STEEP HILL INC. (FORMERLY CANBUD DISTRIBUTION CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Steep Hill Inc. (formerly, Canbud Distribution Corporation):

Opinion

We have audited the financial statements of Steep Hill Inc. (formerly, Canbud Distribution Corporation) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021, and December 31, 2020, 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, 2021, and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had an accumulated deficit as at December 31, 2021. As stated in Note 1, this event or condition, along with other matters in Note 1, indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Murad Bhimani.

MNP LLP

Toronto, Ontario — Chartered Professional Accountants

May 2, 2022 — Licensed Public Accountants

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	December 31, 2021	December 31, 2020
Assets			
Current			
Cash		$ 2,576,488	$ 438,633
Prepaid and deposits	5	50,496	10,000
Accounts receivable	6	276,224	42,695
Promissory note receivable	7	-	11,000
Investments	8	7,500	-
Total current assets		**2,910,708**	**502,328**
Non-current			
Acquisition-related payments and advances	10	633,900	296,400
Property, plant and equipment	11	2,725,742	682,693
Intangible assets	12	991,118	221,478
Goodwill	4,12	172,526	-
Total assets		**$ 7,433,994**	**$ 1,702,899**
Liabilities			
Current			
Accounts payable and accrued liabilities	13	$ 1,006,927	$ 109,367
Canada Emergency Business Account ("CEBA") loan	15	37,233	-
Loan payable	10	146,142	-
Current portion of lease liability	14	88,538	75,450
Total current liabilities		**1,278,840**	**184,817**
Non-current			
Canada Emergency Business Account ("CEBA") loan	15	-	34,657
Lease liability	14	446,286	332,373
Total liabilities		**1,725,126**	**551,847**
Shareholders' Equity			
Share Capital	16	9,877,844	2,917,267
Reserves	17	2,823,941	824,438
Deficit		(6,931,866)	(2,543,323)
Equity attributable to the Company's shareholders		**5,769,919**	**1,198,382**
Non-controlling interests	18	(61,051)	(47,330)
Total Equity		**5,708,868**	**1,151,052**
Total liabilities and Equity		**$ 7,433,994**	**$ 1,702,899**

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENT LIABILITIES (Note 22)
SUBSEQUENT EVENTS (Note 23)

Approved on behalf of the board of directors:

"Ian Morton"
Director

"David Walters"
Director

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the years ended December 31,	Notes		2021		2020
Service revenue		$	938,573	$	-
Expenses					
Amortization of property, plant and equipment	11		375,246		113,341
Amortization of intangible assets	12		146,651		24,863
Allowance for expected credit (recovery) losses	6, 7		(31,005)		13,770
Business development			111,360		180,868
Consulting fees	19		1,025,682		607,410
Director fees	19		10,000		-
Impairment of biological assets	9		-		118,776
Investor relations			48,000		-
Laboratory expenses			357,005		-
Marketing and promotion			217,755		-
Office and general expenses			298,870		114,845
Professional fees			393,207		192,231
Rental			21,759		20,602
Regulatory, filing and listing fees			76,654		31,995
Salaries and wages			583,382		13,418
Share-based compensation	17		748,547		682,446
Write-down of property, plant and equipment	11		227,458		-
Write-down of intangible assets	12		174,903		6,780
Loss before other income (expense)			**(3,846,901)**		**(2,121,345)**
Other Income (expense)					
Finance expense	10,14,15		(52,547)		(30,078)
Interest income			-		3,833
CEBA loan grant	15		-		6,758
Realized loss on sale of investments	8		(23,017)		-
Foreign exchange gain			2,700		-
Acquisition-related costs	4,10		(624,491)		-
Net gain from deconsolidation of a subsidiary	7		-		20,966
Net loss			**(4,544,256)**		**(2,119,866)**
Total loss and comprehensive loss		**$**	**(4,544,256)**	**$**	**(2,119,866)**
Net loss attributable to:					
Equity holder of the Company		$	(4,530,535)	$	(2,084,992)
Non-controlling interests	18	$	(13,721)	$	(34,874)
		$	**(4,544,256)**	**$**	**(2,119,866)**
Net comprehensive loss attributable to:					
Equity holder of the Company		$	(4,530,535)	$	(2,084,992)
Non-controlling interests	18	$	(13,721)	$	(34,874)
		$	**(4,544,256)**	**$**	**(2,119,866)**
Weighted average number of shares outstanding - basic and diluted			**113,993,670**		**38,896,462**
Basic and diluted net loss per share		**$**	**(0.04)**	**$**	**(0.05)**

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Changes in Shareholders’ Equity
(Expressed in Canadian dollars)

		RESERVES					
	Share capital	**Share based payments**	**Warrants**	**Deficit**	**Attributable to owners of the Company**	**Non-controlling interest**	**Total shareholders' equity**
Balance, December 31, 2020	**$ 2,917,267**	**$ 682,446**	**$ 141,992**	**$ (2,543,323)**	**$ 1,198,382**	**$ (47,330)**	**$ 1,151,052**
Share-based compensation (Note 17)	-	748,547	-	-	748,547	-	748,547
Issued on private placements, net (Note 16)	3,367,833	-	1,179,807	-	4,547,640	-	4,547,640
Issued pursuant to Molecular Science Corp. acquisition (Note 4)	3,137,793	-	215,848	-	3,353,641	-	3,353,641
Issued pursuant to settlement agreement (Note 10)	130,466				130,466	-	130,466
Issued for services (Note 4 and 16)	318,778	-	-	-	318,778	-	318,778
Expired warrants	-	-	(141,992)	141,992	-	-	-
Exercise of options (Note 17)	5,707	(2,707)	-	-	3,000	-	3,000
Net loss	-	-	-	(4,530,535)	(4,530,535)	(13,721)	(4,544,256)
Balance, December 31, 2021	**$ 9,877,844**	**$ 1,428,286**	**$ 1,395,655**	**$ (6,931,866)**	**$ 5,769,919**	**$ (61,051)**	**$ 5,708,868**
Balance, December 31, 2019	**$ 2,134,697**	**$ -**	**$ -**	**$ (470,787)**	**$ 1,663,910**	**$ -**	**$ 1,663,910**
Increase in non-controlling interests	-	-	-	12,456	12,456	(12,456)	-
Share-based compensation (Note 17)	-	682,446	-	-	682,446	-	682,446
Issued on private placement, net (Note 16)	337,970	-	141,992	-	479,962	-	479,962
Issued as acquisition payment in advance (Note 10)	444,600	-	-	-	444,600	-	444,600
Net loss	-	-	-	(2,084,992)	(2,084,992)	(34,874)	(2,119,866)
Balance, December 30, 2020	**$ 2,917,267**	**$ 682,446**	**$ 141,992**	**$ (2,543,323)**	**$ 1,198,382**	**$ (47,330)**	**$ 1,151,052**

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the years ended December 31,			2021		2020
Operating activities					
Net loss for the year		$	(4,544,256)	$	(2,119,866)
Non-cash items:					
Amortization of property, plant and equipment	11		375,246		113,341
Amortization of intangible assets	12		146,651		24,863
Allowance for expected credit losses	6		(31,005)		13,770
Acquisition-related costs	4,10		624,491		-
Consulting fees paid in shares	16		200,000		148,200
Share-based compensation	17		748,547		682,446
Finance expense	10,14,15		52,547		30,078
Government grant	15		-		(6,758)
Realized loss on sale of investments	8		23,017		-
Net gain from deconsolidation of a subsidiary	7		-		(20,966)
Write-off of property, plant and equipment	11		227,458		-
Write-off of intangible assets	12		174,903		6,780
Changes in non-cash working capital items:					
Accounts receivable	6		384,494		(19,952)
Prepaid and deposits	5		(31,326)		5,000
Accounts payable and accrued liabilities	13		79,405		(108,227)
Total cash flow used in operating activities			**(1,569,828)**		**(1,251,291)**
Investing activities					
Purchase of property, plant and equipment	11		(1,050)		(287,231)
Purchase of intangible assets	12		-		(26,250)
Proceeds from sale of a subsidiary	7		-		11,000
Refund received from CannaProve			-		16,950
Cash acquired in MSC acquisition	4		496,590		-
Cash advanced pursuant to MSC acquisition	4		(500,000)		-
Promissory note receivable repayments	7		3,000		5,500
Proceeds from sale of investments	8		60,293		-
Acquisition-related payments and advances	4,10		(395,797)		-
Total cash flow used in investing activities			**(336,964)**		**(280,031)**
Financing activities:					
Proceeds on equity issuances and private placeme	16		4,526,449		479,962
Proceeds from government loan	15		-		40,000
Loan payable repayments	10		(350,615)		-
Payments of lease liability	14		(134,187)		(117,945)
Exercise of options	17		3,000		-
Total cash flow generated from financing activities			**4,044,647**		**402,017**
Increase (decrease) in cash during the year			**2,137,855**		**(1,129,305)**
Cash, beginning of the year			438,633		1,567,938
Cash, end of the year		**$**	**2,576,488**	**$**	**438,633**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Steep Hill Inc. (the "Company" or "Steep Hill") was incorporated under the *Canadian Business Corporations Act* on October 4, 2018 as Cannabis Clonal Corporation and later changed to Canbud Distribution Corporation. On February 28, 2022, the Company changed its name from Canbud Distribution Corporation to Steep Hill Inc. The Company is a publicly listed company on the Canada Securities Exchange ("CSE") and trades under the ticker symbol "STPH". The Company is domiciled in Canada and its registered office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario, M5H 1T1.

The Company is a science and technology company focused on providing products and services, including analytical testing services within the hemp and cannabis market sectors. The Company's focus is on two areas: science and technology, by providing science-backed differentiated products and services that are critical within these sectors; and quality and compliance, by offering services that assist its customers to offer products and services that meet expected standards of quality, safety and compliance. As of December 31, 2021, the Company has one license to grow Hemp CBD and one analytical testing lab in operation.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds to meet current and future obligations. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has not yet achieved profitable operations and incurred loss and comprehensive loss of $4,544,256 (2020- $2,119,866) during the year ended December 31, 2021 and the Company has an accumulated deficit of $6,931,866 (2020 - $2,543,323). As at December 31, 2021, the Company has a working capital of $1,631,868 (2020 - $317,511) and negative cash flows from operating activities for the year ended December 31, 2021 was $1,569,828 (2020 - $1,251,291). These conditions along with whether, and when, the Company can attain profitability and positive cash flows from operations has material uncertainty, which may cast doubt upon the Company's ability to continue as going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and by raising capital to fund its operations. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which differ from those shown in these financial statements.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB"). The accounting policies, methods of computation and presentation applied in these consolidated financial statements are consistent with those of the previous financial years, except for business combinations which was adopted in the year ended December 31, 2021.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 2, 2022.

2. BASIS OF PREPARATION (continued)

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

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

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

The Company's subsidiaries are as follows:
Canbud D580H124 Inc. ("D580 Inc.") – The Company holds 60% (2020 - 60%) interest in D580 Inc., incorporated on July 23, 2019. On June 18, 2020, D580 Inc. issued 480 Class B non-voting common shares to landowners and transaction facilitators, which represents 40% interest in D580 Inc.

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

Canbud D1726KC Inc. ("D172 Inc.") - The Company holds 88.89 % (2020 – 88.89%) interest in D172 Inc., incorporated on October 31, 2019. D172 Inc. entered into an agreement to lease 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a licence from Health Canada which was issued November 29, 2019. On June 18, 2020 and June 19, 2020, D172 Inc. issued 96 Class B non-voting common shares and 24 Class B non-voting common shares to transaction facilitators, respectively. The combined issuance of 120 class B non-voting common shares represents 11.11% interest in D172 Inc.

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

Alami Beauty Corporation ("Alami") – Incorporated on May 24, 2019 under the *Canadian Business Corporation Act* . The Company held 51% in Alami until the Company sold its controlling 51% interest to Mikono on June 4, 2020.

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

2. BASIS OF PREPARATION (continued)

Molecular Science Corp. – The Company holds 100% interest in Molecular Science Corp., and its wholly-owned subsidiaries Molecular Science Product Corp., Molecular Science Genetics Corp., and Molecular Science Labs Corp. through an acquisition completed on July 8, 2021 (Note 4). On November 25, 2021, the Company dissolved Molecular Science Genetics Corp. and Molecular Science Labs Corp.

Canbud Merger Sub, Inc. – On October 20, 2021, the Company incorporated Canbud Merger Sub, Inc. ("Canbud Merger"), a wholly owned subsidiary of the Company. Canbud Merger was incorporated solely for the purpose of acquiring Steep Hill (Note 23).

All of the Company's subsidiaries are located in Ontario, Canada, except Canbud Merger Sub, Inc. which is located in Delaware state, United States.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in these consolidated financial statements are as follows:

Cash

Cash includes cash on account at banking institutions of $2,128,744 ($438,633) and amounts held in trust of on behalf of the Company off $447,744 (2020 - $Nil).

Biological assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

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

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

Inventories of chemical and its related products comprised of 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.

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed. Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when control of a good or services transferred 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;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

• 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 reee

• 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.

Company provides a comprehensive range of testing methods to clients in the regulated cannabis sector.

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.

A 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.

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, plant and equipment

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

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

- Right-of-use assets: term of the lease with ranges from 3 - 6 years
- Leasehold improvements: term of the lease
- Production, processing and lab equipment: 2-8 years
- Office equipment, software and furniture: 3-5 years
- Vehicle: 3-5 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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 straight-line method and the following rates:

- Licenses: 5 years
- Intellectual property: 7 years
- Clonal system development: 5 years
- IT Platform development and website: 3-5 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company will estimate the recoverable amount of that asset and reverse the impairment loss recognized in prior periods. The reversal of an impairment loss will not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the Cash Generating Unit (“CGU”) or CGUs to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of CGUs, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Leases

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Share capital and warrants

Share capital

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

The Company may incur various costs when issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Costs related to a planned equity offering not completed at the financial statement date are recorded as deferred financing costs until the offering is either completed or abandoned. The costs of an equity transaction that is abandoned are recognized as an expense.

Warrants

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

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

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

Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

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.

Government grant

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the government grants will be received. Grants are recognized as either income over the period(s) necessary to match them with the related costs or if related to a specific expense, as a reduction to the expenses for which they are intended to compensate, on a systematic basis. Grants receivable for costs already incurred or for immediate financial support, with no future related costs, are recognized as income in the period in which the grant is receivable.

If a grant becomes repayable, it is treated as a change in estimate. Where the original grant related to income, the repayment would be applied first against any related unamortized deferred credit, and any excess would be expensed. Where the original grant related to an asset, the repayment would be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received would be charged as an expense.

Government grants include wage subsidies under Canada Emergency Wage Subsidy (“CEWS”) program and the benefit of the below-market interest rate and partial loan forgiveness from the Canada Emergency Business Account (“CEBA”) loan. Government grants related to wages subsidies is presented in the consolidated statements of loss and comprehensive losses as a reduction of the corresponding operating expenses. Government grants related to CEBA loan is presented in the consolidated statements of loss and comprehensive losses as CEBA loan grant.

Related party transactions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related party transactions (continued)

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

Income taxes

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

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

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

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

Loss per share

Loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. Total shares issuable from stock options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended December 31, 2021 and 2020.

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

	IFRS 9	
	Classification	**Measurement**
Financial assets		
Cash	Amortized cost	Amortized cost
Acccounts receivable	Amortized cost	Amortized cost
Promissory note receivable	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Loan payable	Amortized cost	Amortized cost
Lease liability	Amortized cost	Amortized cost
CEBA loan	Amortized cost	Amortized cost

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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.

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

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.

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.

Significant Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. The COVID-19 pandemic continues to introduce sources of uncertainty that can affect the judgments and significant estimates and assumptions made by management in preparing the consolidated financial statements. The estimates and underlying assumptions are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

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

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

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

Business combination
In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of the equity issued, assets acquired, and liabilities assumed. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.
The estimate of fair value of the acquired property, plant and equipment assumed at the date of acquisition as well as the useful lives of the acquired property, plant and equipment are based on assumptions estimating the fair value of these items. The fair value of property, plant and equipment recognized in a business combination is based on Fair Market Value -In Use (“FMV-In Use”).

The FMV-In Use of the property, plant and equipment is the estimated amount for which property, plant and equipment would change hands on the acquisition date between a willing buyer and a wiling seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, and assuming that the business earnings support the value reported, without verification. See Note 4 – Business Acquisition.

Provisions for lawsuits, claims and litigation cases.
A provision is recognized when there is a present legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. Application of these criteria requires the exercise of significant judgment based on the facts and circumstances specific to each situation. In order to determine the amount necessary for provisions, the Company makes assumptions and estimates mainly with regard to expected costs, including professional and compensation fees, and the anticipated cost schedule. The estimation of this provision is based on internal analyses and consultations with independent experts and legal advisers. Actual amounts could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

Capitalization and write-off of intangible assets
An intangible asset arising from development is recognised on satisfying the following criterions by the entity:

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

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

Impairment of long-lived assets
Long-lived assets, including property, plant and equipment and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

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

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

Going concern
The Company's ability to execute its strategy by funding future working capital requirements requires significant judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

The global pandemic related to an outbreak of the novel coronavirus disease ("COVID-19") has cast uncertainty on each of these assumptions. There can be no assurance that they continue to be valid. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business remain unknown at this time. These impacts could include, amongst others, an impact on our ability to obtain debt or equity financing, in the value of our long-lived assets, or potential future decreases in revenue or profitability of our ongoing operations.

Future accounting pronouncements

The Company plans to adopt the following amendments to the accounting standards, issued by IASB, that are effective for annual period beginning on or after January 1, 2022. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the consolidated financial statements.

<u>*Amendments to IAS 1 – Presentation of Financial Statements*</u>
In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2023.

<u>*Amendments to IAS 12 – Income Taxes*</u>
In May 2021, the IASB issued an amendment to IAS 12 Income Taxes to clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transaction that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.

<u>*Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*</u>
In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting pronouncements (continued)

Amendments to IAS 16 – Property, Plant and Equipment
In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 – Provisions Contingent Liabilities and Contingent Assets
In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets. Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

Amendments to IFRS 9 – Financial Instruments
In May 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

4. BUSINESS ACQUISITION

On July 8, 2021, the Company acquired all shares of Molecular Science Corp. ("MSC"), a privately-owned based in Ontario, carrying on the business of testing cannabis and related pharmaceutical products. The Company acquired MSC to expand its focus into complementary areas of analytical science and testing service market. The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, Business Combinations ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the acquisition date of July 8, 2021 (the "Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITION (continued)

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

Total purchase price consideration		
Pre-existing bridge loan (i)	$	500,000
Issued shares (ii)		3,137,793
Issued warrants (iii)		215,848
		3,853,641
Identified tangible assets and liabilities assumed		
Cash		496,590
Accounts receivable, net of allowance for expected credit loss of $139,199		445,106
Advances and other receivable		396,796
Prepaid		9,170
Investments		90,811
Property, plant and equipment		2,907,434
Accounts payable and accrued liabillities		(818,155)
Loan payable		(444,582)
Lease liability		(493,250)
Identified intangible assets		
Licenses		757,000
Intellectual property		328,000
Website		6,195
Goodwill		172,526
	$	**3,853,641**

(i) The Company advanced $500,000 bridge loan in June 2021, pursuant to the Acquisition Agreement entered on June 17, 2021, with MSC, was settled on Acquisition date.

(ii) The Company issued 68,212,896 common shares on Acquisition date. Pursuant to the Acquisition Agreement, the common shares can not be traded in the open market immediately after Acquisition date. A total of 17,053,224 (25% of total common share issued on Acquisition date) each are freed for trading after four months, seven months, ten months, and thirteen months following the Acquisition date ("Trading release periods"). The fair value of the common shares of $3,137,793 was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the trading release periods with volatility in the range of 122.1% to 159.4%.

(iii) The Company issued 3,958,800 warrants for a purchase price of $0.30 per share until July 8, 2024 on Acquisition date. The fair value of the warrants of $215,848 was determined based on the Black -Scholes option pricing model using the following assumptions: expected volatility of 155.3%, expected life of 3 years, risk-free interest rate of 0.65%, and expected dividend yield of 0%.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITION (continued)

In connection with the Acquisition, the Company issued 1,765,000 common shares for advisory fees on Acquisition date. The fair value of these common shares was $118,778, determined based on the share price on Acquisition date less discount related to the trading restriction. The fair value of these shares along a total of $12,350 incurred related to professional fees have been included in the acquisition-related costs in the consolidated statements of loss and comprehensive loss.

From the date of the acquisition, MSC contributed $938,573 of revenue and $522,482 to net loss. If the Acquisition had taken place at the beginning of 2021, the Company's revenue would have been $2,187,186 and net loss would have been $1,437,820.

5. PREPAID AND DEPOSITS

	December 31, 2021	December 31, 2020
Deposits on rental	$ **26,750**	$ –
Prepayment on insurance and services	**23,746**	10,000
Total	$ **50,496**	$ 10,000

6. ACCOUNTS RECEIVABLE

	December 31, 2021	December 31, 2020
Trade receivable	**$ 308,780**	$ –
Expected credit loss from business acquisition (Note 4)	**(139,199)**	–
Allowance for expected credit recovery	**39,005**	–
Harmonized Sales tax recoverable	**67,638**	42,695
Total	**$ 276,224**	$ 42,695

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

7. PROMISSORY NOTE RECEIVABLE

	HIP Beverages (i)	Alami (ii)	Total
Balance, December 31, 2019	$ 19,270	$ -	$ 19,270
Promissory note principal amount	-	11,000	11,000
Repayments during the year	(5,500)	-	(5,500)
Allowance for expected credit losses	(13,770)	-	(13,770)
Balance, December 31, 2020	**-**	**11,000**	**11,000**
Repayments during the year	(3,000)		(3,000)
Recovery from (allowance from) expected credit losses	3,000	(11,000)	(8,000)
Balance, December 31, 2021	**$ -**	**$ -**	**$ -**

(i) The promissory note is a short-term non-interest-bearing loan to HIP Beverages Corporation ("HIP loan") with a maturity date of November 16, 2019. Given the HIP loan was not collected by the maturity date and the uncertainty of the recoverability of the HIP loan, the Company had recognized a full allowance or expected credit losses of on the HIP loan in 2020. The Company received $3,000 (2020 - $5,500) repayment from HIP Beverages Corporation for the year ended December 31, 2021.

(Expressed in Canadian dollars)

7. PROMISSORY NOTE RECEIVABLE (continued)

(ii) On June 2, 2020, the Company entered into a share purchase agreement with the holder of non-controlling interest (the "purchaser") of Alami Beauty Corporation to sell 5,100 Class A shares ("Alami shares"), representing 51% interest for $22,000. Pursuant to the share purchase agreement, the purchaser paid $11,000 upon signing and the remainder of $11,000, included in the other assets, is due before or on December 31, 2021. The share purchase agreement was closed on June 4, 2020, the same day that the Company issued Alami shares to purchaser. As a result of the sale, the Company recognized a gain on sale of a subsidiary of $20,966. Due to the uncertainty of the recoverability of the payment, the Company had recognized a full allowance on the payment in 2021.

8. INVESTMENTS

As at December 31, 2021, the Company held 150,000 shares from EIR International Corp. ("EIR shares"), a private company, valued at fair market value of $7,500 which is based on the initial transaction price. Upon the closing of the acquisition of MSC, in addition to acquiring EIR shares, the Company also acquired 17,301 shares of Akerna Corp. ("Akerna"). The Company sold 17,301 Akerna shares in October 2021 for total proceeds of $60,293 and recognized a loss of $23,017 for the year ended December 31, 2021 (2020 - $NIL).

9. BIOLOGICAL ASSETS

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

Balance as at December 31, 2019	$	–
Production costs capitalized		**118,776**
Impairment of biological assets		**(118,776)**
Transferred to inventory upon harvest		–
Balance as at December 31, 2020 and 2021	$	–

The following table quantifies each significant unobservable input on the fair value of biological assets upon harvest during 2020:

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

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

(Expressed in Canadian dollars)

9. BIOLOGICAL ASSETS (continued)

The biological assets were fully harvested in 2020 and upon harvest, the Company estimated that the fair value of biological assets exceeded the production costs capitalized, and as such, the Company recognized an impairment of biological assets of $118,776 and transferred $nil to inventory.

10. ACQUISITION-RELATED PAYMENTS AND ADVANCES

Payments/Advances to		**December 31, 2021**		**December 31, 2020**
2688453 Ontario Ltd. (1)	$	–	$	296,400
Steep Hill Inc. (2)		**633,900**		–
Total	$	**633,900**	$	296,400

(1) On December 4, 2020 ("Effective date"), the Company entered into a definitive agreement to acquire 100% of the issued and outstanding shares of 2688453 Ontario Ltd ("268 Ltd.") in exchange for 7,600,000 common shares ("Consideration shares") of the Company ("Acquisition") to be issued as follows:

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

On December 4, 2020, the Company issued 1,520,000 common shares to the shareholders of 2688453 Ontario Ltd. valued at $296,400. The Company issued 760,000 common shares as finders' fee valued at $148,200, which has been recognized as consulting fee in 2020. During the year ended December 31, 2021 , the Company advanced a total of $66,497 to 268 Ltd. to be used for build-out and operation of psilocybin cultivation facility in Jamaica.

On October 5, 2021, the Company and 2688453 Ontario Ltd. mutually agreed to terminate the definite agreement entered into on December 4, 2020 ("Termination Agreement"). As consideration of the termination, in addition to the 1,520,000 common shares already issued and settlement of $66,497 cash advance, the Company agreed to issue 3,040,000 common shares to 2688453 Ontario Ltd. The common shares issued are in escrow and will be released in three different tranches as follows: 1,246,667 to be released on February 6, 2022, 896,667 on June 6, 2022 and 896,667 on December 6, 2022. The fair value of the common shares was determined at $130,466 which has been included in the acquisition-related costs in the consolidated statements of loss and comprehensive loss. On initial recognition of the common shares issued, there is a discount for lack of marketability ("DLOM") as a result of share specific trading restriction on each tranche, which was determined using a Finnerty Model with terms of 4 months, 8 months and 14 months and volatility between 132% to 150%. The hold periods expire February 2, 2022, June 6, 2022, and December 6, 2022.

(Expressed in Canadian dollars)

10. ACQUISITION-RELATED PAYMENTS AND ADVANCES (continued)

(2) On February 15, 2021, MSC signed a non-binding Letter of Intent ("LOI") for the acquisition of Steep Hill, Inc. ("Steep Hill US") (Note 23). In accordance with the LOI, MSC was advanced a loan of $400,000 with a six-month maturity date and bearing an interest rate of 18% per annum from MSC's former director and officer of the Company ("The lenders"). During the year ended December 31, 2021 , the Company repaid $300,000 to the lenders and as of December 31, 2021, the balance of the loan, including accrued interest and due diligence fee, was $146,142. During the year ended December 31, 2021, the Company incurred a total of $13,011 of interest expense related to this loan which has been included in the finance expense in the consolidated statements of loss and comprehensive loss. Pursuant to the LOI, MSC, in turn, advanced $318,525 (US$250,000) to Steep Hill (the "Advance").

Following the completion of the Acquisition with MSC (Note 4), the Company entered into a non-binding Letter of Intent ("new LOI") with Steep Hill US on August 6, 2021 to acquire 100% of issued and outstanding shares of Steep Hill US. Pursuant to the new LOI, the Company provided a secured and senior loan of $318,525 (US$250,000) to Steep Hill US ("Secured loan"). Both the Advance and Secured loan are due on demand. Subsequent to December 31, 2021, the Company completed the acquisition of Steep Hill US (Note 23).

11. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets						
	Office lease	Farms	Leasehold improvements	Production, processing and lab equipment	Office equipment, software and furniture	Vehicle	Total
Balance December 31, 2019	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions during the year	76,859	420,344	-	280,709	2,503	15,619	796,034
Balance, December 31, 2020	76,859	420,344	-	280,709	2,503	15,619	796,034
Additions from business acquisition (Note 4)	502,434	-	1,520,000	860,000	25,000	-	2,907,434
Additions during the year	-	-	-	-	1,050	-	1,050
Leases terminated during the year (Note 14)	-	(390,259)	-	-	-	-	(390,259)
Disposals during the year	-	-	-	(278,021)	-	(15,619)	(293,640)
Balance December 31, 2021	**$ 579,293**	**$ 30,085**	**$ 1,520,000**	**$ 862,688**	**$ 28,553**	**$ -**	**$ 3,020,619**
Accumulated amortization							
Balance December 31, 2019	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions during the year	15,372	73,177	-	21,165	487	3,141	113,341
Balance, December 31, 2020	$ 15,372	$ 73,177	$ -	$ 21,165	$ 487	$ 3,141	$ 113,341
Additions during the year	56,111	64,375	123,243	123,537	3,639	4,341	375,246
Leases terminated during the year (Note 14)	-	(127,526)	-	-	-	-	(127,526)
Disposals during the year	-	-	-	(58,702)	-	(7,482)	(66,184)
Balance December 31, 2021	**$ 71,483**	**$ 10,026**	**$ 123,243**	**$ 86,000**	**$ 4,126**	**$ -**	**$ 294,877**
Net book value							
Balance December 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Balance December 31, 2020	**$ 61,487**	**$ 347,167**	**$ -**	**$ 259,544**	**$ 2,016**	**$ 12,478**	**$ 682,693**
Balance December 31, 2021	**$ 507,810**	**$ 20,058**	**$ 1,396,757**	**$ 776,688**	**$ 24,427**	**$ -**	**$ 2,725,742**

(Expressed in Canadian dollars)

12. INTANGIBLE ASSETS

	Licenses	Intellectual property	Clonal system development	IT Platform development and website	Total Intangible assets	Goodwill	Total Intangible assets and goodwill
Cost							
Balance December 31, 2019	$ -	$ -	$ 217,800	$ 26,022	$ 243,822	$ -	$ 243,822
Additions during the year	-	-	26,250	-	26,250	-	26,250
Refund received during the year	-	-	-	(16,950)	(16,950)	-	(16,950)
Write-down during the year	-	-	-	(6,780)	(6,780)	-	(6,780)
Balance December 31, 2020	-	-	244,050	2,292	246,342	-	246,342
Additions from business acquisition (Note 4)	757,000	328,000	-	6,195	1,091,195	172,526	1,263,721
Additions during the year	-	-	-	-	-	-	-
Impairment during the year	-	-	(217,800)	-	(217,800)	-	(217,800)
Balance December 31, 2021	**$ 757,000**	**$ 328,000**	**$ 26,250**	**$ 8,487**	**$ 1,119,735**	**$ 172,526**	**$ 1,292,263**
Accumulated amoritzation							
Balance December 31, 2019	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions during the year	-	-	24,405	458	24,863	-	24,863
Balance December 31, 2020	-	-	24,405	458	24,863	-	24,863
Additions during the year	75,700	23,428	44,742	2,781	146,651	-	146,651
Impairment during the year	-	-	(42,897)	-	(42,897)	-	(42,897)
Balance December 31, 2021	**$ 75,700**	**$ 23,428**	**$ 26,250**	**$ 3,239**	**$ 128,617**	**$ -**	**$ 128,617**
Net book value							
Balance December 31, 2019	**$ -**	**$ -**	**$ 217,800**	**$ 26,022**	**$ 243,822**	**$ -**	**$ 243,822**
Balance December 31, 2020	**$ -**	**$ -**	**$ 219,645**	**$ 1,834**	**$ 221,479**	**$ -**	**$ 221,479**
Balance December 31, 2021	**$ 681,300**	**$ 304,572**	**-**	**$ 5,248**	**$ 991,118**	**$ 172,526**	**$ 1,163,646**

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

The Company performs goodwill impairment analysis annually by comparing the fair value, based on the discounted future estimated cash flows, of the CGUs related to the goodwill to the carrying value of the CGU. As at December 31, 2021, the Company assessed for impairment on the recoverable amount of goodwill for MSC. The Company applied the value in use method, using a five-year discounted future cash flow. The key assumptions used in the discounted future cash flow model included various significant unobservable inputs.

The following significant unobservable inputs, all are subject to volatility and several uncontrollable factors which could significantly affect the present value of the discounted future cash flow, were used by management as part of this model:

1. Weighted average cost of capital of 12.7% calculated as weighted average cost of the Company’s cost of equity and cost of debt.
2. Revenue growth rate – represents the ability of the Company to generate revenue from MSC.
3. Working capital – calculated as a percentage of revenue

Management has tested the recoverable amount of MSC’s intangible assets and goodwill and assessed the recoverable amount of the CGU to exceed the value of the CGU at December 31, 2021. As such, no impairment charge was recorded during the year.

(Expressed in Canadian dollars)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2021		December 31, 2020
Accounts payable	$	**483,021**	$	35,877
Accrued liabilities		**523,906**		73,490
Total	$	**1,006,927**	$	109,367

14. LEASE LIABILITY

The Company has three lease agreements with various landowners for lease of farmlands and two lease agreements for renting office space.

Canbud D580H124 Inc.
The Company leased 50 acres of farmland in McKellar, Ontario, to grow industrial hemp under a license from Health Canada which was issued August 16, 2019 and expired in August 2021. The lease commenced January 1, 2020 for a term of five years at an initial lease cost of $21,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The Company terminated the lease effective September 30, 2021.

Canbud D2385NR Inc.
The Company leases 55 acres of farmland in Lakefield, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 15, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $6,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The lease can renew for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term.

Canbud D1726KC Inc.
The Company leased 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 29, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $60,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The lease could be renewed for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term. The Company cancelled the grow industrial hemp license on November 24, 2021 and terminated the lease effective November 30, 2021.

Office leases
The office lease recognized in 2020, commenced on January 1, 2020 for a term of five years. Upon completion of acquisition of MSC (Note 4), the Company assumed another office lease which expires in July 2022.

As at		**December 31, 2021**		**December 31, 2020**
Balance, beginning of the year	$	**407,823**	$	**–**
New leases [(1)]		**–**		497,203
Lease assumed on business acquisition (Note 4)		**493,250**		**–**
Leases terminated during the year		**(269,022)**		**–**
Interest lease expense		**36,960**		28,565
Lease payments		**(134,187)**		(117,945)
Balance, end of the year	**$**	**534,824**	$	407,823

(1) Recognized using a incremental borrowing in the range of 4% - 10%.

(Expressed in Canadian dollars)

14. LEASE LIABILITY (continued)

The future minimum lease payments due are as follows:

		December 31, 2021		December 31, 2020
No more than a year	$	**126,522**	$	107,053
1-5 years		**467,885**		372,269
More than 5 years		**60,137**		–
Total future minimum lease payments		**654,574**		479,322
Less: amount representing interest		**(9,550)**		(71,499)
Present value of minimum lease payments		**534,824**		407,823
Less: current portion		**(88,538)**		(75,450)
Non-current portion	**$**	**446,286**	$	332,373

		December 31, 2021		December 31, 2020
Principal payments	$	**534,826**	$	89,380
Lease expense		**26,984**		28,565
Lease payments	**$**	**134,187**	$	117,945

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

The Company recognized rent expense from lease of low-value asset of $1,764 (2020 – $1,764) and variable lease payments $17,832 (2020 – $17,832) for the years ended December 31, 2021 , in rent expense.

15. CANADIAN EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN

On June 10, 2020, the Company received a loan of $40,000 through the Canadian Emergency Business Account Program ("CEBA Loan"), which provides financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA Loan has an initial term date on December 31, 2022 (the "Initial Term Date") and may be extended to December 31, 2025. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum. Repaying the balance of the CEBA loan on or before December 31, 2023 will result in a loan forgiveness of $10,000.

(Expressed in Canadian dollars)

15. CANADIAN EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN (continued)

To estimate the fair value, the debt component was estimated first at $33,242, using a 7.5% effective rate which corresponds to a rate that the Company would have obtained for a similar investment. The Company recognized a finance expense of $2,576 (2020 - $1,415) in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2021.

		December 31, 2021		December 31, 2020
Opening	$	**34,657**	$	–
Loan received		**–**		40,000
Value attributed to the governmental subsidy		**–**		(6,758)
Finance expense		**2,576**		1,415
Total	$	**37,233**	$	34,657

16. SHARE CAPITAL

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

	Number of shares		Amount
Balance December 31, 2019	**38,288,000**		**2,134,697**
Private placement, net (i)	5,000,000		337,970
Acquisition advance payment (Note 10)	2,280,000		444,600
Balance December 31, 2020	**45,568,000**		**2,917,267**
Private placement, net (ii)	21,992,333		1,891,817
Private placement, net (iii)	17,417,013		1,476,016
Issued for services (iv)	1,082,251		200,000
Issued pursuant to MSC acquisition (Note 4)	68,212,896		3,137,793
Issued for services (Note 4)	1,765,000		118,778
Issued on exercise of options	24,000		5,707
Issued pursuant to Termination Agreement (Note 10 (1))	3,040,000		130,466
Balance December 31, 2021	**159,101,493**	**$**	**9,877,844**

(i) On November 24, 2020, the Company closed a non-brokered private placement financing with gross proceeds of $500,000 through issuance of 5,000,000 units at a price of $0.10 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.20 on or before November 24, 2021, provided, however that if the closing price of the common shares is $0.30 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms. The proceeds of the private placement have been allocated as $147,920 to warrant reserve (Note 17). The Company paid a total of $20,038 of issuance costs.

16. SHARE CAPITAL (continued)

(ii) On February 23, 2021, the Company closed the first tranche of non-brokered financing with gross proceeds of $2,639,080 through issuance of 21,992,333 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before February 23, 2023, provided, however if the closing price of the common shares is $0.25 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.091 per share and the warrants were allocated a price of $0.0290. Assumptions used to determine the value of the common share warrant were: risk-free interest rate of 0.23%; dividend yield of nil%; weighted average expected volatility of 138.5%; and expected life of 2 years.

The Company paid total of $99,532 of issuance costs and issued 689,920 of broker warrants, which includes $53,595 of issuance costs paid and 446,623 broker warrants issued to Florence Wealth Management Inc. ("Florence"). Raj Ravindran, CFO and director of the Company is the ultimate designated person and CEO of Florence. The brokers warrants have the same terms as the warrants issued in the private placement.

The net proceeds of the private placement have been allocated as $1,891,817 to share capital and $647,732 to warrant reserve (Note 17).

(iii) March 8, 2021, the Company closed the second and final tranche of non-brokered financing with gross proceeds of $2,090,042 through issuance of 17,417,013 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before March 8, 2023, provided, however that if the closing price of the common shares is $0.25 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.090 per share and the warrants were allocated a price of $0.030. Assumptions used to determine the value of the warrants were: risk-free interest rate of 0.29%; dividend yield of nil%; weighted average expected volatility of 139.1%; and expected life of 2 years.

The Company paid total of $81,950 of issuance costs and issued 572,425 of broker warrant, which includes $33,831 of issuance costs paid and 281,925 broker warrants issued to Florence. The brokers warrants have the same terms as the warrants issued in the private placement.

The net proceeds of the private placement have been allocated as $1,476,016 to share capital and $532,076 to warrant reserve (Note 17).

(iv) The Company issued a total of 1,082,251 common shares to a consultant of the Company on January 4, 2021 and March 8, 2021 valued at $215,152 based on the fair value of the services provided.

(Expressed in Canadian dollars)

16. SHARE CAPITAL (continued)

Net loss per share

Basic net loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding, made up of common shares. Diluted net loss per share is calculated by adjusting the loss for the period and number of shares for the effects of dilutive options and other dilutive potential ordinary shares. However, there were no options or financial instruments with dilutive potential ordinary shares as at December 31, 2021 (2020 – nil). Thus, the diluted net loss per share was the same as the calculated basic net loss per share.

The weighted average number of shares outstanding used in the computation of loss per share for the years ended December 31, 2021 was 113,993,670 (2020– 38,896,462).

For the years ended December 31,		2021		2020
Loss attributable to common shareholders	$	(4,544,256)	$	(2,119,866)
Weighted average number of common shares outstanding		113,993,670		38,896,462
Loss per share basic and diluted	**$**	**(0.04)**	**$**	**(0.05)**

17. RESERVES

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

SHARE-BASED COMPENSATION

The Company has a common share 20% Rolling Plan (the “Plan”) for designated directors, officers, employees, and consultants. Pursuant to the Plan, option awards are recommended by the Compensation Committee of the Board and then reviewed by the Board of Directors. Under the Plan, options on common shares may be issued for up to a cumulative amount that may not exceed 10% of shares outstanding at any given time. As at December 31, 2021 , the Company had 16,686,299 options reserved on common shares.

The following table summarizes the continuity of stock options:

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2019	**-**	**-**
Issued (i)	6,050,000	0.125
Outstanding, December 31, 2020	**6,050,000**	**0.125**
Issued (ii) (iii) (iv) (v) (vi)	8,500,000	0.070
Exercised	(24,000)	0.125
Outstanding, December 31, 2021	**14,526,000**	**0.123**

(i) On November 13, 2020, The Company granted 6,050,000 options valued at $682,446 to directors, officers and consultants of the Company exercisable at a price of $0.125 per share for a period of five years, expiring on November 13, 2025.

(ii) On January 15, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 15, 2025.

(Expressed in Canadian dollars)

17. RESERVES (continued)

(iii) On January 18, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 18, 2025.

(iv) On January 20, 2021, the Company granted 300,000 stock options valued at $45,399 to a consultant with exercise price of $0.22 for 4 years, expiring on January 20, 2025.

(v) On March 30, 2021, the Company granted 600,000 stock options valued at $88,114 to consultants with exercise price of $0.22 for 4 years, expiring on March 30, 2025.

(vi) On August 9, 2021, the Company granted 7,000,000 stock options valued at $498,987 to directors, employees, officers, and consultants of the Company. The options have an exercise price of $0.10 and a term of 5 years expiring on August 5, 2026.

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

	Years ended December 31, 2021	Year ended December 31, 2020
Volatility	114-155%	148%
Expected life	4 - 5 years	5 years
Risk-free interest rate	0.34 - 0.88%	0.46%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%

The following stock options are outstanding and exercisable as at December 31, 2021:

Options outstanding and exercisable			
Exercise price $	Number of Options	Remaining contractual life in years	Weighted average exercise price $
0.125	6,026,000	3.90	0.05
0.22	300,000	3.04	0.00
0.22	300,000	3.05	0.00
0.22	300,000	3.06	0.00
0.22	600,000	3.24	0.01
0.10	7,000,000	4.60	0.05
	14,526,000	**4.60**	**0.12**

<u>WARRANTS</u>

Warrant activity is presented below:

	Number of warrants	Weighted average exercise price $
Outstanding, December 31, 2019	**-**	**-**
Issued	5,000,000	0.20
Outstanding, December 31, 2020	**5,000,000**	**0.20**
Issued (Note 16 (ii))	22,682,253	0.22
Issued (Note 16 (iii))	17,989,438	0.22
Issued (Note 4)	49,630,491	0.30
Expired	5,000,000	0.20
Outstanding, December 31, 2021	**44,630,491**	**0.23**

(Expressed in Canadian dollars)

17. RESERVES (continued)

The fair value of the warrants was estimated on the date of the issuance using either with the Black-Scholes option pricing model or Barrier model, with the following assumption ranges:

	Years ended December 31, 2021	Year ended December 31, 2020
Volatility	155.3 - 169%	153%
Expected life	2 -3 years	1 years
Risk-free interest rate	0.23 – 0.65%	0.26%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%

The following warrants are outstanding and exercisable as at December 31, 2021:

Warrants outstanding and exercisable			
Exercise price $	Number of Warrants	Remaining contractual life in years	Weighted average exercise price $
0.22	21,992,333	1.15	0.11
0.22	689,920	1.15	0.00
0.22	17,417,013	1.18	0.09
0.22	572,425	1.18	0.00
0.30	3,958,800	2.52	0.03
	44,630,491	**1.28**	**0.23**

18. NON-CONTROLLING INTERESTS

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

	December 31, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Current assets	$ 120	$ 80	$ 80
Non-current assets	-	22,746	-
Total assets	**120**	**22,826**	**80**
Current liabilities	19,723	20,381	-
Non-current liabilities	26,260	27,715	301,303
Total liabilities	**44,983**	**48,096**	**301,303**
Equity attributable to shareholders of the Company	(26,918)	(22,462)	(260,925)
Non-controlling interests	**$ (17,945)**	**$ (2,808)**	**$ (40,298)**

	December 31, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Net loss and comprehensive loss attributable to shareholders of the Company	$ (8,837)	$ (5,905)	$ (56,728)
Net loss and comprehensive loss attributable to NCI	$ (5,891)	$ (738)	$ (7,092)

(Expressed in Canadian dollars)

18. NON-CONTROLLING INTERESTS (continued)

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

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

19. RELATED PARTY TRANSACTIONS

Compensation awarded to key management personnel
The Company has defined key management personnel as senior executive officers, as well as the Board of Directors. The total remuneration of key management personnel and the Board of Directors are as follows:

For the years ended	**December 31, 2021**	December 31, 2020
Consulting fee	**$** 360,500	$ 258,000
Director fees	10,000	-
Share based compensation	209,502	280,272
	$ 521,002	$ **538,272**

As of December 31, 2021, the Company had $24,000 (2020 - $Nil) of unpaid consulting fees to key management personnel included in accounts payable and accrued liabilities.

20. FINANCIAL RISK MANAGEMENT

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

As at December 31, 2021 , the Company's total managed capital comprised of equity attributable to the equity holders of the Company $5,769,919 (December 31, 2020 - $1,198,382). There were no changes in the Company's approach to capital management during the period.

20. FINANCIAL RISK MANAGEMENT (continued)

(a) Fair value
Financial instruments included in the consolidated statement of financial position as at December 31, 2021 consist of cash, accounts receivable, promissory note receivable, accrued liabilities and payables, loan payable and CEBA loan with period-end carrying amounts which approximates their respective fair values.

(b) Interest rate risk
The Company does not have any debts or borrowings from any banks or institutional lenders as at December 31, 2021 , except for CEBA loan (Note 15), which is non-interest bearing until December 31, 2022 and loan payable with a fixed interest rate.

(c) Currency risk
The Company's balances are all in Canadian dollars as of December 31, 2021 , so the Company is not exposed to any currency risks from its financial instruments.

(d) 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, 2021, the aggregate credit risk exposure related to trade receivables were $100,194 (2020- $Nil).

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 61-90 days past due	Aged > 90 days past due	Total
Expected collection rate	1.19%	0.54%	17.82%	66.48%	89.83%	
Gross carrying amount	$110,500	$ 80,307	$ 6,362	$ 12,599	$ 99,012	$308,780
Loss allowance provision, end of the year	$ 1,311	$ 434	$ 1,134	$ 8,376	$ 88,939	$100,194

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.

(Expressed in Canadian dollars)

20. FINANCIAL RISK MANAGEMENT (continued)

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

(e) Liquidity risk

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

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

In addition to the commitments in Note 22, the Company has the following undiscounted contractual obligations as at December 31, 2021 , which are expected to be payable in the following respective periods:

	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 1,006,927	$ –	$ 1,006,927
CEBA loan	40,000	–	40,000
Loan payable	146,142	–	146,142
Lease liability	126,552	528,022	654,574
Total	$ 1,319,621	$ 528,022	$ 1,847,643

As of December 31, 2021 , the Company had cash of $2,576,488 (2020 - $438,633) and total equity attributable to the equity holders of the Company was $5,769,919 (2020 - $1,198,382). The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting, and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. There are no externally imposed capital requirements to which the Company has not complied.

21. INCOME TAX

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

	December 31, 2021	December 31, 2020
Expected Tax Rate	**26.50%**	**26.50%**
Expected tax Benefit Resulting From Loss	$ (1,204,228)	$ (561,765)
Permanent Differences	416,052	178,746
Effect of losses not recognized and other deductible temporary differences not recognized	852,376	383,018
Financing costs recorded to equity	(62,455)	-
Other	(1,745)	-
Income tax expense (recovery)	**$ -**	**$ -**

(Expressed in Canadian dollars)

21. INCOME TAX (continued)

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

	December 31, 2021	December 31, 2020
Deferred tax asset	$ 294,507	$ 108,293
Deferred tax liability	(294,507)	(108,293)
Net deferred tax liability	**$ -**	**$ -**

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

	December 31, 2020	Recognized in goodwill	Recognized in profit and loss	December 31, 2021
Deferred tax asset				
Loss carry forwards	$ 937	$ 292,429	$ (31,697)	$ 261,669
Lease liability	107,356	133,145	(207,663)	32,838
	108,293	425,574	(239,360)	294,507
Deferred tax liability				
ROU assets	$ (108,293)	$ (133,145)	$ 209,111	$ (32,327)
Prepaid and deposits	-	(292,429)	30,249	(262,180)
	(108,293)	(425,574)	239,360	(294,507)
Net deferred tax liability	**$ -**	**$ -**	**$ -**	**$ -**

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

	December 31, 2021	December 31, 2020
Property, plant and equipment	$ 1,616,294	$ 24,792
Intangible assets	916	24,863
Loan payable	-	4,657
Financing fees	-	118,560
Non-capital losses	12,480,692	1,753,795
Capital losses carried forward	139,707	-
Share issuance costs	236,788	67,750
SR&ED pool balance	266,803	
Other	28,382	2,703
Total	**$ 14,769,582**	**$ 1,997,120**

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

2037	$ 26,113
2038	4,539,618
2039	2,763,870
2040	2,747,765
2041	2,403,326
	$ 12,480,692

22. COMMITMENTS AND CONTIGENT LIABILITIES

a) Non-controlling interest

The Company entered into definitive lease agreements with various landowners and transaction facilitators in 2019 for its corporate office and hemp CBD cultivation lands. Additionally, the Company, through DEPL Corp., with Martin Ciuk for the sole purpose of establishing a distribution and marketing channel for the sale of hemp CBD products in Europe (EU economic region). Based on the following specified terms in each executed agreement, the Company is obligated to issue equity shares (membership interests) to the respective landowners and transaction counterparties:
D238 Inc.
In addition to the lease rentals (Note 14), landowners shall be paid 10% of the net profit from operations of D238 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D238 Inc. This entity is inactive and has generated no net profit during years ended December 31, 2021 and 2020.

D172 Inc.
In addition to the lease rentals (Note 14), landowners shall be paid 10% of the net profit from operations of the D172 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D172 Inc. This entity is inactive and has generated no net profit during years ended December 31, 2021 and 2020.

b) Acquisition

On August 9, 2021, the Company entered into a definitive merger agreement (the “Merger Agreement”) with Steep Hill, Inc. (“Steep Hill US”). Under the terms of the Merger Agreement, the Company’s wholly owned subsidiary, Canbud Merger Sub, Inc. (“Canbud Merger”), is to merge with and into Steep Hill US. In accordance with the Merger Agreement, the holders of shares of common stock in the capital of Steep Hill US (the "Steep Hill Shares") that certified their status as an "accredited investor" within the meaning of the United States Securities Act of 1933 are entitled to receive 0.096 of a common share of the Company ("Canbud Shares") for each Steep Hill US Share held, or an aggregate of 82,000,000 Canbud Shares, in exchange for their Steep Hill US Shares, subject to rounding down in the case of fractions. Other former holders of Steep Hill US Shares are entitled to receive $0.048 in cash for each of their Steep Hill US Shares. Prior to the closing of the transaction, all convertible notes and other outstanding securities of Steep Hill US were converted into Steep Hill US Shares. In addition, upon closing of the Transaction, the Company issued 2,870,000 Canbud Shares as an advisory fee (the "Advisory Fee Shares").

23. SUBSEQUENT EVENTS

Acquisition
On January 28, 2022, the Company completed the merger with Steep Hill US and Canbud Merger, a wholly owned subsidiary of the Company, pursuant to the definitive merger agreement (the “Merger Agreement”) entered on August 9, 2021 (Note 22).

Following the completion of the Merger, the Company changes its name from Canbud Distribution Corp. to Steep Hill Inc. effective February 28, 2022.