555,955	$291,097
Expected Credit Loss	(139,199)	(12,439)
Trade Receivables Net	**$416,756**	**$278,658**

The Company provides for ECLs (Expected Credit Loss) based on its assessment of probability of specific losses and estimates of future individual exposures and provisions.

Trade receivable (continued)

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The aging of receivables is as below:

	December 31, 2020	December 31, 2019
Current	$200,038	$174,911
Aged 1-30 Days	198,220	87,791
Aged 31-60 Days	14,842	10,479
Aged >60 Days	142,855	17,916
Total	**$555,955**	**$291,097**

4. Advances and other receivables

	December 31, 2020	December 31, 2019
Input tax credit	$31,858	$126,711
Deposits	16,231	90,856
Total	**$48,089**	**$217,567**

(Expressed in Canadian Dollars)

5. Investments

	December 31, 2020	December 31, 2019
Investment-Ample(1)	$36,090	$138,000
Investment-EIR(2)	7,500	
Total	**$43,590**	**$138,000**

(1) As at December 31, 2020, the Company held an investment of 476,190 common shares (December 31, 2019 – 476,190) of the issued and outstanding shares of Ample Organics Inc.("Ample"), a private company. In December 2019, Akerna Corp. has entered into a definitive agreement to acquire all of the issued and outstanding shares of Ample as of December 17th, 2019. The fair value of the investment changed to $36,090 in 2020. It is valued using the Finnerty model to calculate a discount related to variability on the market price of Akerna shares and the number of shares expected to be received by common shareholders on the date of issuance. The fair value reduction of $101,910 was recognized in OCI (Other Comprehensive Income or Loss) (2019: $719,142). The Company owns around 1.2% of all the outstanding shares at the end of December 31, 2020 (1.2% at December 31, 2019). The investment in Ample was classified as level 3. For level 3 investments, the inputs can be highly judgmental. A +/- 10% change on the fair value of this investment will result in a corresponding +/- $3,609 (2019: +/- $13,800) change to the total other comprehensive income. The underlying assumptions used in the estimation of fair value in the Finnerty valuation model are as follows:

Holding period: 0.51 years
Risk-free rate: 1.71%
Annualized volatility: 130.00%
Unrestricted interest: 1.00

While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances.

(2) In August 2020, the Company purchased 150,000 founders shares from EIR International Corp. (EIR) at a cost of $0.05 per share. Those shares were valued at fair market value of $7,500 as at December 31, 2020 based on the recent financing.

(Expressed in Canadian Dollars)

6. Property and equipment

Property and equipment at December 31, 2020 is comprised of the following:

Cost	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Office Equipment	$ 64,447	$ -	$ -	$64,447
Furniture	53,816	-	-	53,816
Lab Equipment	2,441,473	9,385	-	2,450,858
Leasehold improvements	2,036,535	24,104	(14,365)	2,046,274
Total	**$4,596,271**	**$ 33,489**	**$(14,365)**	**$4,615,395**
Accumulated Depreciation	**Balance December 31, 2019**	**Additions**	**Disposals**	**Balance December 31, 2020**
Office Equipment	$36,155	$19,277	$ -	$55,432
Furniture	16,340	10,763	-	27,103
Lab Equipment	482,165	486,833	-	968,998
Leasehold improvements	518,670	582,742	(14,365)	1,087,047
Total	**$1,053,330**	**$1,099,615**	**$(14,365)**	**$2,138,580**
Net Book Value	**$3,542,941**			**$2,476,815**

Cost	Balance December 31, 2018	Additions	Disposals	Balance December 31, 2019
Office Equipment	$51,802	$12,645	$ -	$ 64,447
Furniture	51,703	2,113	-	53,816
Lab Equipment	2,350,484	90,989	-	2,441,473
Leasehold improvements	2,049,620	9,537	(22,622)	2,036,535
Total	**$4,503,609**	**$115,284**	**$(22,622)**	**$4,596,271**
Accumulated Depreciation	**Balance December 31, 2018**	**Additions**	**Disposals**	**Balance December 31, 2019**
Office Equipment	$16,837	$19,318	$ -	$36,155
Furniture	5,659	10,681	-	16,340
Lab Equipment	31,197	450,968	-	482,165
Leasehold improvements	22,622	518,670	(22,622)	518,670
Total	**$76,315**	**$999,637**	**$(22,622)**	**$1,053,330**
Net Book Value	**$4,427,294**			**$3,542,941**

(Expressed in Canadian Dollars)

7. Leases

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

The Company's leasing activities include the lease of office premises, and a mobile trailer used in the testing of cannabis and related products.

Cost	Balance December 31, 2019	Additions	Disposals/Adjustment	Balance December 31, 2020
Vehicle	$365,510	$18,634	$(384,144)	$-
Office Space	800,189	-	(388,170)	412,019
Total	**$1,165,699**	**$18,634**	**$(772,314)**	**$412,019**

Accumulated Depreciation	Balance December 31, 2019	Additions	Disposals/Adjustment	Balance December 31, 2020
Vehicle	$319,821	$64,323	$(384,144)	$-
Office Space	232,608	135,948	(87,009)	281,547
Total	**552,429**	**200,271**	**$(471,153)**	**281,547**
Net Book Value	**$613,270**			**$130,472**

Lease liabilities

	Amounts
Balance on Dec 31, 2019	628,240
Lease Disposal	(322,061)
Lease Payments	(156,117)
Balance on Dec 31, 2020	**$150,062**

Maturity analysis – contractual undiscounted cash flows	Balance December 31, 2020	Balance December 31, 2019
Less than one year	101,021	214,805
One to five years	60,139	504,465
More than five years	-	-
Total	**$161,160**	**$719,270**

Lease liabilities included in the statement of financial position	Balance December 31, 2020	Balance December 31, 2019
Current	92,317	178,533
Non-current	57,745	449,707
Total	**$150,062**	**$628,240**

Supplemental disclosure

The Company has elected not to recognize a lease liability for short term lease (lease with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability was $106,928 (2019: $150,778). In 2020, the Company recognized $32,791 (2019: $42,796) of interest expense on lease obligations and the total cash outflow relating to leases amounted to $156,117 (2019: $296,366). During the year, the Company terminated the lease in the 3340 American Drive, Mississauga, Ontario, the termination reduced the cost of right-of-use assets by $388,170, the accumulated depreciation by 87,009 and the lease liability by $322,061, the termination loss was $28,850. The Company was also required to make a termination payment of $56,216.

(Expressed in Canadian Dollars)

8. Intangible assets

The following comprises intangible assets:

Cost	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Company website	$13,939	$-	$-	$13,939
License	11,020	-	(11,020)	-
Total	**$24,959**	**$-**	**$(11,020)**	**$13,939**

Accumulated amortization	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Company website	$775	$4,646	$-	$5,421
Net book value	**$24,184**			**$8,518**

Cost	Balance December 31, 2018	Additions	Disposals	Balance December 31, 2019
Company website	$-	$13,939	$-	$13,939
Health Canada license	-	11,020		11,020
Total	**$-**	**$24,959**	**$-**	**$24,959**

Accumulated amortization	Balance December 31, 2018	Additions	Disposals	Balance December 31, 2019
Company website	$-	$775	$-	$775
Net book value	**$-**	**$24,184**	**$-**	**$24,184**

9. Share capital

Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Common shares issued and outstanding

	Number of common shares	Amount
Balance, December 31, 2018	19,609,319	$14,127,267
Penalty shares issued (1)	60,000	-
Shares issued for services (2)	50,000	76,001
Balance, December 31, 2019	**19,719,319**	**$14,203,268**

(Expressed in Canadian Dollars)

9. Share capital (continued)

	Number of common shares	Amount
Balance, December 31, 2019	19,719,319	$14,203,268
Shares issued during the year(3)	771,930	347,364
Balance, December 31, 2020	**20,491,249**	**$14,550,632**

(1) In October 2019, 60,000 penalty shares were issued to arm's length shareholders who purchased securities in Aug 2018. These shareholders were entitled to receive up to an additional 10% of the number of common shares or units purchased if the Company does not complete a Liquidity Event prior to the date that is 1 year following the Closing (the "Qualification Deadline"). The shares were valued at $nil and added to common shares, which eventually included in share capital.

(2) In December 2019, pursuant to agreements with company management, the Company issued 50,000 restricted shares units to the company CEO, the shares were valued at $1.52/share for a total value of $76,001.

(3) In April 2020, 212,110 shares were issued to employees to settle 2019 bonuses and as reward of participating salary deferral program; in July, 2020, 80,320 shares were issued to the board to settle the 2019 board fee; in September, 2020, 75,000 restricted shares units to the company CEO; in October, 2020, 184,500 shares were issued to the board as part of the 2020 board fee; in October 2020, 220,000 shares were issued to Northwood Developments Inc. to settle the debt for the labs construction. All shares were values at $0.45/share for a total value of $347,364. As a result, the Company has recorded a gain on settlement of accounts payable of $336,963 in the statements of loss and comprehensive loss.

67,500 shares will be issued to the board for Q4 2020 board fee, the shares will be valued at $0.45/share for a total value of $30,375.

10. Stock options

The formal stock option plan of the Company was established in February 2018 and provides that the Board of Directors of the Company may from time to time, in its discretion grant to directors, officers, consultants and employees of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding common shares of the Company, exercisable for a period of up to 10 years from the date of the grant.

The following table reflects the continuity of stock options for the periods presented:

	Weighted Number of stock options	Average exercise price
Balance, December 31, 2018	**1,559,829**	**1.33**
Issued/Vested (1)(2)(3)	205,000	2.25
Forfeited (4)	(634,240)	1.14
Balance, December 31, 2019	**1,130,589**	**$1.52**
Forfeited (5)	(182,000)	1.70
Balance, December 31, 2020	**948,589**	**$ $1.48**

10. Stock options (Continued)

(1) On March 6th, 2019, the Company granted 50,000 options to one of the employees of the Company. The stock options each have an exercise price of $2.25 per share and are exercisable for a period of 2 years. The options vested immediately. The estimated fair value of these options at the grant date was $150,900 using the Black Scholes valuation model. On May 1, 2019, the company granted 30,000 to one of its consultants, the stock options each have an exercise price of $2.25 per share and are exercisable for a period of 2 years. The options vested immediately. The estimated fair value of these options at the grant date was $90,500 using the Black Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black Scholes valuation model for the two grants are as follows:

- Risk free rate: 1.68%;
- Expected life: 2.00 years;
- Expected volatility: 146% (based on historical trends of similar companies);
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $3.88.

(2) On October 22, 2019, the Company granted 50,000 options to one of the employees of the Company. The stock options each have an exercise price of $2.25 per share and are exercisable for a period of 2 years. The options vested immediately. The estimated fair value of these options at the grant date was $49,100 using the Black Scholes valuation model.

- Risk free rate: 1.62%;
- Expected life: 2.00 years;
- Expected volatility: 152% (based on historical trends of similar companies);
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $1.52.

(3) On December 4, 2019, the Company granted 75,000 options to one of the employees of the Company. The stock options each have an exercise price of $2.25 per share and are exercisable for a period of 2 years. The options vested immediately. The estimated fair value of these options at the grant date was $73,900 using the Black Scholes valuation model.

- Risk free rate: 1.63%;
- Expected life: 2.00 years;
- Expected volatility: 148% (based on historical trends of similar companies);
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $1.52.

(4) In April, 2019, 10,000 stock options were forfeited at estimated fair value of $14,562; in June,2019, 15,000 stock options were forfeited at estimated fair value of $18,186; in July, 2019, 150,000 stock options were forfeited at estimated fair value of $181,864; in August, 2019, 10,000 stock options were forfeited at estimated fair value of $14,561; in October, 2019, 20,000 stock options were forfeited at estimated fair value of $29,123; in December, 2019 429,240 stock options were expired at estimated fair value of $608,546. All were transferred to contributed surplus.

(Expressed in Canadian Dollars)

10. Stock options (continued)

(5) In January, 2020, 32,000 stock options were forfeited at estimated fair value of $ 46,597; in June, 2020, 50,000 stock options were forfeited at estimated fair value of $49,100; in September, 2020, 100,000 stock options were forfeited at estimated fair value of $66,424. All were transferred to contributed surplus.

The following table reflects the actual stock options issued and outstanding as of December 31, 2020:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
13-Apr-21	1.50	0.28	118,642	118,642
13-Apr-21	1.00	0.28	81,147	81,147
01-Aug-21	2.25	0.58	64,000	64,000
21-Aug-21	2.25	0.64	100,000	100,000
13-Apr-23	1.00	2.28	429,800	429,800
5-Mar-21	2.25	0.18	50,000	50,000
1-May-21	2.25	0.33	30,000	30,000
4-Dec-21	2.25	0.93	75,000	75,000
	$1.48	**1.29**	**948,589**	**948,589**

11. Warrants

In 2019 and 2020, there were no changes with the warrants issued. The following table reflects the actual warrants issued and outstanding as of December 31, 2020.

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of warrants outstanding	Number of options vested (exercisable)
June 29, 2022	0.50	0.75	600,000	600,000
June 29, 2022	0.50	0.75	600,000	600,000
			1,200,000	**1,200,000**

12. Loss per share

For the year ended December 31, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $1,572,457 (2019: $4,359,832) and the weighted average number of common shares outstanding of 20,034,695 (2019: 19,626,141). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

(Expressed in Canadian Dollars)

13. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 - 26.5%) to the effective tax rate is as follows:

	As at December 31, 2020	As at December 31, 2019
Net Loss before recovery of income taxes	$(1,572,457)	$(4,272,761)
Expected income tax (recovery) expense	(416,701)	(1,132,281)
Tax rate changes and other adjustments	-	(9,268)
Book to filing adjustments	13,855	234,661
Share based compensation and non-deductible expenses	48,332	178,470
Changes in tax benefits not recognized	354,514	815,489
Income tax (recovery) expense	**$-**	**$87,071**

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	$-	$-
Deferred tax (recovery) expense	-	87,071
	$-	**$87,071**

Deferred tax

The following table summarizes the components of deferred tax:

Deferred Tax Assets		
Non-capital losses carried forward	$-	$-
Lease Liabilities	34,575	-
Capital losses carried forward	-	-
Deferred Tax Liabilities		
Right-of-use Assets	$(34,575)	$-
Investments	-	-
Net deferred tax asset	**$-**	**$-**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian Dollars)

13. Income taxes (continued)

Movement in net deferred tax liabilities:

	As at December 31, 2020	As at December 31, 2019
Balance at the beginning of the year	$ -	$ -
Recognized in profit/loss	-	87,071
Recognized in OCI	-	(87,071)
Balance at the end of the year	**$-**	**$-**

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	As at December 31, 2020	As at December 31, 2019
Property, plant and equipment and Intangibles	$1,292,794	$1,110,668
Lease liabilities	50,807	14,970
Share issuance cost	337,845	374,972
Non-capital losses carried forward	9,347,879	8,070,426
Capital losses carried forward	283,910	182,000
General Reserves	21,000	141,500
SR&ED - Expenditures Pool	259,324	259,324
Ontario Research and Development Tax Credit	15,788	15,788
	$11,609,347	$10,169,648

The Canadian non-capital loss carry forwards expire as noted in the table below.

The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses, the benefit of which has not been recognized on the consolidated financial statements expire as follows:

2035	$56,799
2036	1,177,400
2037	4,539,606
2038	2,208,480
2039	1,365,594
	$9,347,879

(Expressed in Canadian Dollars)

14. Related party transactions

The Company transacts with related parties in the normal course of business. These transactions are measured at their exchange amounts.

Remuneration of directors and key management personnel of the Company was as follows:

	For the Period Ended December 31, 2020	For the Period Ended December 31, 2019
Share Based Compensation	$159,840	$300,800
Salaries & Benefits*	355,365	735,860
Total	**$515,205***	**$1,036,660***

*At the end of December 31, 2020, the amount owed to the board directors was $21,000, this amount was included in accounts payable and accrued liabilities.

15. Subsequent events

1) On Feb 15, 2021, the company signed a non-binding Letter of Intent for the acquisition of Steep Hill Inc. As part of the agreement, the Company was advanced a short-term loan for $400,000 with a six-month maturity date and carrying an interest rate of 18% per annum. The Lenders, which included a related party, have the option to convert the principal and interest in shares of the Company, or such combined entity that results from a go public transaction including the Company, at a share price 25% lower than the initial public listing price of the resulting issuer. The Company in turn advanced $318,300 (US$250,000) to Steep Hill Inc. The LOI expired on March 31, 2021 however, the $318,300 (US$250,000) advance to Steep Hill Inc. remains in effect.

2) On Feb 15, 2021, the company signed a non-binding Letter of Intent with Hakken Capital Corp. and was intended to complete a business combination by way of an amalgamation, arrangement, takeover bid, share purchase or other similar form of transaction, the LOI has been expired as of May 14, 2021.

3) On June 17, 2021, the Company entered into a definitive acquisition agreement with Canbud Distribution Corp (“Canbud”) and 2847719 Ontario Inc. ("Subco"), a wholly-owned subsidiary of Canbud, pursuant to which Canbud agreed to acquire all of the outstanding securities of the Company by way of a three-cornered amalgamation (the "Transaction"). The Transaction is subject to receipt of all necessary regulatory approvals, including, as applicable, approval of the Canadian Securities Exchange ("CSE"), and certain other conditions.

In accordance with the terms of the agreement, Canbud advanced to the Company a bridge loan (the "Bridge Loan") of $500,000, to be used by the Company for the repayment of certain debt and for working capital purposes. The Bridge Loan bears interest at 5% per annum, matures sixty days from the date of the Bridge Loan, and is secured against the shares and assets of each of the Company and its main operating subsidiary.

MOLECULAR SCIENCE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2021 and 2020

(EXPRESSED IN CANADIAN DOLLARS)

(Unaudited)

Molecular Science Corp.
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	June 30, 2021	December 31, 2020 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$520,637	$202,985
Trade receivables, net (Note 3)	445,036	416,756
Advances and other receivables (Note 4)	366,148	48,089
Prepaid expenses	33,052	60,066
Total Current Assets	**1,364,873**	**727,896**
Investment (Note 5)	46,971	43,590
Property and equipment (Note 6)	1,935,925	2,476,815
Right-of-use assets (Note 7)	89,271	130,472
Intangible assets (Note 8)	6,195	8,518
TOTAL ASSETS	**$3,443,235**	**$3,387,291**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$843,283	$946,488
Loan payable (Note 4 and 15)	900,000	-
Lease liabilities - current (Note 7)	97,880	92,317
Deferred revenue	12,311	12,311
	1,853,474	**1,051,116**
Non-Current Liabilities	-	-
Lease liabilities – non-current (Note 7)	7,680	57,745
Total Liabilities	**1,861,154**	**1,108,861**
Shareholders' Equity		
Share capital (Note 9)	14,594,807	14,550,632
Shares to be issued (Note 9)	65,799	30,375
Share-based payments (Note 10)	706,341	1,285,556
Warrants (Note 11)	867,923	867,923
Contributed surplus (Note 10)	1,931,597	1,352,382
Accumulated other comprehensive loss	(160,529)	(163,910)
Accumulated Deficit	(16,423,857)	(15,644,528)
Total Shareholders' Equity	**$1,582,081**	**$2,278,430**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$3,443,235**	**$3,387,291**

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 15)
Subsequent events (Note 16)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Molecular Science Corp.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars, except per share amount)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Service Revenue	**$592,925**	**$826,692**	**$1,170,542**	**$1,528,708**
Operating expenses				
Management and consulting	8,638	31,780	28,763	31,780
Professional fees	69,391	31,773	100,201	69,442
Office expenses	67,750	78,042	140,466	171,341
Share-based payments (Note 10)	95,538	41,503	178,599	41,503
Research and development	-	17,282	-	34,565
Laboratory expenses	193,715	282,862	333,088	396,551
Business development and promotion	2,500	750	2,500	1,010
Travel, meals and entertainment	33	3,940	236	12,335
Salaries and benefits	354,250	419,300	761,503	1,079,195
Depreciation	291,500	313,613	584,415	692,783
Total Operating Expense	**1,083,315**	**1,220,844**	**2,129,770**	**2,530,504**
Net interest and other income (Note 7)	(122,877)	(106,247)	(179,899)	(114,306)
Net Loss after tax for the period	**(367,512)**	**(287,906)**	**(779,329)**	**(887,490)**
Other comprehensive income (loss)				
Change in fair value of investment (Note 5)	3,381	-	3,381	-
Total other comprehensive loss	**(364,131)**	**(287,906)**	**(775,948)**	**(887,490)**
Basic and diluted net loss per share	**(0.02)**	**(0.01)**	**(0.04)**	**(0.04)**
Weighted average number of common shares outstanding	**20,543,488**	**19,806,727**	**20,543,488**	**19,806,727**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Molecular Science Corp.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Operating Activities		
Net loss	**$(779,329)**	**$(887,490)**
Items not involving cash:		
Shares issued for services rendered	178,599	41,503
Shares to be issued for services	-	174,800
Gain on settlement of accounts payable	-	53,943
Intangible assets write-off	-	11,020
Loss on termination of lease agreement	-	(18,633)
Depreciation (Note 6,7 and 8)	584,414	692,783
Gain on cancellation of shares (Note 9)	(99,000)	-
Net changes in non-cash working capital items:		
Trade receivable (Note 3)	(28,280)	(97,119)
Advances and other receivables (Note 4)	656	219,940
Prepaid	27,014	45,782
Accounts payable and accrued liabilities	796,735	23,780
Deferred revenue	-	(26,125)
Cash provided by operating activities	**(219,131)**	**234,184**
Investing Activities		
Purchase of property and equipment (Note 6)	-	(15,146)
Advance to Steep Hill Inc. (Note 4)	318,705	-
Cash used in investing activities	**318,705**	**(15,146)**
Financing Activities		
Payment of lease liabilities (Note 7)	(44,510)	(103,118)
Received from loans payable (Note 4 and 15)	900,000	-
Cash used in by financing activities	**855,490**	**(103,118)**
Net change in cash and cash equivalents	**317,652**	**115,920**
Cash and cash equivalents, beginning of period	**202,985**	**469,558**
Cash and cash equivalents, end of period	**$520,637**	**$585,478**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Molecular Science Corp.

Unaudited Condensed Interim Consolidated Statements Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share capital	Share to be issued	Share-based payments	Warrants reserve	Contributed surplus	AOCI – Fair value reserve	Accumulated Deficit	Total
Balance of December 31, 2020	**$14,550,632**	**$30,375**	**$1,285,556**	**$867,923**	**$1,352,382**	**$(163,910)**	**(15,644,528)**	**$2,278,430**
Shares issued for services (Note 9)	143,175	-	-	-	-	-	-	**143,175**
Shares cancelled (Note 9)	(99,000)	-	-	-	-	-	-	**(99,000)**
Shares to be issued		35,424						**35,424**
Stock options expired/ forfeited (Note10)	-	-	(579,215)	-	579,215	-	-	**-**
Fair Value of investment (Note 5)	-	-	-	-	-	3,381	-	**3,381**
Loss for the period	-	-	-	-	-	-	(779,329)	**(779,329)**
Balance of June 30, 2021	**$14,594,807**	**$65,799**	**$706,341**	**$867,923**	**$1,931,597**	**$(160,529)**	**$(16,423,857)**	**$1,582,081**

	Share capital	Share to be issued	Share-based payments	Warrants reserve	Contributed surplus	AOCI – Fair value reserve	Accumulated Deficit	Total
Balance, December 31, 2019	**$14,203,268**	**-**	**$1,447,677**	**$867,923**	**$1,190,261**	**$(62,000)**	**$(14,072,071)**	**$3,575,058**
Shares issued for services (Note 9)	95,446		-	-	-	-	-	**95,446**
Shares to be issued	-	174,800	-	-	-	-	-	**174,800**
Stock options expired/cancelled (Note10)	-	-	(95,697)	-	95,697	-	-	**-**
Loss for the period	-	-	-	-	-	-	(887,490)	**$(887,490)**
Balance of June 30, 2020	**$14,298,714**	**$174,800**	**$1,351,980**	**$867,923**	**$1,285,958**	**$(62,000)**	**$(14,959,561)**	**$2,957,814**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. Nature of operations and going concern

Molecular Science Corp. (formerly known as BCP Science Corp.) ("Molecular" or the "Company") was incorporated under the Ontario Business Corporations Act on January 24, 2017. On March 1, 2017, BCP Science Corp. changed its name to Molecular Science Corp. The Company provides scientific testing, services based on projects, develops new scientific standards and methods and develops new products and services through its research and development programs. The Company focuses on the regulated cannabis medical and consumer sector. The Company's registered office is 55 Town Centre Court suite 902, Scarborough, ON M1P 4X4.

As at June 30, 2021, the Company had one laboratory which was operational.

Going concern

These condensed consolidated interim financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Management’s view is that the success of the Company is dependent upon utilizing its existing capacity.

As at June 30, 2021, the Company has not yet achieved profitable operations and during the six months ended June 30, 2021, the Company incurred a loss and comprehensive loss of $775,948 (June 30, 2020 - $887,490), and the Company has an accumulated deficit of $16,423,857 as at June 30, 2021 (December 31, 2020 - $15,644,528). These conditions represent material uncertainty that may cast significant doubts about the Company’s ability to continue as a going concern. For the six months ended June 30, 2021, the Company earned revenues in the amount of $1,170,542 (June 30, 2020 - $1,528,708), which was not adequate to meet its ongoing levels of corporate overhead to discharge its liabilities and commitments as they come due. The Company had a working capital deficit of $488,600 as at June 30, 2021 (December 31, 2020 - $323,220). However, the Company is actively seeking additional financing to fund the business operation, as well as controlling cost, and also expects to generate more revenue in 2021 to fund operations. The Company’s ability to continue as a going concern is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flow from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful of if the Company will attain profitable levels of operations. The unpredictability of the cannabis business, a limited working capital and the continued impact of COVID-19 pandemic represent material uncertainties which may cast significant doubt on the Company’s ability to continue as a going concern. Although the Company’s services have been deemed an essential in the provinces it operates in, if the impact of COVID-19 continues for an extended period, it may materially adversely affect the business operations and future financial results.

The Company’s ability to continue as a going concern is dependent on achieving profitable operations that generate positive cash flows or raising financing to support its cash flow needs. The condensed consolidated interim financial statements do not include any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments if required, could be material.

2. Basis of presentation

Basis of presentation and statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee. The accounting policies used are those that the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2021.

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2020.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

These condensed interim consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currencies.

Basis of consolidation

These condensed interim consolidated financial statements as at the end of June 30, 2021, reflect the assets, liabilities, and results of operations of Molecular Science Corp. and its wholly owned subsidiaries Molecular Science Product Corp., Molecular Science Genetics Corp. and Molecular Science Labs Corp. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. The accounting policies of the subsidiary are consistent with the Company's policies.

3. Trade receivables

	June 30, 2021	**December 31, 2020**
Trade Receivables	584,235	$555,955
Expected Credit Loss ("ECL")	(139,199)	(139,199)
Trade Receivables, net	**$445,036**	**$416,756**

The Company provides for ECL is based on its assessment of probability of specific losses and estimates of future individual exposures and provisions.

(Expressed in Canadian Dollars)

3. Trade receivable (continued)

The aging of receivables is as below:

	June 30, 2021	December 31, 2020
Current	$395,869	$200,038
Aged 1-30 Days	10,272	198,220
Aged 31-60 Days	21,345	14,842
Aged >60 Days	156,749	142,855
Total trade receivable	**$584,235**	**$555,955**

4. Advances and other receivables

	June 30, 2021	December 31, 2020
Input tax credit	$ 15,732	$31,858
Deposits	31,711	16,231
Other receivable (1)	318,705	-
Total	**$366,148**	**$48,089**

(1) On February 15, 2021, the Company signed a non-binding Letter of Intent ("LOI") for the acquisition of Steep Hill Inc. ("Steep Hill"). In accordance with the LOI, the Company was advanced a loan of $400,000 with a six-month maturity date and bearing an interest rate of 18% per annum from a director and an officer of the Company ("The lenders"). Pursuant to the LOI, the Company, in turn, advanced $318,705 (US$250,000) to Steep Hill. The LOI expired on March 31, 2021. Following the completion of the Amalgamation with Canbud (Notes 15 and 16), Canbud entered into a non-binding Letter of Intent with Steep Hill on August 7, 2021.

5. Investments

	June 30, 2021	December 31, 2020
Investment-Ample/Akerna (1)	$39,471	$36,090
Investment-EIR (2)	7,500	7,500
Total	**$46,971**	**$43,590**

(1) As at December 31, 2020, the Company held an investment of 476,190 common shares (December 31, 2019 – 476,190) of the issued and outstanding shares of Ample Organics Inc.("Ample"), a private company. In December 2019, Akerna Corp. has entered into a definitive agreement to acquire all of the issued and outstanding shares of Ample as of December 17th, 2019. The fair value of the investment changed to $36,090 in 2020. In April 2021, those shares were converted to 7,905 Akerna shares. As of June 30, 2021, the shares were valued at equivalent Canadian Dollar $39,471 at the closing price of Akerna shares at the Nasdaq exchange. The fair value increase of $3,381 was recognized in OCI (Other Comprehensive Income or Loss). This investment was reclassified as Level 1.

(Expressed in Canadian Dollars)

5. Investments (continued)

(2) In August 2020, the Company purchased 150,000 founders shares from EIR International Corp. (EIR) at a cost of $0.05 per share. As of June 30, 2021, and December 31, 2020, the shares were valued at fair market value of $7,500.

6. Property and equipment

Cost	Balance December 31, 2020	Additions	Disposals	Balance June 30, 2021
Office Equipment	$64,447	$ -	$ -	$64,447
Furniture	53,816	-	-	53,816
Lab Equipment	2,450,858	-	-	2,450,858
Leasehold improvements	2,046,274	-	-	2,046,274
Total	**$4,615,395**	**$-**	**$-**	**$4,615,395**

Accumulated Depreciation	Balance December 31, 2020	Additions	Disposals	Balance June 30, 2021
Office Equipment	$55,432	$4,873	$ -	$60,305
Furniture	27,103	5,382	-	32,485
Lab Equipment	968,998	242,612	-	1,211,610
Leasehold improvements	1,087,047	288,023	-	1,375,070
Total	**$2,138,580**	**$540,890**	**$-**	**$2,679,470**
Net Book Value	**$2,476,815**			**$1,935,925**

Cost	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Office Equipment	$ 64,447	$ -	$ -	$64,447
Furniture	53,816	-	-	53,816
Lab Equipment	2,441,473	9,385	-	2,450,858
Leasehold improvements	2,036,535	24,104	(14,365)	2,046,274
Total	**$4,596,271**	**$ 33,489**	**$(14,365)**	**$4,615,395**

Accumulated Depreciation	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Office Equipment	$36,155	$19,277	$ -	$55,432
Furniture	16,340	10,763	-	27,103
Lab Equipment	482,165	486,833	-	968,998
Leasehold improvements	518,670	582,742	(14,365)	1,087,047
Total	**$1,053,330**	**$1,099,615**	**$(14,365)**	**$2,138,580**
Net Book Value	**$3,542,941**			**$2,476,815**

(Expressed in Canadian Dollars)

7. Leases

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

The Company's leasing activities include the lease of office premises

Cost	Balance December 31, 2020	Additions	Disposals	Balance June 30, 2021
Office Space	$412,019	$-	$-	$412,019
Total	**$412,019**	**$-**	**$-**	**$412,019**

Accumulated Depreciation	Balance December 31, 2020	Additions	Disposals	Balance June 30, 2021
Office Space	$281,547	$41,201	$-	$322,748
Total	**$281,547**	**$41,201**	**$-**	**$322,748**
Net Book Value	**$130,472**			**$89,271**

Cost	Balance December 31, 2019	Additions	Disposals/ Adjustment	Balance December 31, 2020
Vehicle	$365,510	$18,634	$(384,144)	$-
Office Space	800,189	-	(388,170)	412,019
Total	**$1,165,699**	**$18,634**	**$(772,314)**	**$412,019**

Accumulated Depreciation	Balance December 31, 2019	Additions	Disposals/Adjustment	Balance December 31, 2020
Vehicle	$319,821	$64,323	$(384,144)	$-
Office Space	232,608	135,948	(87,009)	281,547
Total	**552,429**	**200,271**	**$(471,153)**	**281,547**
Net Book Value	**$613,270**			**$130,472**

Lease liabilities

	Amounts
Balance on December 31, 2020	**$150,062**
Lease Payments	(44,502)
Balance on June 30, 2021	**$105,560**

(Expressed in Canadian Dollars)

7. Leases (continued)

	Amounts
Balance on Dec 31, 2019	**628,240**
Lease Disposal	(322,061)
Lease Payments	(156,117)
Balance on Dec 31, 2020	**$150,062**

Maturity analysis – contractual undiscounted cash flows	Balance June 30, 2021	Balance December 31, 2020
Less than one year	$102,799	$ 101,021
One to five years	8,591	60,139
More than five years	-	-
Total	**$111,390**	**$161,160**

Lease liabilities included in the statement of financial position	Balance June 30, 2021	Balance December 31, 2020
Current	$97,880	$92,317
Non-current	7,680	57,745
Total	**$105,560**	**$150,062**

Supplemental disclosure

The Company has elected not to recognize a lease liability for short term lease (lease with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability was $1,485. For the six months ended June 30, 2021, the Company recognized $5,267 of interest expense on lease obligations and the total cash outflow relating to leases amounted to $49,770.

(Expressed in Canadian Dollars)

8. Intangible assets

The following comprises intangible assets:

Cost	**Balance December 31, 2020**	**Additions**	**Disposals**	**Balance June 30, 2021**
Company website	$13,939	$-	$-	$13,939
Total	**$13,939**	**$-**	**$-**	**$13,939**

Accumulated amortization	**Balance December 31, 2020**	**Additions**	**Disposals**	**Balance June 30, 2021**
Company website	$5,421	$2,323	$-	$7,744
Net book value	**$8,518**			**$6,195**

Cost	**Balance December 31, 2019**	**Additions**	**Disposals**	**Balance December 31, 2020**
Company website	$13,939	$-	$-	$13,939
License	11,020	-	(11,020)	-
Total	**$24,959**	**$-**	**$(11,020)**	**$13,939**

Accumulated amortization	**Balance December 31, 2019**	**Additions**	**Disposals**	**Balance December 31, 2020**
Company website	$775	$4,646	$-	$5,421
Net book value	**$24,184**			**$8,518**

9. Share capital

Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Common shares issued and outstanding

	Number of common shares	**Amount**
Balance, December 31, 2019	**19,719,319**	**$14,203,268**
Shares issued during the year (3)	771,930	347,364
Balance, December 31, 2020	**20,491,249**	**$14,550,632**
Shares issued (2)	318,167	143,175
Shares cancelled (3)	(220,000)	(99,000)
Balance, June 30, 2021	**20,589,416**	**$14,594,807**

(Expressed in Canadian Dollars)

9. Share capital (continued)

(1) In April 2020, 212,110 shares were issued to employees to settle 2019 bonuses and as reward of participating salary deferral program. All shares were values at $0.45/share for a total value of $95,450.

(2) In January 2021, 50,000 restricted shares units were issued to the Company's Chief Operating Officer and they were vested immediately. Additionally, a total of 268,167 shares were issued to the board as part of the 2020 and the first half of 2021 board fees. All shares were values at $0.45/share for a total value of $143,175.

(3) In June 2021, the Company cancelled 220,000 shares were previously issued to Northwood Developments Inc. ("Northwood") in October 2020 to settle the debt for the laboratory construction. However, since Northwood failed to deliver the Permits in respects of the construction facilities, the shares issued were cancelled accordingly. The shares were valued at $0.45/share for a total value of $99,000. The Company has recorded a gain on of $99,000 in the statements of loss and comprehensive loss due to this cancellation.

A total 146,220 shares will be issued to Company employees for the first half of 2021 bonus, the shares will be valued at $0.45/share for a total value of $65,799 (2020 - $30,375).

10. Stock options

The formal stock option plan of the Company was established in February 2018 and provides that the Board of Directors of the Company may from time to time, in its discretion grant to directors, officers, consultants and employees of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding common shares of the Company, exercisable for a period of up to 10 years from the date of the grant.

The following table reflects the continuity of stock options for the periods presented:

	Weighted Number of stock options	Average exercise price
Balance, December 31, 2019	**1,130,589**	**$1.52**
Forfeited (1)	(182,000)	1.70
Balance, December 31, 2020	**948,589**	**$1.48**
Forfeited (2)	(384,789)	1.52
Balance, June 30, 2021	**563,800**	**$1.53**

(Expressed in Canadian Dollars)

10. Stock options (continued)

(1) In January 2020, 32,000 stock options were forfeited at estimated fair value of $ 46,597; in June 2020, 50,000 stock options were forfeited at estimated fair value of $49,100; in September 2020, 100,000 stock options were forfeited at estimated fair value of $66,424. All were transferred to contributed surplus.

(2) In January 2021, 105,000 stock options were forfeited at estimated fair value of $127,305; in March 2021, 50,000 stock options were forfeited at estimated fair value of $150,900; in April 2021, 199,789 stock options were forfeited at estimated fair value of $210,510; in May 2021,30,000 stock options were forfeited at estimated fair value of $90,500. All were transferred to contributed surplus.

The following table reflects the actual stock options issued and outstanding as of June 30, 2021:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
01-Aug-21	2.25	0.01	64,000	64,000
21-Aug-21	2.25	0.03	100,000	100,000
13-Apr-23	1.00	1.23	324,800	324,800
4-Dec-21	2.25	0.07	75,000	75,000
	$1.53	**1.34**	**563,800**	**563,800**

Prior to the Amalgamation with Canbud (Notes 15 and 16), all options were cancelled.

11. Warrants

In the six months ended June 30, 2021, and 2020, there were no changes with the warrants issued. The following table reflects the actual warrants issued and outstanding as of June 30, 2021:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of warrants outstanding	Number of options vested (exercisable)
June 29, 2022	0.50	1.00	600,000	600,000
June 29, 2022	0.50	1.00	600,000	600,000
			1,200,000	**1,200,000**

(Expressed in Canadian Dollars)

12. Loss per share

For the six months ended June 30, 2021, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $779,329 (2020: $887,490) and the weighted average number of common shares outstanding of 20,543,488 (2020: 19,806,727). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

13. Related party transactions

The Company transacts with related parties in the normal course of business. These transactions are measured at their exchange amounts.

Remuneration of directors and key management personnel of the Company was as follows:

	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Share Based Compensation	$147,279	$12,690
Salaries & Benefits	153,369	235,342
Total	**$300,648**	**$248,032**

As of June 30, 2021, the amount owed to the key management personnel was $118,898 (2020 - $Nil) due to salary deferrals.

14. Financial instruments and risks

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, interest rate risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

14. Financial instruments and risks (Continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade accounts receivable. The Company's cash, trade receivables and advances and other receivables are exposed to credit risk. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships with its customers. As at June 30, 2021, the Company is not exposed to any significant credit risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at June 30, 2021, the Company is not exposed to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand and are subject to normal trade terms.

Fair value hierarchy

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;
Level 3 – Inputs that are not based on observable market data.

During the period ended June 30, 2021, the valuation of Ample/Akerna shares was transferred from Level 3 to Level 1.

Cash and cash equivalents is classified as a Level 1 financial instrument.

The Company's other financial instruments, including trade receivables, advances and other receivables, accounts payable and accrued liabilities and loan payable are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

15. Commitments and contingencies

On June 17, 2021, the Company entered into a definitive acquisition agreement (the “Acquisition Agreement”) with Canbud Distribution Corp (“Canbud”) and 2847719 Ontario Inc. ("Subco"), a wholly owned subsidiary of Canbud, pursuant to which Canbud agreed to acquire all of the outstanding securities of the Company by way of a three-cornered amalgamation (the "Amalgamation").

In accordance with the terms of the agreement, Canbud advanced to the Company a bridge loan (the "Bridge Loan") of $500,000 in June 2021, to be used by the Company for the repayment of certain debt and for working capital purposes. The Bridge Loan bears interest at 5% per annum, matures sixty days from the date of the Bridge Loan, and is secured against the shares and assets of the Company and its wholly owned subsidiary, Molecular Science Labs Corp. The acquisition was completed on July 8, 2021.

16. Subsequent events

(1) On July 8, 2021, the Company completed the Amalgamation (Note 15) with Canbud. Pursuant to the Acquisition Agreement, Canbud issued an aggregate of 68,212,896 common shares (the "Canbud Shares") to the former shareholders of the Company on the basis of approximately 3.313 Canbud Shares for each of the Company’s common share outstanding, representing approximately 43.7% of the issued and outstanding Canbud Shares. All outstanding common share purchase warrants of the Company were replaced with Canbud common share purchase warrants, entitling the holders thereof to purchase an aggregate of up to 3,958,800 Canbud Shares for a purchase price of $0.30 per share until July 8, 2024.

(2) Subsequent to June 30, 2021, the Company repaid a total of $150,000 of advances received from a director and an office of the Company (Note 4).