

**TPCO Holding Corp.**  
**Form 51-102F4**  
**Business Acquisition Report**

**Item 1 Identity of Company**

**1.1. Name and Address of Company**

TPCO Holding Corp. (the "**Company**")  
595 Burrard Street, Suite 2600  
Vancouver, British Columbia  
V7X 1L3

**1.2. Executive Officer**

An executive officer of the Company who is knowledgeable about the significant acquisition and this Business Acquisition Report is:

Colin Brown  
Chief Legal Officer  
669-279-5390

**Item 2 Details of the Acquisition**

**2.1 Nature of the Business Acquired**

On January 15, 2021, the Company completed the acquisition of all of the equity of each of CMG Partners, Inc. ("**Caliva**"), Left Coast Ventures, Inc. ("**LCV**") and SISU Extraction, LLC ("**SISU**" and, together with Caliva and LCV, the "**Acquired Businesses**"). The acquisition of Caliva and LCV constituted the Company's qualifying transaction pursuant to the listing manual of the Neo Exchange Inc. (the "**Qualifying Transaction**").

Caliva is a vertically integrated consumer brand cannabis company. It is licensed in the State of California as a cultivator, manufacturer, retailer and distributor of adult-use cannabis products for sale to its retail and wholesale customers. Caliva's business-to-business sales and distribution network serves over 150 licensed dispensaries and provides direct-to-consumer delivery and retail in the State of California. Caliva product offerings also include non-cannabis, hemp-based products as well as beverages, including cannabidiol ("**CBD**") wellness products.

LCV is a California-based vertically integrated cannabis and hemp-derived CBD company with extraction, manufacturing, distribution and product/brand development operations, as well as a significant investment in greenhouse cannabis cultivation. LCV operates an umbrella of cannabis and hemp-derived CBD entities through a concentration on middle-of-the-supply chain cannabis manufacturing, distribution, and brand development and stewardship operations, as well as through its hemp-derived CBD businesses.

SISU's is a California cannabis business founded in September 2017. SISU's main lines of business are cannabis supply chain, extraction manufacturing and processing. SISU maintains several licenses in California for its business, including licenses for marijuana manufacturing, distribution and processing.

**2.2 Acquisition Date**

January 15, 2021 (the "**Acquisition Date**").

## 2.3 Consideration

### Caliva Acquisition

The aggregate consideration paid to securityholders of Caliva in connection with the Company's acquisition of Caliva consisted of:

- i. approximately US\$282.9 million (subject to certain adjustments and holdbacks) satisfied in the form of newly issued common shares of the Company ("**Common Shares**") at a price of US\$10.00 per Common Share, subject to exceptions for certain U.S. persons that received cash consideration;
- ii. a contingent right to receive up to an aggregate of approximately 17.4 million additional common shares in the event the 20-day volume weighted average trading price ("**VWAP**") of the Common Shares reaches US\$13.00, US\$17.00 and US\$21.00 within three years of the Acquisition Date, with one-third of such 17.4 million Common Shares issuable upon the achievement of each price threshold, respectively (the "**Caliva Trading Price Consideration**"); and
- iii. a contingent right to receive up to an aggregate of approximately 3.9 million additional Common Shares (the "**Caliva Earnout Shares**") if the aggregate consolidated cash of the Company at closing net of short term indebtedness was less than US\$225 million, in which case a proportionate number of Caliva Earnout Shares would become payable based on whether the Company raised cash proceeds to cover such shortfall in the 12 months following closing and whether the weighted average price per share for any equity securities used to raise such cash proceeds was below US\$10.00 per share.

Since the Company's aggregate consolidated cash at closing net of short term indebtedness was greater than US\$225 million, no Caliva Earnout Shares will be issued.

In the event of an Acceleration Event (as defined below) during the three-year period after the Acquisition Date, the Company will pay the full amount of any unpaid Caliva Trading Price Consideration. An "**Acceleration Event**" means (a) any transaction or series of related transactions involving a sale of (i) equity securities having more than fifty percent (50%) of the voting power of the Company, Caliva or LCV (whether by merger, consolidation, recapitalization, sale or transfer of equity securities or otherwise) or (ii) all or substantially all of the assets of the Company, Caliva or LCV, and (b) the failure to elect as a director at any shareholders' meeting of the Company, any individual nominated by GRHP Management, LLC ("**GRHP**"), as Caliva shareholders' representative under the nomination rights agreement by and among the Company, Subversive Capital Sponsor LLC and GRHP entered into upon closing of the Qualifying Transaction.

### LCV Acquisition

The aggregate consideration paid to securityholders of LCV in connection with the Company's acquisition of LCV consisted of:

- i. approximately US\$70 million (subject to certain adjustments and holdbacks) satisfied in the form of newly issued Common Shares at a price of US\$10.00 per Common Share, subject to exceptions for certain U.S. persons that received cash consideration; and
- ii. a contingent right to receive up to an aggregate of approximately 3.9 million additional Common Shares in the event the 20-day VWAP of the Common Shares reaches US\$13.00, US\$17.00 and US\$21.00 within three years of the Acquisition Date, with one-third of such 3.9 million Common Shares issuable upon the achievement of each price threshold, respectively (the "**LCV Trading Price Consideration**").

In the event of an Acceleration Event during the three-year period after the Acquisition Date, the Company will pay the full amount of any unpaid LCV Trading Price Consideration.

#### SISU Acquisition

The aggregate consideration paid to securityholders of SISU in connection with the Company's acquisition of SISU was approximately US\$81 million (subject to certain adjustments and holdbacks) comprised of:

- i. US\$15.0 million in cash; and
- ii. approximately US\$66 million satisfied in the form of newly issued Common Shares at a price of US\$10.00 per Common Shares, subject to exceptions for certain U.S. persons that received cash consideration.

The cash portion of the purchase price for the acquisition of each of the Acquired Businesses was funded from the proceeds of the private placement of subscription receipts and non-voting shares of SCAC Capital Acquisition Inc., a subsidiary of the Company, for total gross proceeds of approximately US\$63 million. The proceeds from the sale of subscription receipts were released from escrow upon closing of the Qualifying Transaction.

#### **2.4 Effect on Financial Position**

The Company presently has no plans or proposals for material changes in the Company's business affairs or the affairs of the Acquired Businesses which may have a significant effect on the results of operations and financial position of the Company. For additional information on the expected effect of the acquisitions of the Acquired Businesses on the Company, see the financial statements and the accompanying notes thereto included in this Business Acquisition Report.

#### **2.5 Prior Valuations**

Not applicable.

#### **2.6 Parties to Transaction**

The acquisition of the Acquired Businesses was not with an "informed person", "associate" or "affiliate" (each as defined under applicable Canadian securities laws) of the Company.

#### **2.7 Date of Report**

March 12, 2021.

### **Item 3 Financial Statements and Other Information**

The following financial statements are incorporated by reference into, and form a part of, this business acquisition report and are attached as Schedules "A", "B", "C" and "D", respectively, and form part of this Business Acquisition Report:

- (a) audited consolidated annual financial statements of Caliva for the years ended December 31, 2020 and December 31, 2019 and the report of the auditor thereon;
- (b) audited consolidated annual financial statements of LCV for the years ended December 31, 2020 and December 31, 2019 and the report of the auditor thereon;
- (c) audited consolidated annual financial statements of SISU for the years ended December 31, 2020 and December 31, 2019 and the report of the auditor thereon; and
- (d) (i) pro forma statement of financial position of the Company as at December 31, 2020 and related notes thereto; and (ii) pro forma income statement of the Company as of and for the 12 months ended December 31, 2020 and the related notes thereto.

**SCHEDULE "A"**

**CALIVA ANNUAL FINANCIAL STATEMENTS**

(see attached)

# **Consolidated Financial Statements**

CMG Partners, Inc.

December 31, 2020

# Contents

	<b>Page</b>
Consolidated statements of financial position	6
Consolidated statements of loss and comprehensive loss	7
Consolidated statements of changes in shareholders' (deficit) equity	8
Consolidated statements of cash flows	9
Notes to the consolidated financial statements	10

## INDEPENDENT AUDITOR'S REPORT

To the Directors of  
CMG Partners, Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of CMG Partners, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' (deficit) 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *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 audit 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, although the nature of the Company's business is legalized within the State of California, it is considered to be an illegal activity under the Controlled Substance Act of the United States of America. The Company is subject to certain significant risks and uncertainties associated with conducting operations subject to conflicting federal, state, and local laws in an industry with a complex regulatory environment which is continuously evolving. These risks and uncertainties include agencies and the uncertainty that regulatory changes may adversely affect the Company's operations, or even compel the Company to cease its operations. Additionally, the Company has incurred recurring net losses that require additional funding to sustain operations. These matters may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes the Business Acquisition Report.

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 audit 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 audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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


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

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

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

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

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

A handwritten signature in black ink that reads "Davidson & Caspary LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

March 12, 2021

# CMG Partners, Inc.

## Consolidated statements of financial position

(in United States dollars)

As at December 31	Note	2020	2019
<b>Assets</b>			
Current			
Cash		\$ 9,233,947	\$ 25,714,673
Accounts receivable	6	2,176,121	3,392,605
Inventory	7	14,158,198	23,546,292
Biological assets	8	1,181,925	1,286,340
Other current assets		2,539,930	2,019,835
Prepaid expenses		2,407,379	3,930,458
Total current asset		<u>31,697,500</u>	<u>59,890,203</u>
Property and equipment	9	8,691,369	7,712,926
Goodwill and intangibles	10	4,737,936	7,042,386
Investment in joint venture	11	-	48,084
Right-of-use assets	13	53,362,933	57,589,809
Investment in Tarukino	25	591,545	500,000
Deferred tax asset	19	293,600	-
Security deposits		841,738	984,231
Other non-current assets		608,579	436,177
<b>Total assets</b>		<b>\$ 100,825,200</b>	<b>\$ 134,203,816</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	12	\$ 19,645,098	\$ 22,298,138
Line of credit	23	12,117,347	10,417,830
Consideration payable	5	2,458,844	4,629,316
Loan payable	15	5,819,450	-
Current portion of lease liability	13	1,334,957	1,259,839
Total current liabilities		<u>41,375,696</u>	<u>38,605,123</u>
Other long-term liabilities		-	11,820
Deferred tax liabilities	19	-	1,364,055
Lease liability	13	59,226,348	60,606,515
Put option and non-exercise liability	14	11,323,333	4,724,725
<b>Total liabilities</b>		<b>111,925,377</b>	<b>105,312,238</b>
<b>Shareholders' (deficit) equity</b>			
Series A preferred stock	16	82,894,680	82,894,680
Series B preferred stock	16	69,712,226	54,384,396
Common stock	16	3,849	3,828
SAFE notes	18	-	-
Series B preferred stock to be issued		250,000	250,000
Contributed surplus		30,132,738	28,955,978
Non-controlling interest		(455,852)	(388,269)
Deficit		(193,637,818)	(137,209,035)
<b>Total shareholders' (deficit) equity</b>		<b>(11,100,177)</b>	<b>28,891,578</b>
<b>Total liabilities and shareholders' (deficit) equity</b>		<b>\$ 100,825,200</b>	<b>\$ 134,203,816</b>

Going concern (Note 2)

Commitments and contingencies (Note 24)

Subsequent events (Note 28)

See accompanying notes to the consolidated financial statements

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**CMG Partners, Inc.****Consolidated statements of loss and comprehensive loss**

(in United States dollars)

For the year ended December 31	Note	2020	2019
Sales		\$ 64,492,179	\$ 56,250,951
Cost of sales		<u>48,326,399</u>	<u>51,077,672</u>
Gross profit before fair value adjustments		16,165,780	5,173,279
Net effect of changes in fair value of biological assets and inventory	8	<u>542,661</u>	<u>(753,531)</u>
Gross profit		<u>16,708,441</u>	<u>4,419,748</u>
Operating expenses	20	<u>65,569,659</u>	<u>71,512,962</u>
Loss from operations		(48,861,218)	(67,093,214)
Other			
Interest expense	21	(7,282,633)	(7,832,133)
Share of loss in joint venture	11	(554,657)	(48,084)
Gain on investment in Tarukino	25	91,545	-
Fair value loss on line of credit	23	(1,708,760)	-
Other income		438,769	4,706
		<u>(9,015,736)</u>	<u>(7,875,511)</u>
Loss before income taxes		(57,876,954)	(74,968,725)
Income tax benefit	19	(1,380,588)	(160,843)
Net loss and comprehensive loss		\$ <u>(56,496,366)</u>	\$ <u>(74,807,882)</u>
Attributable to parent		(56,428,783)	(74,419,613)
Attributable to non-controlling interest		<u>(67,583)</u>	<u>(388,269)</u>
		<u>(56,496,366)</u>	<u>(74,807,882)</u>

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See accompanying notes to the consolidated financial statements

# CMG Partners, Inc.

## Consolidated statements of changes in shareholders' (deficit) equity

(in United States dollars)

	Note	Series B Preferred Stock		Series A Preferred Stock		Common Shares		SAFE Notes	Series B Preferred Stock to be issued	Contributed Surplus	Non-Controlling Interest	Accumulated Deficit	Total
		Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2018		-	\$ -	12,500,000	\$ 75,000,000	37,500,000	\$ 3,750	\$ -	\$ -	22,320,492	\$ -	\$ (62,789,422)	\$ 34,534,820
Issuance of Series A Preferred Stock	16	-	-	1,315,780	7,894,680	-	-	-	-	300,000	-	-	8,194,680
Issuance of Series B Preferred Stock (net of transaction costs of \$292,809)	16	2,980,000	20,745,991	-	-	-	-	-	-	(123,880)	-	-	20,622,111
Issuance of SAFE notes	18	-	-	-	-	-	-	33,888,405	-	-	-	-	33,888,405
Conversion of SAFE notes	18	5,270,086	33,638,405	-	-	-	-	(33,888,405)	250,000	-	-	-	-
Issuance of common stock upon exercise of stock options	16	-	-	-	-	778,521	78	-	-	1,556,964	-	-	1,557,042
Related party contribution	23	-	-	-	-	-	-	-	-	1,290,745	-	-	1,290,745
Stock compensation expense	17	-	-	-	-	-	-	-	-	3,941,033	-	-	3,941,033
Reclass of options to liability	17	-	-	-	-	-	-	-	-	(329,376)	-	-	(329,376)
Net loss		-	-	-	-	-	-	-	-	-	(388,269)	(74,419,613)	(74,807,882)
Balance at December 31, 2019		<u>8,250,086</u>	<u>54,384,396</u>	<u>13,815,780</u>	<u>82,894,680</u>	<u>38,278,521</u>	<u>3,828</u>	<u>-</u>	<u>250,000</u>	<u>28,955,978</u>	<u>(388,269)</u>	<u>(137,209,035)</u>	<u>28,891,578</u>
Issuance of Series B Preferred Stock (net of transaction costs of \$129,172)	16	2,189,377	15,327,830	-	-	-	-	-	-	(1,000)	-	-	15,326,830
Issuance of common stock upon exercise of stock options	16	-	-	-	-	194,410	21	-	-	491,860	-	-	491,881
Issuance of restricted stock	16	-	-	-	-	264,300	-	-	-	-	-	-	-
Related party contribution	23	-	-	-	-	-	-	-	-	(1,759,762)	-	-	(1,759,762)
Stock compensation expense	17	-	-	-	-	-	-	-	-	2,254,406	-	-	2,254,406
Decrease in stock repurchase liability		-	-	-	-	-	-	-	-	191,256	-	-	191,256
Net loss		-	-	-	-	-	-	-	-	-	(67,583)	(56,428,783)	(56,496,366)
Balance at December 31, 2020		<u>10,439,463</u>	<u>\$ 69,712,226</u>	<u>13,815,780</u>	<u>\$ 82,894,680</u>	<u>38,737,231</u>	<u>\$ 3,849</u>	<u>\$ -</u>	<u>250,000</u>	<u>\$ 30,132,738</u>	<u>\$ (455,852)</u>	<u>\$ (193,637,818)</u>	<u>\$ (11,100,177)</u>

See accompanying notes to the consolidated financial statements

# CMG Partners, Inc.

## Consolidated statements of cash flows

(in United States dollars)

For the year ended December 31	Note	2020	2019
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss		\$ (56,496,366)	\$ (74,807,882)
Adjustments for items not involving cash			
Depreciation and amortization		5,355,417	4,950,023
Gain on investment in Tarukino	25	(91,545)	-
Provision for bad debts	25	658,913	81,480
Stock compensation expense	17	2,254,406	3,941,033
Non-cash compensation associated with put liability	14	6,598,608	4,724,725
Impairment loss		-	11,149,274
Loss in joint venture		554,657	48,084
Loss on disposal of intangible assets	10	10,385	-
Loss on disposal of property and equipment	9	16,475	-
Deferred tax benefit	19	(1,657,655)	(228,196)
Fair value adjustment on line of credit	23	1,708,760	-
Unrealized fair value adjustment of biological assets	8	(7,999,608)	(5,114,952)
Gain on lease termination	13	(285,288)	-
Interest expense		422,637	1,120,859
		<u>(48,950,204)</u>	<u>(54,135,552)</u>
Net changed in non-cash working capital items	22	<u>18,317,023</u>	<u>1,944,203</u>
<b>Total operating</b>		<u>(30,633,181)</u>	<u>(52,191,349)</u>
<b>Financing activities</b>			
Settlement of consideration payable	5	(2,170,472)	(98,229)
Advances on line of credit, net	23	(2,100,000)	6,183,637
Proceeds from loan payable	15	5,819,450	-
Proceeds from issuance of preferred stock	16	15,326,830	28,816,791
Repayment of lease liabilities	13	-	(217,337)
Proceeds from exercise of common stock options	17	420,881	1,557,042
Proceeds from issuance of SAFE notes		-	19,350,000
<b>Total financing</b>		<u>17,296,689</u>	<u>\$ 55,591,904</u>
<b>Investing activities</b>			
Net cash paid in business combinations		-	(530,781)
Contribution to joint venture	11	(1,256,185)	(96,168)
Acquisition of intangible assets		-	(675,550)
Security deposits		-	(312,061)
Purchases of property and equipment	9	(1,888,049)	(4,726,139)
<b>Total investing</b>		<u>(3,144,234)</u>	<u>(6,340,699)</u>
Net change in cash during the year		(16,480,726)	(2,940,144)
<b>Cash</b>			
Beginning of year		\$ <u>25,714,673</u>	\$ <u>28,654,817</u>
End of year		\$ <u>9,233,947</u>	\$ <u>25,714,673</u>

Supplemental cash-flow information (Note 22)

See accompanying notes to the consolidated financial statements

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 1. Nature of operations

CMG Partners, Inc. ("CMG" or the "Company") was formed as Consortium Management Group, LLC ("CMG, LLC") (a California limited liability company) on February 20, 2015. On August 8, 2017 the Company undertook a corporate conversion and became a Delaware corporation under the name CMG Partners, Inc.

The Company, through various subsidiaries, is licensed in the State of California as a cultivator, manufacturer, retailer and distributor of adult use cannabis products for sale to its retail and wholesale customers under the "The Medical Marijuana Program Act" and the proposition 64 "The Adult Use of Marijuana Act." The purpose of the Company is to promote the betterment of the physical, mental, and emotional fitness of its customers, finding solutions for, sharing knowledge of, and furnishing assistance for the health problems of its customers. The Company's operations are dependent on economic and legal conditions which affect the medical and recreational cannabis industries, and changes in those conditions may affect the Company's continuing operations. While the nature of the Company's operations is legalized and approved by the State of California, it is considered to be an illegal activity under the Controlled Substance Act of the United States of America.

The Company's corporate office is located at 1550 Leigh Avenue, San Jose, California, 95125, United States of America.

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### 2. Going concern

As shown in the accompanying consolidated financial statements, the Company has incurred recurring losses from operations and has a working capital deficiency as at December 31, 2020. Subsequent to the year end, as described in Note 25 and 28, the Company was acquired, and certain liabilities were settled. As a result, the Company has sufficient cash to settle its liabilities as they become due for a period of 12 months from the end of the year-ended December 31, 2020.

The Company is considered to be participating in an illegal activity under the CSA and, therefore, all of the Company's assets are at risk of seizure or confiscation by governmental agencies. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern. However, the Company believes this is unlikely to occur. The accompanying consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern.

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### 3. Basis of presentation

#### i) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on March 12, 2021.

#### ii) Basis of measurement

These consolidated financial statements have been prepared on the going concern basis, under historical cost, except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell.

#### iii) Basis of consolidation

Subsidiaries are entities controlled by the Company. The Company 'controls' an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 3. Basis of presentation (continued)

#### iii) Basis of consolidation (continued)

These consolidated financial statements include the accounts of the Company and the following entities which are material subsidiaries of the Company:

Subsidiaries	Jurisdiction of incorporation	Ownership interest
NC3 Systems	California	100%
NC4 Systems, Inc.	California	100%
NC5 Systems, Inc.	California	100%
NC6 Systems, Inc.	California	100%
Alpha Staffing, LLC	California	100%
Fresh Options, LLC	California	100%
Caliva CAREDELA1, LLC	California	42%
Caliva CAMISJ2, Inc.	California	100%
Caliva CADINH1, Inc.	California	100%
Caliva CADECC1, Inc.	California	100%
well. By Caliva, LLC	California	100%
well, By Caliva Centers, LLC	California	100%
Live Zola, LLC	California	100%

All intercompany transactions and balances with subsidiaries have been eliminated.

#### iv) Business combinations

The Company accounts for business combinations using the acquisition method when it has obtained control. Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The Company elects on transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

#### v) Asset acquisitions

If an entity acquires an asset or a group of assets (including any liabilities assumed) that does not constitute a business, then the transaction is outside the scope of IFRS 3. The Company accounts for such transactions as asset acquisitions in which the cost of the acquisition is allocated between the individual identifiable assets in the group based on their relative fair values at the date of acquisition.

#### vi) Functional and presentation currency

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency, and that of its subsidiaries.

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### 4. Significant accounting policies

#### (a) Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

#### (b) Cash

Cash includes cash on hand and balances with banks.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (c) Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Gains or losses arising from changes in fair value less costs to sell during the year, including the impact on the carrying amount of inventory, are included in the statements of loss and comprehensive loss of the related year.

While the Company's biological assets are within the scope of IAS 41 Agriculture and measured at fair value less costs to sell, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and at the point of harvest including labor related costs, grow consumables, utilities, facilities costs including allocation of overhead costs related to production facility, quality and testing costs, and production related depreciation. Capitalized costs are subsequently recorded within cost of sales in the statements of loss and comprehensive loss in the period that the related product is sold.

#### (d) Inventories

Inventories for finished goods and packaging and supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The direct and indirect costs of finished goods inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in processing, packaging, labelling and inspection to turn raw materials into finished goods. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of sales on the consolidated statements of loss and comprehensive loss at the time cannabis products are sold. Inventory is measured at lower of cost or net realizable value on the statement of financial position.

Realized fair value amounts from biological assets included in the cost of inventory sold are separately presented for cost of sales as fair value adjustment on sale of inventory in Note 7.

#### (e) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation commences when the assets are available for use and is charged to the statements of loss and comprehensive loss on a straight-line basis over its useful life as outlined below:

	Shorter of lease term or
	estimated useful life
Leasehold improvements	
Production equipment	5 years
Furniture, fixtures and office equipment	5 years
Vehicles	5 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation of property and equipment commences when the asset is available for use.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Gains and losses on modification of right-of-use assets are dependent on if the modification is accounted for as a separate lease. If the modification is accounted for as a separate lease, the difference between the carrying value of the existing lease liability and the modified lease liability is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the lessee shall remeasure the lease liability by decreasing the carrying amount of the right-of-use asset to reflect full termination of the lease. Any differences are recognized in profit or loss. For all other lease modifications not accounted for as a separate lease no gain or loss is recognized.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (f) Intangible assets

Intangible assets with finite life are stated at the amount initially recognized less accumulated amortization and accumulated impairment losses. Intangible assets with finite life are amortized on a straight-line basis as follows:

Customer relationships	3 years
Trade names	3 years
Intellectual property	3 years
Licenses	3 - 7 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.

#### (g) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired.

Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired.

#### (h) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of an asset or CGU is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

#### (i) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties have contractually agreed to the sharing of control of an entity, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company accounts for its investments in joint ventures using the equity method of accounting. Under the equity method, the initial investment in the joint venture is recognized at cost and adjusted thereafter to recognize the Company's proportionate share of the investee's profit (loss). The carrying value is assessed for impairment at each reporting date.

#### (j) Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is lessee, except for short-term leases (defined as leases with lease term of 12 months or less) and leases of low value assets (defined as leases for which the underlying asset is less than \$5,000). For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are assumed.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (j) Leases (continued)

##### *Lease liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprises:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payment using a revised discount rate.
- The lease payments change due to changes in the index or rate or a change in expected payment under a guaranteed residual value, in which the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

##### *Right-of-use assets*

The right-of-use assets comprises the initial measurements of the corresponding lease liability, lease payments made at or before commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects the Company's expectation to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

#### (k) Share-based compensation

The Company has an equity incentive plan which includes issuances of stock options, restricted share units, restricted stock awards and unrestricted stock awards. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of the equity instruments that will ultimately vest. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be satisfied, such that the amount ultimately recognized is based on the number of awards that ultimately vest. The fair value of the share-based payments granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the share-based payments were granted.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (l) Revenue recognition

The Company earns revenue from the sale of cannabis to retail and wholesale customers, the provision of merchandising and distribution services. The Company has a diverse customer base across its wholesale and retail revenue streams in the state of California.

The Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue, the Company applies the following five (5) steps:

- 1) Identify the contract with a customer
- 2) Identify the performance obligation(s)
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligations(s)
- 5) Recognize revenue when/as performance obligations(s) are satisfied

Revenue from the sale of cannabis to retail and wholesale customers is recognized at a point in time when control over the goods has transferred to the customer. This corresponds with when the Company satisfies its performance obligation. Revenue is recorded net of any point of sale discounts provided to the customer. The Company's revenues are principally derived from arrangements with fixed consideration. Variable consideration, if any, is not material.

Revenue earned from providing merchandising services is recognized each month as the Company satisfies its performance obligations.

Revenue earned from providing distribution services is recognized at a point in time when the distribution process is complete and control over the goods has transferred to the end customer. In transactions where the Company is acting as an agent, revenue is presented on a net basis. Alternatively, when the Company acts as the principal the transaction revenue is presented gross.

The majority of the Company's revenue is cash at point of sale. Payment is due upon transferring the goods or providing services to the customer or within a specified time period permitted under the Company's credit policy. In those cases where the Company provides goods or services on credit, the Company considers whether or not collection is probable in determining if a contract exists under IFRS 15. Costs associated with goods or services is expensed in the year performance obligations are satisfied.

The Company's Return Policy conforms to the Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA"), which was signed into law in June 2017 and creates the general framework for the regulation of commercial medicinal and adult-use cannabis in California. The Company determined that no provision for returns or refunds was necessary at December 31, 2020.

#### (m) Government assistance

Government grants are recognized when there is reasonable assurance that the grant will be received, and all associated conditions will be complied with. When the grant relates to an expense item, it is recognized in income on a systematic basis over the periods that the related costs it is intended to compensate are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the Company receives a forgivable loan from the Government, it is treated as a Government grant only when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan.

#### (n) Income taxes

Income tax on the statements of loss and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (n) Income taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

#### (o) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when contractual rights have expired, or when substantially all of the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired. All financial instruments are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income or amortized cost. The classification is determined based on the Company's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

##### *Financial assets at amortized cost*

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows, and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are recorded initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Interest and realized gains or losses are included in the consolidated statements of loss and comprehensive loss.

The Company has included cash, accounts receivable and security deposits as financial assets at amortized cost.

##### *Financial assets at fair value through profit and loss*

Financial assets that are not held within a business model to 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss ("FVTPL"). Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. Assets in this category are measured at fair value with gains or losses recognized in profit or loss.

The Company has included the investment in Tarukino as a financial asset at FVTPL.

##### *Financial liabilities*

Financial liabilities are initially classified as 'subsequently measured at amortized cost' or 'financial liabilities at fair value through profit or loss'. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs, unless designated as a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities for which the Company has elected to measure at fair value through profit or loss, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest related charges and, if applicable, changes in a financial liability's fair value that are reported in profit or loss are included within finance expenses, net.

Financial liabilities are derecognized when they are extinguished or there is a substantial modification of the terms of an existing financial liability. The difference between the carrying amount of the financial liability extinguished and consideration paid, or financial liability assumed, is recognized in profit or loss.

The Company's financial liabilities which are classified and measured at amortized cost include accounts payable and accrued liabilities, other long-term liabilities, line of credit (until March 2020), consideration payable and loan payable.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (o) Financial instruments (continued)

##### *Financial liabilities at fair value through profit and loss*

Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of loss and comprehensive loss.

The Company's financial liability which is classified and measured at FVTPL include the line of credit (as of March 2020).

##### *Impairment of financial assets*

Under IFRS 9 *Financial Instruments*, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at fair value through profit or loss, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial, factors specific to the debtors and general economic conditions.

#### (p) Fair value

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurement for invested assets are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Levels 1, 2 or 3). The three levels are defined based on the observability of significant inputs to the measurement, as follows;

- Level 1: quoted prices (unadjusted) in active markets for identical or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability

#### (q) SAFE notes

Simple Agreements for Future Equity ("SAFE") notes provide investors with the right to receive Series B preferred stock upon the occurrence of certain events. There is no contractual obligation to issue cash or shares, as the Company controls the occurrence or non-occurrence of all triggering events. SAFE notes are classified as equity instruments and are initially recognized at fair value when issued as consideration in a business combination. Otherwise, SAFE notes are recorded at the consideration received.

#### (r) Contributed surplus

Contributed surplus consists of contributions from the Company's shareholders in excess of par value of common shares, as well as other contributions from shareholders or companies under common control.

#### (s) Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

##### *Business combinations*

Judgement is used to determine whether an acquisition is a business combination or an asset acquisition. In determining the allocation of cost to an asset acquisition or determining the fair value of net identifiable assets acquired in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. Refer to Note 5 for further information.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (s) Critical accounting estimates and judgements (continued)

##### *IFRS 16 - Leases*

A lessee is required to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases, as the implicit rates are not readily available, as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available.

The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Leases require lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Refer to Note 13 for further information.

##### *Valuation of biological assets*

Determination of the fair value of biological assets requires the Company to make a number of estimates and assumptions, including estimating selling prices, expected yields, wastage, and post-harvest costs of the cannabis plant. These estimates and assumptions are subject to change that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. Refer to Note 8 for further information.

##### *Share-based compensation*

In determining the fair value of options and related expense, the Company makes assumptions such as, the expected life of the option, the volatility of the Company's share price, the risk-free interest rate, and the rate of forfeitures. Refer to Note 14 and 17 for further information.

##### *Allowance for expected credit losses*

The Company makes use of the simplified approach as permitted by IFRS 9 in accounting for receivables and records the loss allowance as a lifetime expected shortfall in contractual cash flows, considering the potential default at any point during the life of the financial instruments. The Company uses historical experience, external indicators and forward-looking information to calculate the expected credit loss using a provision matrix.

The expected loss rates are based on historical information and adjusted to reflect current and forward-looking factors affecting customers' abilities to settle the amounts outstanding. Receivables are written off (derecognized) when there is no reasonable expectation of recovery such as when payment arrangements cannot be made with the customer or third-party collection agency. Refer to Note 25 for further information.

##### *Goodwill*

Goodwill impairment testing requires management to estimate the recoverable amount of the cash generating unit ("CGU") to which goodwill has been allocated. On an annual basis, the Company tests whether goodwill is impaired, based on an estimate of its recoverable amount. Refer to Note 10 for further information.

##### *Estimated useful lives and depreciation and amortization of property and equipment and intangible assets*

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets. Refer to Note 9 and 10 for further information.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 4. Significant accounting policies (continued)

#### (s) Critical accounting estimates and judgements (continued)

##### *Fair value measurement*

The Company uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. The Company bases its assumptions on observable data as far as possible, but this is not always available. In that case, the Company uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. Refer to Note 25 for further information.

##### *Deferred tax assets*

Deferred tax assets, including those arising from tax loss carry-forwards, requires management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on the Company's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Refer to Note 19 for further information.

#### (t) Accounting standards issued but not yet effective

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

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place at the end of the reporting period;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 5. Business acquisitions

The following acquisitions were recorded as business combinations in accordance with IFRS 3 *Business Combinations*, with identifiable assets acquired and liabilities assumed recorded at their fair values on the acquisition date:

#### Zola

In April 2019, the Company entered into a binding asset purchase agreement to acquire the selected assets and liabilities of Amazon Preservation Holdings, LLC and Amazon Preservation Partners, LLC (collectively referred to as Zola). The Company issued a Simple Agreement for Future Equity ("SAFE") note in the Company. The fair value of the SAFE note on initial recognition was \$14,078,605. Refer to Note 18 for further discussion on SAFE notes issued.

The Company entered into the agreement to acquire a beverage company with the intention of converting Zola into an hCBD infused beverage company. This eventual conversion is dependent on the regulatory environment allowing for the sale of these types of beverages. Goodwill is comprised of the future cashflows from the sale of the infused beverages, which is achievable once the regulatory environment changes. The goodwill and intangible assets are expected to be deductible for income tax purposes.

Operating results have been included in these consolidated financial statements from the date of the acquisition. Zola's revenue and net loss for the period from the date of acquisition to December 31, 2019 included in the consolidated statements of loss and comprehensive loss are \$5,187,903 and \$13,175,753, respectively. Had the business acquisition occurred on January 1, 2019, Zola's revenue and net income (loss) for the period from January 1, 2019 to December 31, 2019 included in the consolidated statements of loss and comprehensive loss would have been \$7,532,400 and \$14,635,701, respectively.

#### DMMM & T, Inc.

In July 2019, the Company entered into a stock purchase agreement with the shareholders of DMMM&T, Inc., a California corporation operating in San Jose for \$4,625,000. The acquisition provided the Company with a cannabis microbusiness license which includes retailer, level 1 manufacturer, distributor and cultivator (less than 10,000 square feet) for both adult and medicinal use. The purchase price of \$4,625,000 consisted of approximately \$997,000 of cash, a holdback balance in the form of a restricted certificate of deposit of approximately \$1,503,000 established in August 2019 and a note payable of \$2,125,000 due when the licenses are transferred, which occurred in January 2020.

The Company entered into the agreement to acquire DMMM & T, Inc. to obtain one of the 16 cannabis licenses in San Jose, California.

Operating results have been included in these consolidated financial statements from the date of the acquisition. DMMM & T, Inc.'s revenue and net loss for the period from the date of acquisition to December 31, 2019 included in the consolidated statement of loss and comprehensive loss are \$739,036 and \$773,977, respectively. Due to non-availability of information, it is not practicable to disclose the revenue and net income for the year had the above noted business combination occurred on January 1, 2019.

The following represents the total acquisition consideration of Zola and DMMM & T, Inc.:

	<u>Zola</u>		<u>DMMM&amp;T, Inc.</u>		<u>Total</u>
Cash	\$ -	\$	997,205	\$	<b>997,205</b>
Restricted certificate of deposit	-		1,502,795		<b>1,502,795</b>
Short-term note payable	-		2,125,000		<b>2,125,000</b>
Issuance of SAFE note	14,078,605		-		<b>14,078,605</b>
	<u>\$ 14,078,605</u>	\$	<u>4,625,000</u>	\$	<u><b>18,703,605</b></u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 5. Business acquisitions (continued)

The following represents recognized amounts of identifiable assets acquired, and liabilities assumed:

	Zola	DMMM&T, Inc.	Total
Cash	\$ 466,424	\$ -	\$ 466,424
Accounts receivable	694,726	-	694,726
Inventory	1,788,590	286,707	2,075,297
Prepaid expenses	178,948	-	178,948
Receivable from seller	800,000	-	800,000
Property and equipment	158,410	-	158,410
Security deposits	1,500	-	1,500
Intangible assets	3,290,000	6,117,861	9,407,861
Goodwill	7,944,791	-	7,944,791
Accounts payable	(911,712)	(132,052)	(1,043,764)
Accrued expenses	(133,072)	(55,265)	(188,337)
Short-term liabilities	(200,000)	-	(200,000)
Deferred tax liabilities	-	(1,592,251)	(1,592,251)
	<u>\$ 14,078,605</u>	<u>\$ 4,625,000</u>	<u>\$ 18,703,605</u>

The following assets acquired did not meet the definition of a business as defined in IFRS 3 *Business Combinations*, and were accounted for as asset acquisitions, with identifiable assets and liabilities acquired measured at their relative fair values:

#### CrEATe Experience, LLC

In August 2019, the Company acquired 100% of CrEATe Experience, LLC in Culver City, California for \$1,200,000, obtaining its sole asset, a retail non-storefront license for adult use. The \$1,200,000 comprised of \$950,000 in cash and \$250,000 in the form of SAFE notes that converted into Series B preferred stock in December 2019. As at December 31, 2020, the Series B preferred stock are included in 'Series B preferred stock to be issued'. Refer to Note 18 for further information on SAFE notes.

#### Asclepius, Inc.:

In July 2019, the Company acquired 100% of Asclepius, Incorporated in North Hollywood, California for \$590,000, obtaining its sole asset, a distributor license for both adult and medicinal use. The \$590,000 paid consists of \$380,200 in short-term note payable and \$209,800 SAFE notes that converted into 29,717 Series B preferred stock in December 2019. As at December 31, 2019, \$250,000 of the short-term note payable was repaid. Refer to Note 18 for further information on SAFE notes.

#### Is Not Boring, Inc.

In May 2019, the Company entered into a binding asset purchase agreement to acquire intellectual property of Is Not Boring, Inc. in San Francisco, California for \$245,100 cash. As a result, the Company obtained the rights to the intellectual property of an established San Francisco based direct e-sales cannabis company.

The following outlines the consideration payable as at December 31, 2020 and December 31, 2019 related to the business combination and asset acquisitions:

	December 31, 2020	December 31, 2019
Note payable – DMMM & T, Inc.	\$ -	\$ 2,125,000
Holdback payable – DMMM & T, Inc.	1,500,000	1,502,795
Holdback payable - CrEATe Experience, LLC	750,000	750,000
Other payable	208,844	251,521
	<u>\$ 2,458,844</u>	<u>\$ 4,629,316</u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 6. Accounts receivables

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Trade receivables, net (Note 25)	\$ 2,176,121	\$	3,136,284
Other receivables	-		256,321
	<u>\$ 2,176,121</u>	\$	<u>3,392,605</u>

During the year ended December 31, 2020, the Company determined collection was probable for certain transactions and recognized \$3,178,880 of revenue from performance obligations satisfied in the prior year. These amounts were not included in accounts receivable or deferred revenue as at December 31, 2019.

### 7. Inventory

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Work in progress			
Capitalized cost	\$ 1,006,479	\$	955,519
Fair value adjustment	1,382,073		555,794
Carrying value	<u>2,388,552</u>		<u>1,511,313</u>
Finished goods			
Capitalized cost	5,704,332		9,360,104
Fair value adjustment	2,458,365		2,483,228
Carrying value	<u>8,162,697</u>		<u>11,843,332</u>
Cannabis oil			
Capitalized cost	1,907,389		4,322,418
Fair value adjustment	493,739		2,337,793
Carrying value	<u>2,401,128</u>		<u>6,660,211</u>
Finished goods unrelated to cannabis	423,816		1,227,416
Packaging supplies, accessories and other	782,005		2,304,020
	<u>\$ 14,158,198</u>	\$	<u>23,546,292</u>

As at December 31, 2020, the Company held 4,106,240g of dry cannabis (2,944,093g finished goods, 1,162,148g of work-in-progress) and 7,428,923g of dry cannabis (6,662,562g finished goods, 776,631g of work-in-progress) as at December 31, 2019.

As at December 31, 2020, the Company held 369,145g of cannabis oils (206,227g used in finished goods, 162,918g in various stages of production) and 1,443,962g of cannabis oils (41,359g used in finished goods, 1,402,603g in various stages of production) as at December 31, 2019.

For the year ended December 31, 2020 the Company recognized \$48,326,399 of inventory expensed to cost of goods sold (December 31, 2019 - \$51,077,672).

For the year ended December 31, 2020 the Company recognized \$7,456,947 of non-cash expense relating to changes in fair value of inventory sold (December 31, 2019 - \$5,868,483).

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 8. Biological assets

Biological assets consist of cannabis plants and other biological assets. The changes in the carrying value of biological assets as at December 31, 2020 and December 31, 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Balance, beginning of the year</b>	\$ 1,286,340	\$ 1,265,095
Capitalized costs	7,053,621	8,440,340
Change in fair value less costs to sell due to biological transformation	7,999,608	5,114,952
Transferred into inventory upon harvest	<u>(15,157,644)</u>	<u>(13,534,047)</u>
<b>Balance, end of the year</b>	<u>\$ 1,181,925</u>	<u>\$ 1,286,340</u>

The fair value less costs to sell of biological assets is determined using a market approach where the fair value at the point of harvest is estimated based on spot prices of wholesale cannabis less post-harvest costs and costs to sell. For in process biological assets, the estimated fair value at point of harvest is allocated based on the plants' stage of growth. Stage of growth is determined by reference to days remaining to harvest over the average growth cycle.

The following key inputs are used in determining the fair value of biological assets:

- Average selling price per gram – third-party cannabis spot price for wholesale cannabis;
- Yield by plant – the number of grams of finished cannabis inventory which are expected to be derived from each harvested cannabis plant

In estimating the fair value less costs to sell, the Company uses market observable data to the extent it is available. The fair value less costs to sell is classified as Level 3 in the fair value hierarchy.

Significant unobservable inputs	December 31, 2020	December 31, 2019	Sensitivity	Effect on fair value	
				December 31, 2020	December 30, 2019
Average selling price per gram of flower	\$4.48	\$4.41	Increase or decrease by \$0.50 per gram	\$176,093	\$209,208
Average selling price per gram of trim	\$0.37	\$0.61	Increase or decrease by \$0.10 per gram	\$23,526	\$25,710
Weighted average yield by plant (in grams):	78-42	88-51	Increase or decrease of yield by 10%.	\$118,193	\$128,634

The Company estimates the harvest yields for the cannabis on plants at various stages of growth at each reporting date as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Total expected yield (in grams)	<u>2,309,276</u>	<u>3,119,143</u>

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The effect of changes in the fair value of biological assets and inventory during the years ended December 31, 2020 and December 31, 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Unrealized change in fair value of biological assets	\$ 7,999,608	\$ 5,114,952
Realized fair value increments of inventory sold during the period	<u>(7,456,947)</u>	<u>(5,868,483)</u>
Net effect of changes in fair value of biological assets and inventory	<u>\$ 542,661</u>	<u>\$ (753,531)</u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 9. Property and equipment

	Leasehold improvements	Production equipment	Furniture and fixtures	Vehicles	Office equipment	Total
<b>Gross carrying amount</b>						
Balance, December 31, 2018	\$ 2,825,250	\$ 641,155	\$ 503,202	\$ 101,086	\$ 102,789	\$ 4,173,482
Additions	2,910,017	1,414,389	176,221	76,486	307,436	4,884,549
Impairment	-	(104,662)	(8,486)	(29,254)	(23,809)	(166,211)
Balance, December 31, 2019	5,735,267	1,950,882	670,937	148,318	386,416	8,891,820
Additions	765,335	476,668	78,914	123,877	443,255	1,888,049
Disposals	(2,350)	(14,647)	-	-	-	(16,997)
Balance, December 31, 2020	\$ 6,498,252	\$ 2,412,903	\$ 749,851	\$ 272,195	\$ 829,671	\$ 10,762,872
<b>Depreciation</b>						
Balance, December 31, 2018	\$ 233,147	\$ 168,788	\$ 64,499	\$ 2,712	\$ 42,516	\$ 511,662
Additions	372,279	144,613	124,558	16,192	77,609	735,251
Impairment	-	(7,120)	(26,652)	(5,719)	(28,528)	(68,019)
Balance, December 31, 2019	605,426	306,281	162,405	13,185	91,597	1,178,894
Additions	404,265	177,425	120,186	44,051	147,204	893,131
Disposals	-	(522)	-	-	-	(522)
Balance, December 31, 2020	\$ 1,009,691	\$ 483,184	\$ 282,591	\$ 57,236	\$ 238,801	\$ 2,071,503
<b>Carrying amount December 31, 2019</b>	<b>\$ 5,129,841</b>	<b>\$ 1,644,601</b>	<b>\$ 508,532</b>	<b>\$ 135,133</b>	<b>\$ 294,819</b>	<b>\$ 7,712,926</b>
<b>Carrying amount December 31, 2020</b>	<b>\$ 5,488,561</b>	<b>\$ 1,929,719</b>	<b>\$ 467,260</b>	<b>\$ 214,959</b>	<b>\$ 590,870</b>	<b>\$ 8,691,369</b>

The Company capitalized \$259,567 of depreciation to biological assets and inventory for the year ended December 31, 2020 (December 31, 2019 – \$258,190).

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 10. Goodwill and intangibles

	<u>Goodwill</u>	<u>Customer relationships</u>	<u>Trade names</u>	<u>Intellectual property</u>	<u>Licenses</u>	<u>Total</u>
<b>Gross carrying amount</b>						
Balance, December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	-
Acquired in a business combination	7,944,791	1,510,000	1,780,000	-	6,117,861	17,352,652
Additions	-	-	-	245,100	1,790,000	2,035,100
Impairment	(7,944,791)	(1,510,000)	(1,780,000)	(245,100)	-	(11,479,891)
Balance, December 31, 2019	-	-	-	-	7,907,861	7,907,861
Disposals	-	-	-	-	(10,385)	(10,385)
Balance, December 31, 2020	\$ -	\$ -	\$ -	\$ -	7,897,476	7,897,476
<b>Amortization</b>						
Balance, December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	-
Additions	-	210,986	248,712	-	865,475	1,325,173
Impairment	-	(210,986)	(248,712)	-	-	(459,698)
Balance, December 31, 2019	-	-	-	-	865,475	865,475
Additions	-	-	-	-	2,294,065	2,294,065
Balance, December 31, 2020	\$ -	\$ -	\$ -	\$ -	3,159,540	3,159,540
<b>Carrying amount December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>7,042,386</b>	<b>7,042,386</b>
<b>Carrying amount December 31, 2020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4,737,936</b>	<b>4,737,936</b>

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 10. Goodwill and intangibles (continued)

#### *Impairment testing - Zola*

At acquisition, goodwill is allocated to the cash-generating unit ("CGU") expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below. The Company has determined that its only CGU with goodwill is Zola. The annual impairment test date is December 31.

During the fiscal period ended December 31, 2019, impairment indicators were determined to exist, and an interim impairment test was completed. The indicators of impairment included a lack of expected change in the regulatory environment, such that cash flows are expected to be significantly lower than as expected at acquisition, combined with a history of losses.

	Carrying amount	Recoverable amount	Impairment loss
Zola	\$ 10,904,174	\$ -	10,904,174

For the purpose of impairment testing, the carrying amount of the asset or CGU is compared to the recoverable amount of the asset or CGU. The recoverable amount of the Zola CGU was determined based on fair value less costs of disposal, covering a nine-year forecast, followed by an extrapolation of expected cash flows for the terminal period, which were grown at an inflationary rate. The present value of the expected cash flows of the CGU were determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the CGU. The fair value calculation is a Level 3 in the fair value hierarchy, given that the assumptions described below are unobservable.

#### Key assumptions

	Growth rate	Cost of goods sold	Operating expenses	Discount rate
Zola	8.0%	68.7%	32.4%	40%

#### Growth rates

The assumptions around the Zola CGU's revenue growth rates, cost of goods sold as a percentage of revenue, and operating expenses as a percentage of revenue were based on management's best estimates, considering historical and expected operating plans, strategic plans, economic considerations, and the general outlook for the industry and markets in which the CGU operates.

#### Discount rate

The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of Zola CGU.

#### Sensitivity to changes in assumptions

The Zola CGU's recoverable amount was determined to be less than its carrying amount. No reasonable changes to the key assumptions resulted in a recoverable amount in excess of the carrying amount.

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### 11. Investment in joint venture

On May 1, 2019, the Company and SC Vessel 1 LLC ("SC") entered into a joint venture (the "Joint Venture", "JV") agreement for the formation of OG Enterprises Branding, Inc. ("OGE"). The purpose of OGE is to produce, develop, market, sell and distribute super premium cannabis products and related accessories in California.

Upon execution of the agreement, the parties made capital contributions as follows:

- SC received 500,000 common shares of OGE in exchange for its assignment of various intellectual property rights related to its brand, and;
- the Company received 500,000 common shares of OGE in exchange for cash capital contributions. Payment dates for the capital contributions are as follows:
  - \$1,000,000 to be paid within 7 days of the effective date of the agreement (defined as June 7, 2019);
  - \$1,500,000 to be paid no later than 3 months following the effective date; and
  - The rest to be paid no later than 3 years following the effective date.

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 11. Investment in joint venture (continued)

The Company has not contributed the funds directly to OGE but is instead incurring and paying for expenses on OGE's behalf, until such time that OGE is more established and is able to secure its own bank accounts. For the year ended December 31, 2020 the Company contributed capital of \$1,256,185 (December 31, 2019 - \$96,168) by paying for expenses on behalf of OGE.

OGE, through a wholly owned subsidiary, OG California Branding, Inc. ("OGC") retained the services of the Company to manufacture and distribute cannabis products through a Manufacturing Supply Agreement and a Distribution Agreement. OGE also retained the services of SC Vessel for marketing and promotion.

For the year ended December 31, 2020 the Company recognized its share of OGE's net loss in the amount of \$554,657 (December 31, 2019 - \$48,084). The Company has not, as of December 31, 2020, received any distributions on account of its common share investment in OGE.

The following table outlines the Company's investment in its joint venture as at December 31, 2020 and December 31, 2019:

Name of Joint Venture	Intended Principal Activity	Nature of Investment	Place of Business	Method of Accounting	Ownership Interest (Non-Diluted)
OG Enterprises Branding, Inc.	Vertically-integrated cannabis operations	Common shares	California	Equity method	50%

The following table outlines the changes in the Company's equity method investee for the year ended December 31, 2020 and December 31, 2019:

Entity	Balance January 1, 2020	Additions	Share of loss	Dividend / interest income	Impairment expense	Balance, December 31, 2020
OG Enterprises Branding, Inc.	\$ 48,084	\$ 506,573 <sup>1</sup>	\$ (554,657)	\$ -	\$ -	\$ -

Entity	Balance January 1, 2019	Additions	Share of loss	Dividend / interest income	Impairment expense	Balance, December 31, 2019
OG Enterprises Branding, Inc.	\$ -	\$ 96,168	\$ (48,084)	\$ -	\$ -	\$ 48,084

<sup>1</sup>Included in the additions by the Company is a deferred gain of \$285,288 amortized over a 28-year period. See Note 13 (ii) for further information.

The following table outlines the amounts shown in the joint venture's financial statements as at December 31, 2020 and December 31, 2019:

Entity	Applicable reporting period	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Loss	Total comprehensive loss
OG Branding Enterprises, Inc.	December 31, 2020	\$4,172,592	\$3,696,391	\$233,115	\$3,861,716	\$3,774,152	\$(1,129,752)	\$(1,129,752)

Entity	Applicable reporting period	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Loss	Total comprehensive loss
OG Branding Enterprises, Inc.	December 31, 2019	-	\$5,000,000	-	-	\$5,000,000	\$(96,168)	\$(96,168)

The Company assessed its joint venture for indicators of impairment as at the year ended December 31, 2020 and December 31, 2019 and determined that no indicators are present.

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 12. Accounts payable and accrued liabilities

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Trade payables	\$ 8,372,014	\$	10,163,905
Accrued liabilities	11,273,084		12,134,233
	<u>\$ 19,645,098</u>	\$	<u>22,298,138</u>

### 13. Leases

Lease liabilities are presented in the consolidated statements of financial position as follows

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Current	\$ 1,334,957	\$	1,259,839
Non-current	59,226,348		60,606,515
	<u>\$ 60,561,305</u>	\$	<u>61,866,354</u>

The Company has leases for properties and automobiles. With the exception of short-term leases, each lease is reflected in the consolidated statements of financial position as a right-of-use asset and a lease liability.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized on the consolidated statement of financial position:

	<u>Number of right of use assets leased</u>	<u>Range of remaining term</u>	<u>Average remaining lease term</u>	<u>Number of leases with extension options</u>	<u>Number of leases with options to purchase</u>	<u>Number of leases with variable payments linked to an index</u>	<u>Number of leases with termination options</u>
<b>Right-of-use asset</b>							
Property	13	1 year to 27 years	12 years	12	-	1	-
Automobiles	<u>2</u> <u>15</u>	2 years	2 years	<u>-</u> <u>12</u>	<u>-</u> <u>-</u>	<u>-</u> <u>1</u>	<u>-</u> <u>-</u>

Future minimum lease payments as at December 31, 2020 are as follows:

	<u>Minimum lease payments due</u>		
	<u>Lease payments</u>	<u>Finance charges</u>	<u>Net present value</u>
Within 1 year	\$ 6,901,841	\$ 6,915,529	\$ (13,688)
1-2 years	7,484,116	6,880,411	603,705
2-3 years	7,665,903	6,822,202	843,701
3-4 years	7,886,324	6,755,494	1,130,830
4-5 years	7,974,752	6,618,439	1,356,313
5-6 years	6,545,856	5,415,690	1,130,166
Beyond 6 years	159,710,019	104,199,741	55,510,278
<b>Total</b>	<u>\$ 204,168,811</u>	<u>\$ 143,607,506</u>	<u>\$ 60,561,305</u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 13. Leases (continued)

The expense relating to payments not included in the measurements of the lease liability is as follows:

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Short-term leases	\$ 515,065	\$	141,360

The following table outlines the cash outflow and interest expense related to lease liabilities:

	<u>December 31, 2020</u>		<u>December 31, 2019</u>
Cash outflow	\$ 6,859,996	\$	6,928,485
Interest expense	\$ 6,948,079	\$	6,711,148
	\$ (88,083)	\$	217,337

Additional information on the right-of-use assets by class of assets is as follows:

	<u>Properties</u>	<u>Vehicles</u>	<u>Total</u>
<b>Gross carrying amount</b>			
Balance, December 31, 2018	\$ 54,247,307	\$ 160,241	\$ 54,407,548
Additions	8,156,127	-	8,156,127
Impairment	(46,333)	-	(46,333)
Balance, December 31, 2019	<u>62,357,101</u>	<u>160,241</u>	<u>62,517,342</u>
Additions	1,370,381	-	1,370,381
Lease modification (i)	559,473	-	559,473
Lease termination (ii)	(2,752,410)	-	(2,752,410)
Balance, December 31, 2020	<u>\$ 61,534,545</u>	<u>\$ 160,241</u>	<u>\$ 61,694,786</u>
<b>Depreciation</b>			
Balance, December 31, 2018	\$ 2,043,082	\$ 10,296	\$ 2,053,378
Additions	2,849,539	40,060	2,889,599
Impairment	(15,444)	-	(15,444)
Balance, December 31, 2019	<u>4,877,177</u>	<u>50,356</u>	<u>4,927,533</u>
Additions	3,364,260	40,060	3,404,320
Balance, December 31, 2020	<u>\$ 8,241,437</u>	<u>\$ 90,416</u>	<u>\$ 8,331,853</u>
<b>Carrying amount December 31, 2019</b>	<u>\$ 57,479,924</u>	<u>\$ 109,885</u>	<u>\$ 57,589,809</u>
<b>Carrying amount December 31, 2020</b>	<u>\$ 53,293,108</u>	<u>\$ 69,825</u>	<u>\$ 53,362,933</u>

- (i) On January 31, 2020 the Company's lease at 1550 Leigh Avenue was amended to include an additional two-year renewal period. The Company was reasonably certain that the extension option would be exercised. The modification was accounted for as a continuation of the existing lease. As at January 31, 2020, the lease liability and right of use asset has been increased to reflect the new extension option under the amended lease.
- (ii) On March 1, 2020 the Company assigned their lease at 10757 Energy Street to OG California Branding ("OG Branding"). OG Branding is a wholly owned subsidiary of OG Enterprises Branding, Inc. ("OG Enterprises"). The Company jointly owns OG Enterprises with a third-party. At this time, the Company no longer has the obligation to fulfill the commitment under the original lease terms and thus the lease has been terminated. For the year ended December 31, 2020, the Company recorded a gain on lease termination for \$285,288. This is limited to the unrelated investors' interest in the joint venture.

The Company capitalized \$976,532 of depreciation to biological assets and inventory for the year ended December 31, 2020 (December 31, 2019 - \$976,531).

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 14. Put option and non-exercise liability

On May 1, 2019, the Company entered into a Brand Strategist Agreement with an unrelated third party for marketing strategy, endorsement and promotion services over a period of 3 years. As consideration the Company agreed to committed payments of \$2,000,000 each year for three years and an equity component made up of 362,500 stock options which were exercised into common shares by August 2019 at an exercise price of \$2.00 per share. In the event that the Brand Strategist Agreement is terminated by the Company in accordance with its terms and conditions, the holder is required to repay to the Company any unearned cash and equity compensation.

In connection with the Brand Strategist Agreement, the Company entered into a Put and Purchase Agreement whereby the 362,500 shares of common stock can be put back to the Company for a cash payment of \$16,500,000 on the third anniversary of the issuance of the options (May 2022). The Put and Purchase Agreement also allows for a Discounted Service Period Put where 20% of the shares can be put at a prorated share of the \$16,500,000 at a 40% discount in May 2020 or up to an additional 40% of the shares at a 20% discount in May 2021. None of the shares has been put back to the Company as of December 31, 2020.

The Put and Purchase Agreement also gives the holder the right to a non-exercise incentive payment if the holder has not exercised their put rights as defined in the agreement. For shares still held at the third anniversary of the agreement (May 2022) the holder is eligible to receive a cash payment in the amount of the original exercise price of the options, plus \$18,150,000, less the product of the holder's fully diluted ownership percentage in the Company and the Equity Value of the Company, as defined in the agreement.

The Company has accounted for this arrangement as a cash-settled share-based payment transaction. The fair value of the put option and non-exercise liability to the holder in respect of the share-based payment is recognized as an expense with a corresponding increase in liabilities over the period in which the holder becomes unconditionally entitled to payment. The fair value of the put option and non-exercise liability is remeasured at each reporting date. Because the holder unconditionally earns the shares equally over a three-year period, the share-based payment expense is determined using graded vesting.

As at December 31, 2020, the Company has recognized a liability of \$11,323,333 (December 31, 2019 - \$4,724,725). This liability reflects the Company's expectation that the holder will not exercise their put right, and instead will be eligible to receive the non-exercise incentive payment. Inputs used in determining the fair value of the liability include a common stock price of \$4.97, volatility of 100% and risk-adjusted discount rate of 9.88%.

Share-based payment expense recognized for the year ended December 31, 2020 in connection with this transaction was \$6,598,608 (December 31, 2019 - \$4,724,725).

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 15. Loan payable

In March 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was enacted. The CARES Act provides for financial assistance to businesses through the Small Business Administration (“SBA”) in the form of a Paycheck Protection Program (“PPP”).

In May 2020, the Company was approved under the terms and conditions of the PPP of the SBA and CARES Act for loans of \$5,819,450, respectively. The loans accrue interest at 1.00% per annum.

Under the terms of the PPP, the principal may be forgiven if the loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, rent, and utilities. The Company currently expects to be able to meet the criteria and have the maximum allowable amount forgiven. No assurance can be provided that the Company will obtain forgiveness of the loans in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the loans due to these changes or different interpretations of the PPP requirements.

Subsequent to the year-ended December 31, 2020, the Company repaid \$2,759,200 of PPP loans. An application for forgiveness was filed and the remaining PPP loans went into escrow in January 2021. The US Bank has granted full forgiveness and the application is under review with the SBA. In the event that full forgiveness is not granted, the loan will be repaid in full. The review process is expected to be complete within 180 days.

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### 16. Share capital

#### Common shares

##### a) Authorized

81,038,715 authorized common shares with a par value of \$0.0001.

##### b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2018	37,500,000	\$ 3,750
Issuance of common stock upon exercise of stock options	778,521	78
Balance, December 31, 2019	38,278,521	3,828
Issuance of common stock upon exercise of stock options	194,410	21
Issuance of restricted stock	264,300	-
<b>Balance, December 31, 2020</b>	<b>38,737,231</b>	<b>\$ 3,849</b>

#### Series A preferred stock

##### a) Authorized

13,815,780 issued and authorized Series A Preferred Stock with a par value of \$6.00.

##### b) Series A Preferred Stock issued

	Number of Series A Preferred Stock	Amount
Balance, December 31, 2018	12,500,000	\$ 75,000,000
Issuance of Series A Preferred Stock (i)	1,315,780	7,894,680
<b>Balance, December 31, 2019 and December 31, 2020</b>	<b>13,815,780</b>	<b>\$ 82,894,680</b>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 16. Share capital (continued)

- (i) In 2019, the Company authorized and issued an additional 1,315,780 share of Series A Preferred Stock at \$6.00 per share for total proceeds of \$7,894,680.

#### Series B preferred stock

##### a) Authorized

17,705,382 authorized Series B preferred stock with a par value of \$7.06.

##### b) Series B preferred stock issued

	Number of Series B preferred stock	Amount
Balance, December 31, 2018	-	\$ -
Issuance of Series B preferred stock (i)	2,980,000	20,745,991
Redemption of SAFE notes (ii)	5,270,086	33,638,405
Balance, December 31, 2019	8,250,086	54,384,396
Issuance of Series B preferred stock (iii)	2,189,377	15,327,830
<b>Balance, December 31, 2020</b>	<b>10,439,463</b>	<b>\$ 69,712,226</b>

- (i) In 2019, the Company issued 2,980,000 shares of Series B Preferred Stock at \$7.06 per share for total proceeds of \$20,745,991, net of transaction costs of \$292,809.
- (ii) In 2019, the Company issued 29,717 shares of Series B Preferred Stock as consideration for the asset acquisition of Asclepius. The Company also issued 2,499,583 shares of Series B Preferred Stock as consideration in the business combination with Zola. The Company also issued 2,740,786 shares of Series B Preferred Stock at \$7.06 per share for total proceeds of \$19,350,000.
- (iii) In 2020, the Company issued 2,189,377 shares of Series B Preferred Stock at \$7.06 per share for total proceeds of \$15,327,830, net of transaction costs of \$129,172.

The Company is committed to issuing 708,215 Series B preferred stock to an investor, should the investor choose to invest \$5,000,000 in the future.

#### Series A and Series B preferred stock

The rights, privileges and restrictions of holders of shares of Series A and Series B preferred stock ("Preferred Stock") are set forth in the Company's Second Amended and Restated Certificate of Incorporation, and are summarized as follows:

##### *Voting rights*

Holders of Series A and Series B are entitled to one vote for each share of common stock which such share of preferred stock is convertible.

##### *Conversion*

Each share of Series A and Series B preferred stock is convertible, at the option of the holder, into fully paid shares of common stock determined by dividing the original issuance price by the conversion price. At December 31, 2020 and December 31, 2019, the original issue price and the conversion price per share were the same per class. In the event the Company sells additional shares below the conversion price, the conversion price of the preferred stock shall be subject to adjustments. Each share of preferred stock shall be immediately converted upon the earlier of (a) the closing of the sale of the Company's common stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended, with aggregate proceeds of at least \$50,000,000 or (b) the date and time specified by vote or written consent, voting as a single class on an as-converted basis.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 16. Share capital (continued)

#### *Dividends*

The holders of Series B preferred stock are entitled to receive cumulative dividends at the rate per annum of \$0.42 per share, subject to adjustments for any stock dividends or splits, which accrue from the date of issuance until paid. Such dividends shall only be payable if and when, declared by the Board of Directors and the Company is under no obligation to pay the accrued dividends. The holders of Series B preferred stock shall be entitled to receive dividends prior to and in preference to any declaration or payment of any dividend on another class of stock in an amount equal to or greater than (i) the amount of accrued unpaid dividends and (ii) an amount equal to the product of the dividend rate to be paid on each share of common stock or Series A preferred stock and the number of Series B preferred stock issued and outstanding. No dividends have been declared to date and any accumulated dividends not declared to date are immaterial at December 31, 2020 and December 31, 2019.

#### *Liquidation*

Upon liquidation, dissolution, or winding up of the Company, holders of Series B preferred stock shall be entitled to receive prior and in preference to any distribution to the holders of Series A preferred stock and common stock, the amount per share equal to the greater of (i) one times the Series B original issuance price plus all declared but unpaid dividends per share or (ii) the amount that would have been paid had all shares of Series B been converted into common stock immediately prior to the liquidation event. After payment in full of the liquidation with respect to the Series B preferred stock, holders of shares of Series A preferred stock shall be entitled to receive prior and in preference to any distribution to the holders of common stock, the amount per share equal to the greater of (i) one times the Series A original issuance price plus all declared but unpaid dividends per share or (ii) the amount that would have been paid had all shares of Series A been converted into common stock immediately prior to the liquidation event. After payment in full of the liquidation with respect to preferred stock, if any assets or funds remain in the Company, the remaining assets shall be distributed among the holders of the shares of common stock, pro rata based on the number of shares held by each such holder.

#### *Protective provisions*

As defined in the Second Amended and Restated Certificate of Incorporation, the Company must obtain the affirmative majority vote of the outstanding shares of preferred stock, in order to enter into certain transactions relating to the liquidation of the Company, modifications to Company's governing documents, and issuance or redemption of any debt or equity securities exceeding certain amounts.

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### 17. Stock options

Effective January 2019, the Company established the CMG Partners, Inc. 2019 Stock Option and Grant Plan (the "Plan"), which provides for the granting of incentive stock options, non-qualified stock options, restricted stock awards, unrestricted stock awards, restricted stock units, or any combination of the foregoing to employees, directors, consultants and key persons of the Company and any subsidiary selected by the Plan committee are eligible to participate. The Company grants options to purchase its common stock, generally at fair value as of the date of grant. The maximum number of shares reserved and available for issuance under the Plan is 5,367,677. Options generally vest over a period a four-year period, specifically at a rate of 25% upon the first anniversary of the issuance date and 1/36th per month thereafter and expire after 10 years from the date of grant. The Company grants restricted stock awards ("RSAs"), which cannot be sold, assigned, transferred or otherwise encumbered except as outlined in each award agreement. RSAs vest 100% on the earlier of a sale event or an Initial Public Offering, provided the grantee has a service relationship with the Company at the time.

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 17. Stock options (continued)

The following table reflects the continuity of the stock options granted for year ended December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	3,113,477	2.00	-	-
Granted	2,475,117	2.28	4,269,991	2.00
Exercised	(194,410)	2.53	(778,521)	2.00
Expired, Forfeited and Cancelled	(1,279,920)	2.00	(377,993)	2.00
Outstanding, end of period	4,114,264	2.16	3,113,477	2.00

The following table outlines stock options outstanding as at the year ended December 31, 2020:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Shares Outstanding	Weighted - Average Exercise Price	Weighted- Average Life	Number of Shares Exercisable	Weighted- Average Exercise Price
\$ 2.00 – 2.49	4,114,264	2.16	6.67	1,324,305	\$ 2.00

The following table outlines stock options outstanding as at the year ended December 31, 2019:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Shares Outstanding	Weighted - Average Exercise Price	Weighted- Average Life	Number of Shares Exercisable	Weighted- Average Exercise Price
\$ 2.00	3,113,477	2.00	9.17	684,112	\$ 2.00

Options exercised prior to vesting are subject to repurchase at the original exercise price by the Company. The liability for repurchase of common stock options consists of the original exercise price for options exercised subject to repurchase as they are unvested as of the reporting date. The liability as at December 31, 2020 is \$138,126 (December 31, 2019 - \$329,376) and is included in accounts payable and accrued liabilities. As at December 31, 2020, 317,500 shares were subject to repurchase (December 31, 2019 – 317,500 shares).

For the year ended December 31, 2020 and December 31, 2019, grant date fair value estimated was based on the following variables:

	2020	2019
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.30% - 0.49%	1.61% – 2.54%
Expected option life in years	6.08 – 6.25	5.05 – 5.99
Volatility	110.73% - 114.25%	109.56% – 120.62%

The Company estimated the expected term of its stock options based on the vesting and contractual terms. Volatility is estimated based on the average of the historical volatilities of the common stock of entities with characteristics similar to those of the Company. The Company uses the U.S. Treasury yield for its risk-free interest rate and a dividend yield of zero, as it does not have a stated dividend rate for common stock.

Using the Black-Scholes option-pricing model, the weighted-average estimated fair value of employee stock options granted was \$1.91 per share for the year ended December 31, 2020 and \$1.71 per share for the year ended December 31, 2019.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 17. Stock options (continued)

Stock compensation expense related to stock options for the year ended December 31, 2020 was \$2,235,786 (December 31, 2019 - \$3,941,033).

The Company granted 246,300 Restricted Stock Awards (“RSAs”) during the year ended December 31, 2020 (December 31, 2019 – nil). The RSAs were measured at their grant date fair value, which is equal to the fair value of the Company's common shares.

Stock compensation expense related to RSAs for the year ended December 31, 2020 was \$18,620 (December 31, 2019 - \$nil).

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### 18. SAFE notes

The following table outlines the SAFE note continuity:

	<b>SAFE notes</b>	<b>Number of Series B preferred shares converted into</b>	<b>Series B preferred shares – to be issued</b>	<b>Number of Series A preferred shares converted into</b>
Balance December 31, 2018	\$ -	-\$ -	-	801,666
Issuance of SAFE notes	19,350,000	-	-	-
Issuance of SAFE notes – Zola business combination	14,078,605	-	-	-
Issuance of SAFE notes – Asclepius asset acquisition	209,800	-	-	-
Issuance of SAFE notes – CrEATe asset acquisition	250,000	-	-	-
Conversion of SAFE notes	(33,888,405)	5,270,086	250,000	-
Balance December 31, 2019	-	5,270,086	250,000	801,666
	-	-	-	-
<b>Balance December 31, 2020</b>	<b>\$ -</b>	<b>5,270,086</b>	<b>\$ 250,000</b>	<b>801,666</b>

Under the SAFE note agreements, the Company is required to issue preferred shares of the Company subject to a valuation cap, upon the occurrence of certain events. The SAFE notes have no stated expiry date. In the event of a financing of preferred shares, the Company would automatically issue to the investors the number of preferred shares equal to the purchase amount at the financing price, less any stated discounts. In the event of a liquidity event, the investors may elect to receive a cash payment equal to the purchase amount, or the number of common shares equal to the purchase price divided by the liquidity price, being the price paid under the liquidity event. In the event of a dissolution event, the investors are to receive a cash payment equal to the purchase amount.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 19. Income taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate for the year ended December 31, 2020 of 29.84% (December 31, 2019 – 29.84%) to the income for the year and is reconciled as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Income (loss before taxes)	\$ (57,876,954)	\$ (74,968,726)
Income tax expense (recovery) based on statutory rate	(17,270,483)	(22,370,668)
Non-deductible expenses	14,587,526	18,055,337
Change in benefits not recognized	695,574	6,603,835
Deferred tax liability recorded upon business combination	-	(1,606,113)
Impact from change in statutory tax rate	-	(1,026,200)
Adjustment to expected income tax benefit	606,795	182,966
Income tax (recovery) expense	<u>\$ (1,380,588)</u>	<u>\$ (160,843)</u>

Income tax (recovery) expense is comprised of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current tax expense	\$ 277,067	\$ 67,153
Deferred tax recovery	(1,657,655)	-
Income tax (recovery) expense	<u>\$ (1,380,588)</u>	<u>\$ 67,153</u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 19. Income taxes (continued)

The Company's deferred tax assets and liabilities are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Deferred tax assets</b>		
Right-of-use asset	\$ 2,228,928	\$ 1,135,786
Other deferred assets	<u>309,720</u>	<u>390,049</u>
Deferred tax assets	2,538,648	1,525,835
Set-off of tax	<u>-</u>	<u>(1,525,835)</u>
<b>Net deferred tax asset</b>	<b>\$ 2,538,648</b>	<b>-</b>
<b>Deferred tax liabilities</b>		
Property and equipment	\$ 34,884	\$ 184,457
Biological assets	1,155,160	1,341,378
Intangible assets	957,030	1,364,055
Other deferred tax liabilities	<u>97,974</u>	<u>-</u>
Deferred tax liabilities	2,245,048	2,889,890
Set-off of tax	<u>-</u>	<u>(1,525,835)</u>
<b>Net deferred asset (liability)</b>	<b>\$ 293,600</b>	<b>\$ (1,364,055)</b>

Under Section 280E of the Internal Revenue Code prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting normal business expenses, such as payroll and rent, from gross income (revenue less cost of goods sold). Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for Federal purposes, the IRS has subsequently applied Section 280E to state-legal cannabis businesses. Cannabis businesses operating in states that align their tax codes with the IRC are also unable to deduct normal business expenses from their state taxes. The non-deductible expenses shown in the effective rate reconciliation above is comprised primarily of the impact of applying IRC Section 280E to the Company's businesses that are involved in selling cannabis, along with other typical non-deductible expenses such as lobbying expenses.

The Company evaluates deferred tax assets to ensure that the estimated future taxable income will be sufficient to the amount and timing of recovery. After considering the positive and negative evidence, deferred tax assets are recognized to the extent that future recovery is possible. The benefits not recognized has been applied based on the Company's historical results from operations. If events or circumstances change, the deferred tax assets will be adjusted at that time resulting in an income tax benefit.

The following table summarizes the components of unrecognized temporary differences other than tax losses:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Tax losses	\$ 145,064,805	\$ 124,887,078
Other timing differences	<u>22,958,214</u>	<u>14,574,865</u>
Total unrecognized temporary differences	<b>\$ 168,023,019</b>	<b>\$ 139,461,943</b>

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 19. Income taxes (continued)

The Company has available tax losses that may be carried forward to apply against future years' income for income tax purposes in certain jurisdictions. The Company has accumulated tax losses that expire as follows:

<u>Expiration year</u>	<u>Federal</u>	<u>State and Local</u>	<u>Total</u>
2034	\$ -	\$ 48,671	\$ 48,671
2035	-	3,382,027	3,382,027
2036	-	8,787,634	8,787,634
2037	-	12,061,282	12,061,282
2038	-	28,095,998	28,095,998
2039	-	55,027,208	55,027,208
2040	-	37,661,985	37,661,985
Indefinite	1,474,853	-	1,474,853
Total	\$ 1,474,853	\$ 145,064,805	\$ 146,539,658

The statute of limitations on tax returns for the Internal Revenue Service and California Franchise Tax Board are 3 and 4 years respectively. Net operating losses remains open for examination beyond these statute of limitations for both the Internal Revenue Service and California Franchise Tax Board.

Utilization of net operating loss carryforwards may be subject to limitations in the event of a change in ownership as defined under U.S. IRC Section 382, and similar state provisions. An "ownership change" is generally defined as a cumulative change in the ownership interest of significant stockholders over a three-year period of more than 50 percentage points. The Company experienced ownership change during 2017. Such ownership change could result in a limitation of the Company's ability to reduce future income by net operating loss carryforwards. A formal Section 382 study has not been prepared, so the exact effects of the ownership change are not known at this time. The deferred tax assets include net operating losses of the Company as of the conversion date to a C corporation.

In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted. The Act, among other provisions, reinstates the ability of corporations to carry net operating losses back to the five preceding tax years, has increased the excess interest limitation on modified taxable income from 30 percent to 50 percent. The Company has made a reasonable estimate of the effects on existing deferred tax balances and has concluded that the Act has not had a significant on the deferred tax balances.

The Company operates in a number of tax jurisdictions and are subject to examination of its income tax returns by tax authorities in those jurisdictions who may challenge any item on these returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. In accordance with IFRIC 23 *Uncertain tax positions*, the Company recognizes the effects of uncertain tax positions in the consolidated financial statements after determining that it probable the uncertain tax positions will be sustained.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 20. Operating expenses

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
General and administrative	\$ 27,802,770	\$ 16,082,239
Salaries and benefits	31,896,407	40,424,787
Rent (Note 13)	515,065	141,360
Impairment loss	-	11,149,274
Depreciation	3,061,352	2,390,129
Amortization of intangible assets (Note 10)	2,294,065	1,325,173
	<u>\$ 65,569,659</u>	<u>\$ 71,512,962</u>

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### 21. Interest expense

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Lease liability (Note 13)	\$ 6,948,079	\$ 6,711,148
Line of credit	330,823	1,120,858
Other	3,731	127
	<u>\$ 7,282,633</u>	<u>\$ 7,832,133</u>

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 22. Supplemental cash flow information

Change in working capital	Years ended	
	December 31, 2020	December 31, 2019
Accounts receivables	\$ 557,571	\$ 3,243,974
Biological assets	(5,817,522)	(8,440,340)
Inventories	24,545,738	1,190,350
Prepaid expenses	1,476,358	(2,754,837)
Other current assets	(520,095)	(457,437)
Other non-current assets	16,398	(16,398)
Security deposits	130,673	-
Accounts payable and accrued liabilities	(2,072,098)	9,178,891
	<u>\$ 18,317,023</u>	<u>\$ 1,944,203</u>
Income taxes paid	\$ 4,354	\$ 67,360
Interest paid	\$ 9,071	\$ 50,711
Lease payments paid	\$ 6,859,996	\$ 6,928,485
<b>Non-cash transactions</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
SAFE note redemption	\$ -	\$ 33,888,405
Investment in Tarukino conversion	-	500,000
Note receivable issuances for shares	161,002	123,880
Repurchase liability	-	329,376
Settlement of accounts payable in exchange for shares	51,000	902,372
Shares issued for prepaid services	20,000	-
Increase to indemnification receivable and tax liability	189,000	-

### 23. Related party transactions and balances

#### a) Revolving line of credit

In September 2017, the Company established a line of credit with R&C Brown Associates, LP, a company under common control, that originally allowed for up to \$5,000,000 of borrowings. The line of credit bears interest at 5% per annum and its original maturity date was September 2018. Each draw down on the line of credit is recognized at fair value, with the difference between the fair value and face value representing a contribution from the shareholder, and accordingly the difference is recognized as a contribution in equity.

In September 2018, the maturity date was extended to September 2019 and the line of credit continued to bear interest at 5%.

In September 2019, the line of credit was amended to increase the allowable borrowings to \$10,000,000. The line of credit continued to bear interest at 5% per annum and was set to mature in September 2020. The amendment substantially modified the terms of the line of credit and therefore the amendment was treated as a debt extinguishment. A gain on extinguishment of \$1,290,745 was recognized in equity as a transaction with a shareholder in their capacity as a shareholder during the year-ended December 31, 2019.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 23. Related party transactions and balances (continued)

In March 2020, the line of credit was amended to incorporate a conversion feature which allows for the lender, at their election, at any time, to convert all or any part of the then outstanding principal and accrued and unpaid interest into the Company's Series B preferred stock. The line of credit continued to bear interest at 5% per annum and was set to mature in September 2020.

The introduction of the conversion feature substantially modified the terms of the line of credit and is therefore, treated as a debt extinguishment. Upon initial recognition the fair value of the line of credit is \$12,508,587. A loss on extinguishment of \$1,759,762 was recognized in equity as a transaction with a shareholder in their capacity as a shareholder.

The Company has elected to designate the amended line of credit as a single financial liability at fair value through profit and loss.

In July 2020, the line of credit was further amended to increase the allowable borrowings to \$25,000,000 and to extend the maturity to September 2021. The amendment substantially modified the terms of the line of credit and therefore the amendment was treated as a debt extinguishment.

As at December 31, 2020 the fair value has been remeasured to \$12,117,347. The Company repaid \$2,100,000 during the year ended December 31, 2020 and recognized a revaluation loss of \$1,708,760. The revaluation loss was recognized in the statement of loss and comprehensive loss.

As at December 31, 2020 the Company had a contractual balance outstanding of \$9,817,449, of which \$1,036,913 represents accrued interest (December 31, 2019 – \$11,404,794, of which \$524,430 represented accrued interest).

Refer to Note 21 for interest expense incurred on the line of credit.

#### b) Leases and property management fees

The following table outlines the amounts paid to R&C Brown Associates, LP:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Consulting fees	\$ -	\$ 540,000
Rent expense	6,000	6,000
Lease payments – recorded as a reduction of the lease liability	5,092,373	5,319,406
	<u>\$ 5,098,373</u>	<u>\$ 5,865,406</u>

Included in lease liabilities as at December 31, 2020 is \$49,299,275 (December 31, 2019 - \$52,963,814) owed to R&C Brown Associates, LP related to property and vehicle leases.

#### c) Key management personnel

Key management of the Company are its Board of Directors and members of executive management. Key management personnel remuneration includes the following payments:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Share-based compensation	\$ 396,487	\$ 519,935
Salaries and benefits	731,651	793,560
	<u>\$ 1,128,138</u>	<u>\$ 1,313,495</u>

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 24. Commitments and contingencies

#### a) Investment in joint venture

The Company is committed to cash capital contributions to the investment in joint venture. Refer to Note 11 for further details.

#### b) California operating licenses

The Company's primary activity is the cultivation and sale of adult use cannabis pursuant to California law. However, this activity is not in compliance with the United States Controlled Substances Act (the CSA). The Company's assets are potentially subject to seizure or confiscation by governmental agencies and the Company could face criminal and civil penalties for noncompliance with the CSA. Management of the Company believes they are in compliance with all California and local jurisdiction laws and monitor the regulatory environment on an ongoing basis along with counsel to ensure the continued compliance with all applicable laws and licensing agreements.

The Company's operation is sanctioned by the State of California and local jurisdictions. There have been no instances of federal interference with those who adhere to those guidelines. Due to the uncertainty surrounding the Company's noncompliance with the CSA, the potential liability from noncompliance cannot be reasonably estimated and the Company may be subject to regulatory fines, penalties or restrictions in the future.

Effective January 1, 2018, the State of California allowed for adult use cannabis sales. California's cannabis licensing system is being implemented in two phases. First, beginning on January 1, 2018, the State began issuing temporary licenses that expired 120 days after issuance for retail distribution, manufacturing and cultivation permits. Temporary licenses can be extended in 90-day increments by the State upon submission of an annual license application. All temporary licenses have been granted extensions by the State during 2018 and the Company obtained its annual, non-temporary licenses in 2019. The Company's prior licenses obtained from the local jurisdictions it operated in have been continued by such jurisdictions and are necessary to obtain state licensing.

The Company has received annual licenses from its local jurisdiction in which it actively operates. Although the Company believes it will continue to receive the necessary licenses from the State to conduct its business in a timely fashion, there is no guarantee its clients will be able to do so and any failure to do so may have a negative effect on its business and results of operations. Additional regulations relating to testing came into effect on July 1, 2018 (Phase II testing requirements) required the clients to sell products that would be non-compliant prior to that date, causing a loss of margin due to discounts that had to be provided to ensure that such products were sold prior to July 1. Due to the additional testing requirements effective July 1, 2018, the California market and the clients experienced a shortage in supply of compliant cannabis products.

#### c) Other legal matters

From time to time in the normal course of business, the Company may be subject to legal matters such as threatened or pending claims or proceedings. We are not currently a party to any material legal proceedings or claims, nor are we aware of any pending or threatened litigation or claims that could have a material adverse effect on our business, operating results, cash flows or financial condition should such litigation or claim be resolved unfavorably.

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### 25. Financial instruments

#### *Fair values*

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the observability of significant inputs used in making the measurements.

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

The carrying values of cash, accounts receivables, accounts payables and accrued liabilities, line of credit (until March 2020), consideration payable, and loan payable approximate their fair value due to their short-term to maturity.

# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

### 25. Financial instruments (continued)

The following table provides information about how the fair values as at December 31, 2020 and December 31, 2019, of the Company's other financial instruments are determined:

	December 31, 2020	December 31, 2019	Fair value hierarchy and technique	Key inputs
Investment in Tarukino	\$591,545	\$500,000	Level 3 – market approach	Earnings multiple
Line of credit	\$12,117,347	-	Level 3 - income approach	Instrument specific spread, fair value of Series B preferred share

Investment in Tarukino – The fair value of this investment was determined based on an appropriate equity pricing model that takes into account the investee's dividends policy and its historical and expected future performance based on an appropriate growth factor for a similar listed entity and a risk adjusted discount rate.

Line of credit – The fair value of this financial instrument was determined using a combination of a binomial lattice model and option pricing methodology. This allowed for the calculation of a probability-weighted present value based on comparing the payoffs under scenarios where the holder holds the instrument to collect interest payments or converts the instrument into preferred shares. Inputs used in determining the fair value of the line of credit include an instrument specific risk-adjusted discount rate of 28.05% and a Series B preferred share price of \$7.18. Decreasing the instrument specific spread from 20% to 10% increases the fair value of the line of credit by \$79,006. Increasing or decreasing the estimated fair value of Series B preferred shares by \$1.00 from \$7.18 results in a \$1,641,543 increase or \$3,011,785 decrease in the fair value of the line of credit.

#### Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its line of credit carries fixed interest rates throughout their term.

#### Credit Risk

Credit risk arises from deposits with banks and outstanding trade receivables. For trade receivables, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparts and, accordingly, does not anticipate significant loss for non-performance. The maximum exposure to credit risk as at December 31, 2020 approximates \$11,410,068 (December 31, 2019 - \$29,107,278) of cash and accounts receivables on the statement of financial position.

As at December 31, 2020 and December 31, 2019 the Company's aging of receivables was approximately as follows:

	December 31, 2020	December 31, 2019
0-60 day	\$ 992,464	\$ 2,318,854
61-120 days	2,195,230	1,170,090
Gross receivables	3,187,694	3,488,944
Less allowance for expected credit losses	(1,011,573)	(352,660)
	\$ 2,176,121	\$ 3,136,284

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 25. Financial instruments (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at December 31, 2020 the Company had \$9,233,947 (December 31, 2019 - \$25,714,673) of cash and working capital (deficiency) of (\$9,678,196) (December 31, 2019 - \$21,285,080).

The Company is obligated to the following contractual maturities of undiscounted cash flows at December 31, 2020:

	Carrying amount	Contractual cash flows	2021	2022	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	\$ 19,645,098	19,645,098	19,645,098	-	-	-	-	-
Line of credit	\$ 12,117,347	9,817,449	9,817,449	-	-	-	-	-
Consideration payable	\$ 2,458,844	2,458,844	2,458,844	-	-	-	-	-
Put option and non-exercise commitment	\$ 11,323,333	16,316,934	-	16,316,934	-	-	-	-
Paycheck Protection Program loan	\$ 5,819,450	5,819,450	5,819,450	-	-	-	-	-
Lease liabilities	\$ 60,561,305	204,168,811	6,901,841	7,484,116	7,665,903	7,886,324	7,974,752	166,255,875
<b>Total</b>	<b>\$ 111,925,377</b>	<b>258,226,586</b>	<b>44,642,682</b>	<b>23,801,050</b>	<b>7,665,903</b>	<b>7,886,324</b>	<b>7,974,752</b>	<b>166,255,875</b>

As described in Note 28, the Company was acquired subsequent to the year-end. As a result of the acquisition, the line of credit was fully repaid and the put option and non-exercise commitment was extinguished.

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### 26. Capital management

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

The Company considers its capital to be total equity. The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2020 and December 31, 2019. The Company is not subject to any external capital requirements.

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### 27. COVID-19

Since being declared a global pandemic on March 11, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including the United States, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

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# CMG Partners, Inc.

## Notes to the consolidated financial statements

(in United States dollars)

For the year ended December 31, 2020 and 2019

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### 28. Subsequent events

#### *Acquisition*

On November 24, 2020 the Company entered into a definitive transaction agreement with TPCO Holding Corp (“TPCO”), formerly Subversive Capital Acquisition Corp., whereby TPCO will acquire all of the outstanding shares of the Company. The acquisition of the Company closed on January 15, 2021.

In connection with the acquisition, the Company’s line of credit was fully repaid on January 15, 2021.

On January 19, 2021, the put option and non-exercise liability was extinguished as a result of the Brand Strategist Agreement being terminated and replaced by an agreement between the original counterparty and TPCO.

**SCHEDULE "B"**

**LCV ANNUAL FINANCIAL STATEMENTS**

(see attached)

# Left Coast Ventures, Inc., And Subsidiaries

Consolidated Financial Statements  
December 31, 2020 and 2019

**LEFT COAST VENTURES, INC., AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	3
<b>CONSOLIDATED FINANCIAL STATEMENTS:</b>	
Consolidated Statements of Financial Position	5
Consolidated Statements of Operations and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and  
Stockholders of Left Coast Ventures, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of Left Coast Ventures, Inc. (the Company), which comprise the consolidated financial position as of December 31, 2020 and 2019 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years ended December 31, 2020 and December 31, 2019, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Left Coast Ventures, Inc. as of December 31, 2020 and 2019, and the results of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report. We are required to be independent of Left Coast Ventures, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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 Responsibility for the Audit of the Consolidated Financial Statements**

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

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

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

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

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.

Armanino<sup>LLP</sup>  
Certified Public Accountants  
Bellevue, Washington, United States of America

March 12, 2021

**LEFT COAST VENTURES, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in United States Dollars)**

	December 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,635,616	\$ 6,582,872
Restricted cash	705,350	650,022
Accounts receivable (note 1.7)	1,174,891	4,425,096
Inventories (note 8)	6,807,639	686,467
Notes receivable (note 4 and 5)	-	6,707,221
Notes receivable - related party (note 14)	-	200,000
Prepays and other current assets (note 6)	604,800	3,048,990
	11,928,296	22,300,668
Right-of-use asset (note 15)	3,111,112	2,546,801
Property, plant and equipment, net (note 1 and 9)	3,334,969	543,578
Intangible assets (note 1 and 10)	15,499,415	75,833
Goodwill (note 10)	5,870,714	-
Equity method investments (note 7)	4,751,269	4,590,393
Other assets	2,187,000	418,396
<b>Total assets</b>	<b>\$ 46,682,775</b>	<b>\$ 30,475,669</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 5,570,468	\$ 594,784
Accrued and other current liabilities	4,685,444	1,028,457
Income tax payable (note 13)	4,917,669	
Current portion of lease liabilities (note 1 and 15)	895,803	193,681
Current portion of contingent consideration (note 4)	2,083,677	-
Current portion of notes payable (note 11)	15,400,000	-
Current portion of convertible notes payable, net of debt discount (note 11)	24,037,312	-
	57,590,373	1,816,922
Convertible notes payable, net of debt discount (note 11)	-	19,810,175
Derivative liability (note 11)	23,741,000	6,372,000
Warrant liability (note 11.2)	18,600,000	-
Lease liabilities (note 1 and 15)	2,720,760	2,489,301
Contingent consideration (note 4)	320,821	-
Deferred tax liabilities (note 13)	4,397,386	-
Other long-term liabilities	1,642,646	-
<b>Total liabilities</b>	<b>109,012,986</b>	<b>30,488,398</b>
<b>Stockholders' equity (deficit)</b>		
Common Stock A, \$0.001 par value, 209,000,000 shares authorized, 111,623,377, and 109,186,854 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively (note 12)	11,154	10,904
Common Stock B, \$0.001 par value, 165,000,000 shares authorized, 54,925,656, and 54,925,656 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively (note 12)	5,493	5,493
Contributed surplus	18,324,519	18,027,800
Share-based payment reserve	277,490	52,118
Accumulated deficit	(80,948,867)	(18,109,044)
<b>Total stockholders' (deficit)</b>	<b>(62,330,211)</b>	<b>(12,729)</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 46,682,775</b>	<b>\$ 30,475,669</b>

*See accompanying notes to consolidated financial statements.*

Going Concern (Note 2)  
Commitments and Contingencies (Note 16)  
Subsequent Events (Note 17)

**LEFT COAST VENTURES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(Expressed in United States Dollars)**

	Year ended December 31, 2020	Year ended December 31, 2019
Revenue (note 1)	\$ 22,315,883	\$ 9,884,626
Cost of goods sold	17,173,534	10,027,927
Cost of goods sold - depreciation (note 9)	462,266	448,167
Gross profit (loss)	4,680,083	(591,468)
Operating expenses:		
Sales and marketing	3,092,098	3,366,028
General and administration	11,737,400	6,857,515
Depreciation and amortization (note 9)	1,258,132	297,734
Total operating expenses	16,087,630	10,521,277
Loss from operations	(11,407,547)	(11,112,745)
Other income (expenses):		
(Loss) gain on change in fair value of derivative liability (note 11)	(16,884,000)	1,115,000
Loss on change in fair value of warrant liability (note 11)	(14,525,926)	-
Loss on change in fair value of note payable at fair value through profit or loss (note 11)	(9,474,074)	-
Loss on change in fair value of contingent consideration (note 4)	(1,734,498)	-
Gain on debt modification (note 11)	1,505,967	-
Finance costs (note 11)	(6,746,027)	(2,112,581)
Other expense	(3,961,474)	(450,005)
Income (loss) from non-controlling subsidiary (note 1 and note 7)	160,876	(1,909,663)
Total other expenses	(51,659,156)	(3,357,249)
Net loss before taxes	(63,066,703)	(14,469,994)
Income tax benefit (note 13)	226,880	-
Net loss and comprehensive loss	\$ (62,839,823)	\$ (14,469,994)

*See accompanying notes to consolidated financial statements.*

**LEFT COAST VENTURES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Expressed in United States Dollars)**

	Common Stock A		Common Stock B		Contributed Surplus	Share-based Payment Reserve	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2018</b>	25,273,442	\$ 2,527	65,000,000	\$ 6,500	\$ 5,460,336	\$ 16,190	\$ (3,639,050)	\$ 1,846,503
Issuance of common stock (note 12.1)	-	-	75,000,000	7,500	12,442,500	-	-	12,450,000
Issuance of vested restricted stock (note 12.3)	389,592	39	-	-	8,555	(8,594)	-	-
Return of common stock (note 12.2)	-	-	(6,445,982)	(644)	644	-	-	-
Forfeiture and cancellation of common stock	-	-	(234)	-	-	-	-	-
Transfer of common stock class (note 12.1)	78,628,128	7,863	(78,628,128)	(7,863)	-	-	-	-
Exercise of stock options (note 12.2)	4,750,393	475	-	-	115,538	(47,646)	-	68,367
Forfeited and expired stock options	-	-	-	-	227	(227)	-	-
Stock-based compensation (note 12.2)	-	-	-	-	-	92,395	-	92,395
Net loss	-	-	-	-	-	-	(14,469,994)	(14,469,994)
<b>Balance at December 31, 2019</b>	109,041,555	10,904	54,925,656	5,493	18,027,800	<b>52,118</b>	(18,109,044)	(12,729)
Shares issued in connection with acquisition of Fluid South, Inc. and Capitol Cocoa, Inc. (note 4)	<b>2,367,137</b>	<b>237</b>	-	-	<b>284,231</b>	-	-	<b>284,468</b>
Issuance of vested restricted stock (note 12.3)	56,250	6	-	-	564	(570)	-	-
Exercise of stock options (note 12.2)	69,386	7	-	-	5,781	(174)	-	5,614
Forfeited and expired stock options (note 12.2)	-	-	-	-	6,143	(6,143)	-	-
Stock-based compensation (note 12.2)	-	-	-	-	-	232,259	-	232,259
Net loss	-	-	-	-	-	-	(62,839,823)	(62,839,823)
<b>Balance at December 31, 2020</b>	111,534,328	\$ 11,154	54,925,656	\$ 5,493	\$ 18,324,519	\$ 277,490	\$ (80,948,867)	\$ (62,330,211)

*See accompanying notes to consolidated financial statements.*

**LEFT COAST VENTURES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in United States Dollars)**

	Year Ended December 2020	Year Ended December 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(62,839,823)	(14,469,994)
Add (deduct) items not involving cash:		
Loss/(Gain) on change in fair value of derivative liabilities (note 11)	16,884,000	(1,115,000)
Loss on change in fair value of warrant liability (note 11)	14,525,926	-
Loss on change in fair value of contingent consideration (note 4)	1,734,498	-
Loss on change in fair value of note payable at fair value through profit or loss (note 11)	9,474,074	-
Gain on debt modification (note 11)	(1,505,967)	-
(Gain) loss from non-controlling subsidiaries (note 6)	(160,876)	1,909,663
Loss on disposal of property, plant and equipment	6,115	-
Depreciation expense (note 9)	545,246	508,786
Amortization of intangible assets (note 10)	166,418	15,167
Amortization of debt discount (note 11)	4,553,104	1,857,755
Depreciation of right-of-use assets (note 15)	1,008,734	221,948
Stock compensation expense (note 12.2)	232,259	92,395
Deferred income taxes (note 13)	(226,880)	-
Other	(248,396)	-
Change in non-cash working capital:		
Accounts receivable	116,344	(4,112,431)
Accounts receivable - related party (note 14)	-	671,508
Inventories (note 8)	(4,821,302)	(673,731)
Prepays and other current assets (note 6)	1,077,439	(3,675,821)
Other assets	258,975	(389,647)
Accounts payable	3,864,795	131,092
Accrued and other current liabilities	3,297,495	700,230
Other liabilities	260,641	(48,585)
Net cash used in operating activities	(11,797,181)	(18,376,665)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in non-controlling subsidiary (note 6)	-	(6,500,056)
Acquisition of Fluid South, Inc. and Capitol Cocoa, Inc., net of cash received (note 4)	(3,226,478)	-
Issuance of notes receivable (note 5)	-	(4,257,221)
Issuance of notes receivable - related party (note 14)	(667,000)	(200,000)
Receipt of payment on notes receivable - related party (note 14)	867,000	200,000
Proceeds from disposal of property, plant and equipment	7,000	-
Purchases of property, plant and equipment (note 8)	(410,141)	(312,223)
Net cash used in investing activities	(3,429,619)	(11,069,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock (note 12.1)	-	10,000,000
Proceeds from exercise of stock options (note 12.2)	5,614	68,367
Proceeds from issuance of convertible notes payable (note 11)	1,665,000	25,439,420
Proceeds from issuance of note payable (note 11)	10,000,000	-
Proceeds from forgivable loan (note 11.3)	248,396	-
Payment of principal portion of lease liabilities (note 14)	(639,466)	(85,767)
Net cash provided by financing activities	11,279,544	35,422,020
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,947,256)	5,975,855
Cash and cash equivalents, beginning of the period	6,582,872	607,017
Cash and cash equivalents, end of the period	\$ 2,635,616	\$ 6,582,872
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 14,018	\$ 689
Cash paid for income taxes	\$ -	\$ 90,885
<b>NON-CASH ACTIVITIES</b>		
Debt discount related to convertible debt	\$ 485,000	\$ 7,487,000
Right-of-use assets obtained in exchange of lease liabilities	1,573,045	2,768,749
Common shares issued for acquisitions	284,468	-
Issuance of contingent liabilities for acquisitions	670,000	-
Notes receivable forgiven for acquisitions	6,707,221	-
Common shares issued in exchange for notes receivable	-	2,450,000

*See accompanying notes to consolidated financial statements.*

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Nature of Operations and Summary**

***1.1 Background***

Headquartered in Santa Rosa, CA, Left Coast Ventures, Inc. ("LCV" or the "Company") is a diversified cannabis and hemp company specializing in extraction, manufacturing, brand development, and distribution. Left Coast Ventures and its subsidiaries are working to shape the future of the legal cannabis industry in the United States through acquisitions, investments, and incubation while building a respected portfolio of top shelf brands. Wholly owned, licensed, and/or distributed brands within the Left Coast Venture's portfolio include: Marley Natural™, Mind Your Head™ by Mickey Hart, Mirayo™ by Carlos Santana, Chill™, JEF™, Headlight™, Get Zen™, Half Lit™, New Frontier™, SoulSpring™ CBD, and Provault™ CBD.

Left Coast Ventures, Inc. was incorporated in Delaware and registered in California on June 22, 2018 and began operations on August 1, 2018. Left Coast Ventures is comprised of the following wholly-owned subsidiaries: Sturdivant Ventures, LLC (dba Landseye), Rever Holdings, LLC (Eko Holdings, LLC and Lief Holdings, LLC), Fluid South, Inc. and Capitol Cocoa, Inc (dba Sol Distro). Left Coast Ventures holds a 34% interest in SKRRR, LLC and Half Moon Grow, Inc. through wholly-owned holding company LCV Holdings HMG, LLC. Left Coast Ventures also distributes third-party brands that include Big Pete's Treats, High Gorgeous and Yummi Karma.

***1.2 Basis of Presentation***

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for future quarters or for the full year.

***1.3 Functional and Presentation Currency***

The Company and its subsidiaries' functional currency, as determined by management, is the United States ("U.S.") dollar. These consolidated financial statements are presented in U.S. dollars.

***1.4 Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

<u>Business name</u>	<u>December 31, 2020 ownership %</u>	<u>December 31, 2019 ownership %</u>
Sturdivant Ventures, LLC	100%	100%
Eko Holdings, LLC	100%	100%
Lief Holdings, LLC	100%	100%
Capitol Cocoa, Inc.	100%	-
Fluid South, Inc.	100%	-

Intercompany transactions and balances are eliminated at consolidation.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***1.5 Use of Estimates and Judgments***

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

*Impact of COVID-19*

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. Certain accounting judgments and estimates performed by the Company require consideration of forecasted financial information in the context of the information reasonably available and the unknown future impact of the COVID-19 pandemic could result in a material adverse impact to the consolidated financial statements in future periods.

*Going concern*

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2020. Refer to Note 2.

*Business combination*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations 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. Refer to Note 1.14.

*Inventories*

Inventories of are valued at the lower of cost and net realizable value. Management determines net realizable value which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Fair value of financial assets and financial liabilities*

Fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position, which cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

*Fair value of stock options and warrants*

Management uses the Black-Scholes option-pricing model to calculate the fair value of stock options and warrants. Use of this method requires management to make assumptions and estimates about the expected life of options and warrants, anticipated forfeitures, the risk-free rate, and the volatility of the Company's share price. In making these assumptions and estimates, management relies on historical market data.

*Estimated useful lives, impairment considerations, depreciation of property, plant and equipment, and amortization of intangible assets*

Depreciation of property, plant and equipment and amortization of intangible assets is dependent upon estimates of useful lives based on management's judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

*Goodwill and intangible assets*

Goodwill and indefinite life intangible asset impairment testing require management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. Impairment is influenced by judgment in defining a cash-generating unit ("CGU") and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable amount is the greater of value in use and fair value less costs to sell. The recoverable value of goodwill, indefinite and definite long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding projected future cash flows and capital investment, growth rates and discount rates.

*Control, joint control or level of influence*

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. When the Company does not control, but exercises significant influence over, an investee, the Company accounts for the investment under the equity method of accounting. Refer to Note 1.15.

**1.6 Financial Instruments**

*Classification*

On initial recognition, the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income (FVOCI)

The classification under IFRS 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cashflows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity investments that are not held for trading, the Company may irrevocably elect, on initial recognition, to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives), or if the Company has chosen to evaluate them at FVTPL.

The classification of financial instruments under IFRS 9 is as follows:

<b>Financial Instrument</b>	<b>Classification under IFRS 9</b>
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Accounts receivable - related party	Amortized cost
Notes receivable	Amortized cost
Notes receivable - related party	Amortized cost
Accounts payable	Amortized cost
Accrued and other current liabilities	Amortized cost
Convertible notes payable issued	Amortized cost
Note payable	FVTPL
Contingent consideration	FVTPL
Derivative liability	FVTPL
Warrant liability	FVTPL
Lease liability	Amortized cost
Other non-current liabilities	Amortized cost

*Measurement*

**Initial recognition** – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

**Amortized cost** – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

**Fair value through profit or loss** – Changes in fair value after initial recognition, whether realized or not, are recognized through the statements of net loss and comprehensive loss. Income arising in the form of interest, dividends, or similar, is recognized through the statements of net loss and comprehensive loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Fair value through other comprehensive income – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of net loss and comprehensive loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

*Impairment*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its accounts receivable.

*Derecognition*

Financial assets – The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the statements of loss and comprehensive loss.

Financial liabilities – The Company derecognizes a financial liability when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

**1.7 Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**1.8 Restricted Cash**

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company. As of December 31, 2020 and December 31, 2019, the Company had restricted cash in the amounts of \$705,350, and \$650,022, respectively, which is related to a Letter of Credit with BridgeBank for the security deposit for the Santa Rosa office (Sturdivant) located in California.

**1.9 Accounts Receivable**

Accounts receivable are carried at the original invoiced amount less credit losses. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company assesses whether a loss allowance is needed based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement. The Company incurred \$37,026 bad debt expense for the year ended December 31, 2020, and no bad debt expense for the year ended December 31, 2019. As at December 31, 2020 and December 31, 2019 the allowance for credit losses amounted to \$105,977 and \$0, respectively.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***1.10 Inventories***

Inventories of the Company's finished goods and raw materials are valued at the lower of cost or net realizable value ("NRV") as in accordance with IAS 2.9. Inventories are carried at NRV whenever such becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at cost. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. Inventory items identified to be obsolete and unusable are written off and charged as expense in the period such losses are identified. The Company had a reserve balance of \$51,669 and \$0 at December 31, 2020 and December 31, 2019, respectively.

***1.11 Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Depreciation is calculated on a straight-line basis over the expected useful life of the asset as follows:

Computer equipment	2 years
Machinery and equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years
Leasehold improvements	Remaining life of lease

The property, plant and equipment's residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted if appropriate, at each financial year-end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated financial statement of operations in the year the asset is derecognized.

***1.12 Intangible Assets***

Intangible assets are acquired at fair value at the acquisition date. Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Tradenames recognized upon acquisition are amortized on a straight-line basis over the expected useful life of 6 years. Licenses recognized upon acquisition are deemed to have an indefinite useful life and tested for impairment annually.

***1.13 Impairment of Non-financial Assets***

The Company assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount, which is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, if any, are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations, unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

***1.14 Business Combinations***

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of the assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

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 these assets and liabilities. 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.

Management exercises judgement in estimating the probability and timing of when contingent payments are expected to be made and at what amounts, which is used as the basis for estimating fair value. 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 these assets and any changes in the discount rate applied.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

When the initial accounting for a business combination has not been finalized by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting has not been finalized. These provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Combinations of businesses that meet the common control scope exception of IFRS 3, Business Combinations (IFRS 3), are accounted for using the predecessor value method. Assets and liabilities received are measured at the book values in the financial statements of the transferred company. Use of the predecessor value method does not give rise to goodwill.

***1.15 Equity Method Investments***

The Company accounts for partner companies whose results are not consolidated, but over which it exercises significant influence, under the equity method of accounting. Whether or not the Company exercises significant influence with respect to a partner company depends on an evaluation of several factors including, among others, representation of the Company on the partner company's board of directors and the Company's ownership level, which is generally a 20% to 50% interest in the voting securities of a partner company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the company. Under the equity method of accounting, the Company does not reflect a partner company's financial statements within the Company's Consolidated Financial Statements; however, the Company's share of the income or loss of such partner company is reflected in Other income (loss) in the Consolidated Statements of Operations and Comprehensive Loss. The Company includes the carrying value of equity method partner companies in ownership interests in and advances to partner companies on the Consolidated Statements of Financial Position. The Company reflects its share of the income or loss of the equity method partner companies on a one quarter lag. This reporting lag could result in a delay in recognition of the impact of changes in the business or operations of these partner companies.

When the Company's carrying value in an equity method partner company is reduced to zero, the Company records no further losses in its Consolidated Statements of Operations and Comprehensive Loss unless the Company has an outstanding guarantee obligation or has committed additional funding to such equity method partner company. When such equity method partner company subsequently reports income, the Company will not record its share of such income until it exceeds the amount of the Company's share of losses not previously recognized.

***1.16 Fair Value Measurements***

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities, are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

***1.17 Leases***

The Company leases certain business facilities and vehicles from third parties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions; the Company assesses whether a contract is, or contains, a lease at the inception of the contract. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. In an operating lease, lease payments were recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed. Any prepaid rent and accrued rent were recognized under other current assets and other current liabilities, respectively.

The Company adopted IFRS 16, Leases, for any existing contracts in effect or new contracts entered into on or after January 1, 2019. From January 1, 2019, right-of-use assets and corresponding lease liabilities are recognized for all leases at the commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (Notes 1.22 and 15).

***1.18 Debt with Warrants and Convertible Options***

The Company issues debt that may have separate warrants, conversion features or no equity-linked attributes which are accounted for as compound or hybrid financial instruments based on its features.

Convertible notes and debt with warrants classified as compound financial instruments are accounted for separately by their components. When a conversion feature or warrant has a variable conversion rate, the component is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost using the effective interest method. No gain or loss is recognized at maturity or early conversion of the debt.

For convertible notes and debt with warrants classified as hybrid financial instruments, the Company elects on an instrument by instrument basis to bifurcate embedded derivatives or fair value of the entire instrument.

***1.19 Revenue Recognition***

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues are generally recognized upon the transfer of control of promised products provided to our customers, reflecting the amount of consideration the Company expects to receive for those products. The Company entered into contracts that can include various products, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. The revenue recognition policy is consistent for sales generated directly with customers and sales generated indirectly through solution partners and resellers.

Revenues are recognized upon the application of the following steps:

1. Identification of a contract or contracts with a customer;
2. Identification of performance obligation(s) in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, the performance obligation is satisfied.

Contracts with customers are at the point of sale and while often include transfer multiple products to a customer; they do not require future obligations. The Company generally considers each transferred product as a separate performance obligation. Company products are generally sold without a right of return, except for the extremely rare instance of a significant product defect identified upon delivery. This type of warranty is not considered a separate performance obligation.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company allocates the transaction price for each contract to each performance obligation based on the relative standalone selling price ("SSP") for each performance obligation. The Company uses judgment in determining the SSP for products. The Company typically determines an SSP range for the products which is reassessed on a periodic basis or when facts and circumstances change. For all performance obligations (multiple products), the Company is able to determine SSP based on the observable prices of products sold separately in comparable circumstances to similar customers.

In certain instances, the Company may provide incentives and discounts. The discounts are generally applied to promotional products. The discounts are determinable and fixed at the inception of the contract and accounted for as a reduction of the purchase price. Contracts do not include a significant financing component.

The majority of the Company's customer contracts, which may be in the form of purchase orders, contracts or purchase agreements, contain performance obligations for delivery of agreed upon products. Typically, when a customer contract contains multiple performance obligations, satisfaction of these obligations occurs simultaneously, at a single point in time (or within the same accounting period). Transfer of control typically occurs at the time of delivery and title and the risks and rewards of ownership have passed to the customer, and the Company has a right to payment. Thus, the Company will generally recognize revenue upon delivery of the product (i.e. revenue is recognized at a point in time upon transfer of control over a product to our customers). Contract assets are recognized when performance completed in advance of billings. All shipping and handling activities are performed before the customers obtain control of products and accounted for as cost of goods sold.

The Company does not have any customer contracts that meet the definition of unsatisfied performance obligations in accordance with IFRS 15 Revenue from Contracts with Customers.

The Company has one primary source of revenue, wholesale sales primarily due to the Company's contracts with its customers.

### ***1.20 Stock-Based Payments***

Valuation of stock-based compensation and warrants requires management to make estimates regarding the inputs for option pricing models, such as the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used. Actual results could differ from those estimates. The estimates are considered for each new grant of stock options or warrants.

### ***1.21 Income Taxes***

Income tax expense comprises current and deferred tax. It is recognized in the consolidated statement of profits and losses except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 12 – IFRIC 23. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable with respect to previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

As the Company operates in the cannabis industry, it is subject to the limits of the Internal Revenue Code (IRC) Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

***1.22 Accounting pronouncements adopted***

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company early adopted IFRIC 23 as of December 2018 and the standard did not have a material impact to the consolidated financial statements

***IFRS 16, Leases***

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged as under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. In the context of initial application, the Company has exercised the option not to apply the new recognition requirements to short-term leases and to leases of low-value assets. The Company also made the election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. The comparative information contained within these consolidated financial statements has not been restated and continues to be reported under previous lease standards. The application of the standard has resulted in a change in the Company's accounting policy for recognition of leases.

Upon adopting, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted-average incremental borrowing rate of 24.73% as at January 1, 2019.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Company applied the following practical expedients permitted by the standard:

- Application of the short-term leases exemption to leases with a remaining lease term of less than 12 months as at the date of initial application,
- Combination of each lease component and any associated non-lease components as a single lease component, and
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the previous determinations pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease have been maintained.

Based on the foregoing, the impact of the change in accounting policy on January 1, 2019, is summarized below:

- Right-of-use assets of \$38,141 were recognized,
- Property, plant and equipment of \$38,141 related to lease assets recognized previously under finance leases was derecognized,
- Lease liabilities of \$38,141 were recognized, including current portion of \$12,024.

The following represents the reconciliation of lease liabilities as at January 1, 2019 to the operating lease commitments as at December 31, 2018:

<b>Reconciliation of lease liabilities</b>	
Operating lease commitments as at December 31, 2018	\$ 229,990
Relief option for short-term leases	(229,990)
Undiscounted lease payments	-
Discounted using the lessee's incremental borrowing rate at the date of initial application	-
Lease liabilities for leases classified as operating leases under IAS 17	-
Add leases previously classified as finance leases under IAS 17	38,141
Lease liabilities due to initial application of IFRS 16 as at January 1, 2019	\$ 38,141

The finance lease as at December 31, 2018 was recorded in other liabilities.

*Conceptual Framework*

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company adopted this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting did not have a material impact on the consolidated financial statements.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Definition of a Business*

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020 and is to be applied prospectively. The Company adopted the amendment to IFRS 3 in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the amendment to IFRS 3 did not have a material impact on the consolidated financial statements.

**Note 2: Going Concern**

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company had an accumulated deficit of \$79,771,298 and \$18,109,044 December 31, 2020 and December 31, 2019, respectively, and had a net loss of \$61,662,254 and \$14,469,994 the years ended December 31, 2020 and December 31, 2019, respectively. The Company had negative working capital of \$40,772,198 and positive working capital of \$20,483,746 as at December 31, 2020 and December 31, 2019, respectively. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. While the Company is attempting to increase operations and generate additional revenues, the Company's cash position may not be significant enough to support the Company's daily operations over the next twelve months, indicating the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

Management believes that the actions presently being taken to further implement its business plan, generate additional revenues, and raise funds via debt or equity issuances provide the opportunity for the Company to continue as a going concern. While the Company believes in the viability of its strategy to generate additional revenues and in its ability to raise additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan and generate additional revenues. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**Note 3: Financial Instruments and Risk Management**

*Capital Management*

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company defines capital as net equity and debt, comprised of issued common shares and accumulated deficit, as well as notes payable. The Company seeks to ensure that it has sufficient cash resources to maintain its ongoing operations and finance its corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through issuance of notes payables. There have been no changes to the Company's capital management since the prior fiscal year. The Company is not subject to externally imposed capital requirements.

*Financial Instruments*

The Company initially recognizes cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities, and convertible notes payable on the date they originate. All other financial assets and financial liabilities are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company measures financial instruments by grouping them into classes upon initial recognition, based on the purpose of the individual instruments. The Company initially measures all financial instruments at fair value plus, in the case of financial instruments not classified as FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial instruments.

*Financial Risk Factors*

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and amounts due from related parties. The Company regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

The aging of the Company's accounts receivable as at December 31, 2020 was as follows:

	Current	1-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due	Total
As at December 31, 2020	\$ 673,652	\$ 542,971	\$ 64,778	\$ (16,167)	\$ (90,343)	\$ 1,174,891
As at December 31, 2019	\$ 839,308	\$ 557,708	\$ 291,165	\$ 305,514	\$ 2,431,401	\$ 4,425,096

As at December 31, 2019, \$3,650,710 of the total accounts receivable of \$4,425,096 represented accounts receivable due from Sol Distro. The receivables due from Sol Distro included \$2,415,190 of the receivables in the over 91 days past due aging bucket. On, February 3, 2020, all accounts receivable due from Sol Distro were settled as part of the acquisition of Fluid South and Capitol Cocoa by the Company and included in the purchase consideration. See Note 4 for additional details. The Company had no expected credit losses as it was negotiated with Sol Distro that forgiveness of the accounts receivables would be used for purchase consideration.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company regularly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year except for lease obligations (Note 15).

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
Accounts payable	\$ 5,570,468	\$ 5,570,468	\$ 5,570,468	\$ -	\$ -
Accrued and other current liabilities	4,713,234	4,713,234	4,713,234	-	-
Lease obligations	3,616,563	5,750,128	1,657,670	2,270,240	1,822,218
Convertible notes payable	24,037,312	27,104,420	27,104,420	-	-
	<u>\$ 37,937,577</u>	<u>\$ 43,138,250</u>	<u>\$ 39,045,792</u>	<u>\$ 2,270,240</u>	<u>\$ 1,822,218</u>

(c) Interest rate risk

The Company is subject to interest rate risk from its convertible notes payable.

(d) Regulatory risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance with regulatory requirements. Due to the nature of the industry, regulatory requirements can be more stringent than other industries and may also be punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition. The Company routinely monitors regulatory changes occurring in the cannabis industry at the city, state, and national levels. Although the general regulatory outlook for the cannabis industry has been moving in a positive direction, unforeseen regulatory changes could have a material adverse effect on the business as a whole.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(e) Asset forfeiture risk

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

(f) Banking risk

Notwithstanding that a majority of states have legalized medical cannabis, and the US Congress's passage of the SAFE Banking Act, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that US federal law provides that the production and possession of cannabis is illegal under the US Federal Controlled Substances Act, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

Due to the present state of the laws and regulations governing financial institutions in the US, only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions currently prevent the Company from obtaining financing from US federally regulated entities. Additionally, US federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the US banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate material impacts from dealing with banking restrictions directly relating to its business, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

(g) Tax risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed cannabis businesses are assessed a comparatively high effective federal tax rate due to section 280E which bars businesses from deducting all expenses except their cost of goods sold when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations.

**Note 4: Business Acquisitions**

*Acquisition of Fluid South, Inc. and Capitol Cocoa, Inc. (dba Sol Distro)*

On February 3, 2020, the Company completed the acquisition of 100% of the outstanding common shares of both Fluid South, Inc. ("Fluid South") and Capitol Cocoa, Inc. ("Capitol Cocoa"), which are cannabis manufacturing and distribution companies in California.

The purchase consideration was as follows:

Cash	\$	4,882,005
Common shares (3,346,688 shares @ \$0.085)		284,468
Settlement of indebtedness		12,306,404
Contingent consideration		670,000
	<b>\$</b>	<b>18,142,877</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Of the 3,346,688 of common shares included in the purchase consideration, 2,367,137 shares with a fair value of \$201,206 were issued on the acquisition date while the remaining shares, with a fair value of \$83,262 were held back. The shares were held back pending satisfaction of general representations and warranties about matters existing as of the acquisition date. If not earlier expended, the held back shares will be issued 36 months after the acquisition date. In accordance with IFRS 3, as the eventual issuance of the held back shares is based on facts and circumstances that existed on the acquisition date, they are included the measurement of consideration transferred on the acquisition date.

The settlement of indebtedness included \$4,273,029 of trade receivables, \$7,448,071 of notes receivable (\$6,707,221 of principal and \$740,850 of accrued interest), and \$585,304 of other receivables, due from Fluid South and Capitol Cocoa to the Company, or one of its wholly owned subsidiaries.

Contingent consideration payable in cash of \$1,500,000 and 957,919 common shares is based on revenue from the Chill Chocolate, New Frontier Beverages, GetZen, and Half Lit brands over five years (the earn-out). The Company shall pay 20% of the revenue these brands each quarter over twenty quarters following the acquisition date, up to the total amount of contingent consideration listed above. Cash consideration portion of \$500,000 related to the earn-out was placed in escrow and is paid out quarterly at 8% of the then calculated earn-out payment each quarter. The total amount of contingent consideration is also subject to adjustment due to indemnifications granted to the Company in relation to pre-acquisition tax liabilities.

The contingent consideration was initially estimated to have a total undiscounted value of \$1,188,000 based on revenue projections of the aforementioned brands over five years following the acquisition date, discounted to a present value of \$670,000 using a discount rate relevant to the acquired business.

Buyer transaction expenses totaling \$287,722 were recognized in General and administration expenses in the Statement of Operations and Comprehensive loss.

This acquisition qualified as a business combination under IFRS 3, and the Company has recorded all assets acquired and liabilities assumed at their acquisition-date fair values. The following represents the allocation of the purchase price and the fair value of assets acquired.

Net identifiable assets acquired (liabilities assumed)	Preliminary	Adjustment	Revised
Cash and cash equivalents	\$ 273,520	\$ -	\$ 273,520
Accounts receivable	1,139,168	-	1,139,168
Inventory	1,299,870	-	1,299,870
Prepaid and other current assets	14,731	-	14,731
Property, plant and equipment	2,939,611	-	2,939,611
Right of use asset	1,573,047	-	1,573,047
Other assets	2,027,579	-	2,027,579
Intangible assets	15,590,000	-	15,590,000
<b>Total identifiable assets acquired</b>	<b>\$ 24,857,526</b>	<b>\$ -</b>	<b>\$ 24,857,526</b>
Accounts payable	(2,833,204)	1,722,315	(1,110,889)
Accrued expenses and other current liabilities	(2,725,501)	2,366,009	(359,492)
Income tax payable	-	(4,889,879)	(4,889,879)
Lease liability, current	(492,526)	-	(492,526)
Lease liability, non-current	(1,080,521)	-	(1,080,521)
Deferred tax liability	(4,482,125)	(169,931)	(4,652,056)
<b>Net identifiable assets acquired</b>	<b>\$ 13,243,649</b>	<b>\$ (971,486)</b>	<b>\$ 12,272,163</b>
<b>Purchase price allocated to:</b>			
Net identifiable assets acquired	\$ 13,243,649	\$ (971,486)	\$ 12,272,163
Goodwill	4,899,228	971,486	5,870,714
<b>Total consideration</b>	<b>\$ 18,142,877</b>	<b>\$ -</b>	<b>\$ 18,142,877</b>
<b>Net cash outflows:</b>			
Cash consideration paid	\$ (3,500,000)	\$ -	\$ (3,500,000)
Cash acquired	273,520	-	273,520
<b>Total consideration</b>	<b>\$ (3,226,480)</b>	<b>\$ -</b>	<b>\$ (3,226,480)</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Goodwill is calculated as the excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired less the liabilities assumed. Goodwill of \$5,870,714 arose in the acquisition of Fluid South and Capitol Cocoa and consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include the access into a new market and the use of the Company's existing commercial infrastructure to expand sales. None of the goodwill is expected to be deductible for tax purposes.

Intangible assets consist of a trade name valued at \$990,000 and a cannabis license valued at \$14,600,000. The trade name has a useful life of 6 years and the cannabis license has an indefinite useful life. The licenses, as the primary intangible asset of Fluid South and Capitol Cocoa, were valued under the income approach using the excess earnings methodology. The trade names were valued using the relief from royalty method.

Changes in the value of contingent consideration during the period were as follows:

	Amount	
Balance, January 1, 2020	\$	-
Initial recognition upon acquisition of Fluid South and Capitol Cocoa		670,000
Change in fair value of contingency		1,734,498
Paid during the period		-
Less: current portion of contingent consideration		(2,083,677)
Contingent consideration, net of current portion	\$	320,821

The results of Fluid South and Capitol Cocoa have been included in the consolidated financial statements since the date of the acquisition. The revenue and net loss of Fluid South and Capitol Cocoa included in the consolidated financial statements from the acquisition date through December 31, 2020 was \$12,910,763 and \$3,163,817, respectively.

The Company calculated, on a pro forma basis, the combined results of the acquired entities as if the Fluid South and Capitol Cocoa acquisition had occurred as of January 1, 2020. These unaudited pro forma results are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of January 1, 2020 or of the future consolidated operating results. For the Fluid South and Capitol Cocoa acquisition, total unaudited pro forma revenue and net loss for the year ended December 31, 2020 was \$14,103,906 and \$3,323,712, respectively.

**Note 5: Notes Receivable**

The Company entered into various notes receivable and security agreements during 2019 with Fluid South and Capitol Cocoa, with a total principal value of \$6,707,221. Each notes receivable had a three-month maturity date. Interest on the notes receivable accrued at a rate of 8% per annum to maturity date. The notes receivable had a total outstanding balance of \$6,707,221 as at December 31, 2019. On February 3, 2020, all notes receivable were settled as part of the acquisition of Fluid South and Capitol Cocoa by the Company and included in the purchase consideration. See note 4 for additional details. The Company had no expected credit losses as it was negotiated with Sol Distro that forgiveness of the notes receivables would be used for purchase consideration.

**Note 6: Prepaids and Other Current Assets**

Prepaid and other current assets consisted of the following as at December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019
Prepaid expenses	\$ 592,720	\$	2,298,236
Other	12,080		750,754
Total Prepaid	\$ 604,800	\$	3,048,990

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In February 2019, the Company prepaid \$4,000,000 in management fees to a related party with a two-year term (Note 14). The unamortized balance related to the management fees included in prepaid expenses as at December 31, 2020 and December 31, 2019 was \$250,000, and \$2,250,000, respectively.

**Note 7: Equity Method Investments**

Between March and May of 2019, Left Coast Ventures (lead investor) paid total cash of \$6,500,056 for a 34% equity interest of HMB LLC (SKRRR, LLC and Half Moon Grow, LLC). Interest in HMB LLC is accounted for using the equity method because the Company exercises significant influence over HMB LLC. The interest in HMB LLC is initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss of equity accounted investees, until the date on which significant influence ceases.

The net income (loss) on investment for the year ended December 31, 2020, and for the period from acquisition to December 31, 2019 was \$160,876 and (\$1,909,663), respectively.

**Note 8: Inventories**

The Company's inventories consisted of the following as of December 31, 2020 and December 31, 2019:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 3,423,050	\$ 529,063
Finished goods	\$ 3,384,589	\$ 157,404
<b>Total inventory</b>	<b>\$ 6,807,639</b>	<b>\$ 686,467</b>

Inventory recognized as an expense in cost of sales was \$11,211,202, and \$7,252,864 for the year ended December 31, 2020, and December 31, 2019, respectively.

**Note 9: Property, Plant and Equipment, net**

Property, plant and equipment consist of the following as at December 31, 2020 and December 31, 2019:

	<b>Computer Equipment</b>	<b>Machinery and Equipment</b>	<b>Leasehold Improvements</b>	<b>Furniture &amp; Fixtures</b>	<b>Total</b>
<b>Cost</b>					
Balance as at December 31, 2018	\$ 25,598	\$ 463,661	\$ 1,035,957	\$ -	\$ 1,525,216
Additions	32,562	145,573	134,088	-	312,223
Balance as at December 31, 2019	58,160	609,234	1,170,045	-	1,837,439
Additions	18,809	382,698	51,049	-	452,556
Additions from acquisitions (note 4)	-	575,012	2,358,804	5,795	2,939,611
Disposals	-	(38,473)	-	-	(38,473)
<b>Balance as at December 31, 2020</b>	<b>\$ 76,969</b>	<b>\$ 1,528,471</b>	<b>\$ 3,579,898</b>	<b>\$ 5,795</b>	<b>\$ 5,191,133</b>
<b>Accumulated Depreciation</b>					
Balance as at December 31, 2018	\$ 3,566	\$ 98,591	\$ 682,918	\$ -	\$ 785,075
Depreciation of the period	19,185	181,245	308,356	-	508,786
Balance as at December 31, 2019	22,751	279,836	991,274	-	1,293,861
Depreciation of the period	30,176	250,233	304,596	2,656	587,661
Disposals	-	(25,358)	-	-	(25,358)
<b>Balance as at December 31, 2020</b>	<b>\$ 52,927</b>	<b>\$ 504,711</b>	<b>\$ 1,295,870</b>	<b>\$ 2,656</b>	<b>\$ 1,856,164</b>
<b>Net book value</b>					
As at December 31, 2018	\$ 22,032	\$ 365,070	\$ 353,039	\$ -	\$ 740,141
As at December 31, 2019	\$ 35,409	\$ 329,398	\$ 178,771	\$ -	\$ 543,578
<b>As at December 31, 2020</b>	<b>\$ 24,042</b>	<b>\$ 1,023,760</b>	<b>\$ 2,284,028</b>	<b>\$ 3,139</b>	<b>\$ 3,334,969</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Depreciation expense was \$545,246, and \$508,786 for the years ended December 31, 2020, and December 31, 2019, respectively.

**Note 10: Intangible Assets and Goodwill**

On February 3, 2020, in conjunction with the acquisition of Capitol Cocoa and Fluid South, the Company acquired a trade name valued at \$990,000 and cannabis licenses valued at \$14,600,000 (Note 4).

For the purpose of impairment testing, goodwill and indefinite-lived intangible assets have been allocated to the CGU representing the lowest level that the assets are monitored for internal reporting purposes. CGUs are determined based on the smallest identifiable group of assets that generate cash inflows that are largely independent of cash inflows from other assets or group of assets. Management has determined the Company's CGU that holds such goodwill and indefinite-lived intangible assets to be California.

Annual impairment testing involves determining the recoverable amount of the CGU to which goodwill is allocated and comparing this to the carrying value of the CGU. The measurement of the recoverable amount of the CGU was calculated based on the higher of the CGU's fair value less costs to sell or value in use, which are Level 3 measurements within the fair value hierarchy. The Company recognized no impairment charges on goodwill or indefinite-lived intangible assets for the years ended December 31, 2020 and December 31, 2019.

Intangible assets and goodwill consisted of the following as at December 31, 2020 and December 31, 2019:

	Tradenames	Licenses	Total	Goodwill
<b>Cost</b>				
Balance as at December 31, 2018	\$ 91,000	\$ -	\$ 91,000	\$ -
Additions	-	-	-	-
Balance as at December 31, 2019	91,000	-	91,000	-
Additions from acquisitions (note 4)	990,000	14,600,000	15,590,000	5,870,714
<b>Balance as at December 31, 2020</b>	<b>\$ 1,081,000</b>	<b>\$ 14,600,000</b>	<b>\$ 15,681,000</b>	<b>\$ 5,870,714</b>
<b>Accumulated amortization</b>				
Balance as at December 31, 2018	\$ -	\$ -	\$ -	\$ -
Amortization of the period	15,167	-	15,167	-
Balance as at December 31, 2019	15,167	-	15,167	-
Amortization of the period	166,418	-	166,418	-
<b>Balance as at December 31, 2020</b>	<b>\$ 181,585</b>	<b>\$ -</b>	<b>\$ 181,585</b>	<b>\$ -</b>
<b>Net book value</b>				
As at December 31, 2018	\$ 91,000	\$ -	\$ 91,000	\$ -
As at December 31, 2019	\$ 75,833	\$ -	\$ 75,833	\$ -
<b>As at December 30, 2020</b>	<b>\$ 899,415</b>	<b>\$ 14,600,000</b>	<b>\$ 15,499,415</b>	<b>\$ 5,870,714</b>

Amortization expense was \$166,418 and \$15,167 for the years ended December 31, 2020, and December 31, 2019, respectively.

The following table outlines the estimated annual amortization expense related to intangible assets as at December 31, 2020:

<b>Period</b>	<b>Estimated Amortization</b>
2021	\$ 180,168
2022	180,168
2023	180,168
2024	180,160
2025	165,000
thereafter	13,751
Total	<u>\$ 899,415</u>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 11: Debt**

**11.1 Convertible Notes Payable**

Total convertible notes payable consists of the following as at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
Unsecured convertible promissory note dated March 28, 2019, in the principal amount of \$10,000,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	10,000,000	10,000,000
Unsecured convertible promissory note dated April 8, 2019, in the principal amount of \$150,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	150,000	150,000
Unsecured convertible promissory note dated April 9, 2019, in the principal amount of \$150,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	150,000	150,000
Unsecured convertible promissory note dated April 16, 2019, in the principal amount of \$2,500,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	2,500,000	2,500,000
Unsecured convertible promissory note dated April 18, 2019, in the principal amount of \$500,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	500,000	500,000
Unsecured convertible promissory note dated April 22, 2019, in the principal amount of \$125,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	125,000	125,000
Unsecured convertible promissory note dated June 7, 2019, in the principal amount of \$1,000,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	1,000,000	1,000,000
Unsecured convertible promissory note dated July 9, 2019, in the principal amount of \$30,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	30,000	30,000
Unsecured convertible promissory note dated July 15, 2019, in the principal amount of \$5,250,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	5,250,000	5,250,000
Unsecured convertible promissory note dated August 1, 2019, in the principal amount of \$250,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	250,000	250,000
Unsecured convertible promissory note dated August 9, 2019, in the principal amount of \$200,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	200,000	200,000
Unsecured convertible promissory note dated April 23, 2019, in the principal amount of \$1,999,970 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	1,999,970	1,999,970
Page Subtotal	\$ 22,154,970	\$ 22,154,970

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	December 31, 2020	December 31, 2019
Subtotal from previous page	\$ 22,154,970	\$ 22,154,970
Unsecured convertible promissory note dated November 20, 2019, in the principal amount of \$680,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	680,000	680,000
Unsecured convertible promissory note dated November 20, 2019, in the principal amount of \$320,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	320,000	320,000
Unsecured convertible promissory note dated November 29, 2019, in the principal amount of \$1,284,450 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	1,284,450	1,284,450
Unsecured convertible promissory note dated December 2, 2019, in the principal amount of \$250,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	250,000	250,000
Unsecured convertible promissory note dated December 2, 2019, in the principal amount of \$250,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	250,000	250,000
Unsecured convertible promissory note dated December 3, 2019, in the principal amount of \$500,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	500,000	500,000
Unsecured convertible promissory note dated January 8, 2020, in the principal amount of \$680,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	680,000	-
Unsecured convertible promissory note dated January 8, 2020, in the principal amount of \$320,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	320,000	-
Unsecured convertible promissory note dated January 21, 2020, in the principal amount of \$665,000 with a maturity of March 28, 2021. Interest accrues at 5% per annum, payable at maturity date. Principal balance due at maturity date unless converted.	665,000	-
Total face value of convertible notes payable	27,104,420	25,439,420
Less unamortized debt discount - derivative liability	(3,067,108)	(5,629,245)
Total convertible notes payable, net of unamortized discount	24,037,312	19,810,175
<b>Less: current portion of convertible notes payable</b>	<b>(24,037,312)</b>	<b>-</b>
<b>Convertible notes payable, net of current portion</b>	<b>\$ -</b>	<b>\$ 19,810,175</b>

During 2019 and 2020, the Company issued various convertible promissory notes to provide the Company additional resources to support its business operations. The convertible promissory notes were issued pursuant to note purchase agreements (the "NPAs") executed between the Company and each of the purchasers of the notes. The NPAs allowed for the Company to issue convertible promissory notes for an aggregate principal amount of \$30 million. Three convertible promissory notes were issued during 2020 for an aggregate principal amount of \$1,665,000 and eighteen convertible promissory notes were issued during 2019 for an aggregate principal amount of \$25,439,420. The convertible promissory notes are subordinate to any current or future senior indebtedness of the Company.

All convertible promissory notes mature in 2021. Each of the convertible promissory notes carry a simple interest rate of 5% per annum, payable in cash at the maturity date unless earlier converted. The convertible promissory notes, if converted, will convert into preferred stock of the Company.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Upon the issuance and sale of shares of preferred stock, on or before the maturity date of the NPA's, in which the Company receives gross proceeds of at least \$25 million or such lesser amount as approved by the holders of at least a majority of the outstanding principal amount of the NPA's (a "Qualified Financing"), the principal and accrued interest will automatically convert into shares of that series of preferred stock at a conversion rate equal to the lesser of: (a) 90% of the price per share paid in the Qualified Financing, and (b) \$1.0 billion divided by the Company's equity securities outstanding on a fully diluted basis. Due to the conversion features on these notes being non-fixed, in accordance with IAS 32, the contracts to issue a variable number of equity shares fail to meet the definition of equity. Therefore, the conversion features represented separate embedded derivative liabilities. As such, the Company valued and accounted for these derivative features separately from the debt host with the fair value of the derivative recorded as a liability and debt discount. The fair value of the embedded derivative liabilities recorded in conjunction with the NPA's are subsequently re-measured at the end of each reporting period based on the changes in its estimated fair value (Note 11.3). The fair value adjustments are recorded in the Company's consolidated statements of operations and comprehensive loss as gain (loss) on change in fair value of derivative liability.

The host debt instruments are measured at amortized cost. Accretion expense for the debt discounts are recorded in the Company's consolidated statements of operations and comprehensive loss as finance costs. Finance costs recorded for the host debt instruments for the years ended December 31, 2020 and December 31, 2019 were \$5,839,840 and \$2,557,135, respectively.

On July 17, 2020, the Company and the holders of the convertible promissory notes modified the terms of the convertible promissory notes. The modified debt terms changed the maturity date of the convertible notes from March 28, 2021 to July 31, 2021 and modified the terms of the conversion features. The modification to the terms of the conversion features: (i) Lowered the \$25 million gross proceeds threshold discussed above to \$7 million. (ii) Added automatic conversion upon closing (a) a transaction with a special purchase acquisition company (a "SPAC"), (b) an initial firm commitment to complete an initial public offering, or (c) any other transaction which will result in the Company's capital stock being registered on a stock exchange or marketplace. (iii) Added automatic conversion upon maturity. (iv) Changed the \$1.0 billion valuation cap used in determining the number of shares potentially issuable upon conversion to be either \$175 million, subject to potential adjustment depending the occurrence of a financing or transaction as described above (maximum adjustment up to \$325 million). The changes to the conversion terms did not change the original conclusion, reached pursuant to IAS 32, that the conversion features are contracts to issue a variable number of equity shares and thus fail to meet the definition of equity. Accordingly, the conversion features are bifurcated, both before and after the modification. As changes in the fair value of the bifurcated derivatives are already being recorded in earnings, the Company separately assessed the host debt instruments to determine if the modification is substantial pursuant to IFRS 9. The modification changed the future cash flows and discounted to present value of the host debt instruments by less than 10% and thus is not considered a substantial modification. The Company increased the carrying amount of the convertible promissory note liability by \$1,505,967 to reflect the revised estimated cash flow payments discounted using the original effective interest rate on the convertible promissory notes.

A summary of debt discount activity during the years ended December 31, 2020 and December 31, 2019 is as follows:

	<b>Amount</b>
Balance, January 1, 2019	\$ -
Recognition of debt discount for derivative liability recorded at fair value	7,487,000
Debt discount accretion	<u>(1,857,755)</u>
Balance, December 31, 2019	5,629,245
Recognition of debt discount for derivative liability recorded at fair value	485,000
Debt modification	1,505,967
Debt discount accretion	<u>(4,553,104)</u>
<b>Balance as at December 31, 2020</b>	<b>\$ 3,067,108</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11.2 Promissory Note with Warrant**

On July 17, 2020, the Company issued a \$10 million promissory note along with a warrant to purchase shares of Class A Common Stock of the Company to Fireman Capital Partners III, LLC ("Fireman"). The promissory note provided \$10 million of proceeds and matures on August 31, 2021. The promissory note carries a simple interest rate of 12% per annum, payable in cash at the maturity date, or when the outstanding principal is paid in full. Upon maturity, or the occurrence of another event requiring repayment prior to the maturity date, the Company shall pay Fireman 200% of the outstanding principal amount of plus any accrued interest.

If the Company closes (a) a merger, business combination, or similar transaction with a special acquisition company or some other entity with capital stock listed for trading on a stock exchange or marketplace, (b) the initial firm commitment to complete an initial public offering, or (c) any other transaction which will result in the Company's capital stock being registered on a stock exchange or marketplace ("Qualifying Transaction") on or prior to November 30, 2020, 200% of principal due will be reduced to 150%. This repayment term does not meet the definition of closely related and is accounted for as an embedded derivative.

The warrant provides Fireman the right to purchase shares of Class A Common Stock of the Company at a price equal to \$0.01 per Share ("Exercise Price"). Fireman may exercise the Warrant at any time during the 3-year period ("Exercise Period") commencing on the earlier of the closing of a Qualifying Transaction, the issuance or sale of preferred stock of the Company for at least \$7.0 million ("Qualified Financing"), or November 30, 2020 ("Commencement Date"). Fireman may exercise the Warrant by paying the Exercise Price to the Company; the Exercise Price may be paid in cash or by forgiving indebtedness. The shares to be issued upon exercise of the warrant varies depending on whether or not a Qualifying Transaction or Qualified Financing is completed as of or prior to November 30, 2020. The maximum shares issuable is \$10,000,000 multiplied by 150% or, if a Qualifying Transaction or Qualified Financing is not completed prior to November 30, 2020, 300% divided by the applicable share price. The applicable share price equals either the total Company valuation (in the event of a Qualifying Transaction), the price per share paid (in the event of a Qualified Financing), or, if there is no Qualifying Transaction or Qualified Financing, \$50,000,000, divided by the number of shares of the Company's capital stock outstanding on a fully diluted basis. The warrant fails to meet the definition of equity under IAS 32 because it represents an obligation for LCV to issue a variable number of shares and is classified as a derivative liability.

In accordance with IFRS 9, as the embedded derivative of the debt instrument significantly modifies its cash flows of the debt instrument, the Company elected to account for the instrument at FVTPL, so that no bifurcation of the embedded derivative is required. To initially record the promissory note and warrant at fair value, the \$10,000,000 of proceeds received from Fireman was allocated between the promissory note and warrant based on each instrument's relative fair value. Both the debt instrument and the warrant are subsequently re-measured at the end of each reporting period based on the changes in their estimated fair values (Note 11.3). The fair value adjustments are recorded in the Company's consolidated statements of operations and comprehensive loss as Loss on change in fair value of warrant liability and Loss on change in fair value of note payable at fair value through profit or loss.

**11.3 Derivative liabilities**

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities (including the note payable measured at FVTPL) and the change in fair value of the derivative liabilities:

	Convertible notes payable conversion feature (a)	Note payable at fair value through profit or loss (b)	Warrant liability (b)	Total
Balance, January 1, 2019	\$ -	\$ -	\$ -	\$ -
Fair value of derivative liabilities on issuance date	7,487,000	-	-	7,487,000
Change in fair value of derivative liabilities	(1,115,000)	-	-	(1,115,000)
Balance, December 31, 2019	6,372,000	-	-	6,372,000
Fair value of derivative liabilities on issuance date	485,000	5,925,926	4,074,074	10,485,000
Change in fair value of derivative liabilities	16,884,000	9,474,074	14,525,926	40,884,000
<b>Balance as at December 31, 2020</b>	<b>\$ 23,741,000</b>	<b>\$ 15,400,000</b>	<b>\$ 18,600,000</b>	<b>\$ 57,741,000</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(a) Convertible notes payable conversion feature

As detailed in Note 11.1, the Company issued convertible notes payable during 2019 and 2020 that included certain conversion features that failed equity classification. The Company estimated the fair value of the derivative liabilities (conversion features) as included in the table above.

The Company used the hybrid probability-weighted expected return method (PWERM) to estimate the fair value of the derivative liabilities (conversion features) at issuance and at each reporting date. Significant Level 2 inputs were utilized in the PWERM including risk-free and risky discount rates for the Company, value indications for the Company, and volatility. Significant Level 3 inputs were also utilized in the PWERM including the probability of occurrence for various financing and liquidity event scenarios. Other inputs were based on the contractual terms of the conversion features.

The following significant assumptions were used to value the convertible note payable conversion feature derivative liabilities during the years ended December 31, 2020 and December 31, 2019:

	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
Risk free interest rate	0.1%-1.6%	1.6% - 2.4%
Discount rate	12%-25%	20%
Expected volatility	65.0%	90.0%

(b) Note payable measured at FVTPL issued with a warrant

As detailed in Note 11.2, the Company issued a note payable in July 2020 that included an embedded derivative and the Company opted to measure the note payable at FVTPL. With the note payable, the Company issued a warrant that failed equity classification. The Company estimated the fair value of the liabilities (note payable and warrant) as included in the table above.

The Company used the hybrid probability-weighted expected return method (PWERM) to estimate the fair value of the liabilities (note payable and warrant) at issuance and at each reporting date. Significant Level 2 inputs were utilized in the PWERM including risk-free and risky discount rates for the Company, value indications for the Company, and volatility. Significant Level 3 inputs were also utilized in the PWERM including the probability of occurrence for various financing and liquidity event scenarios. Other inputs were based on the contractual terms of the note payable and warrant.

The following significant assumptions were used to value the note payable measured at FVTPL and the derivative warrant liability as at December 31, 2020:

	<u>Year Ended December 31, 2020</u>
Risk free interest rate	0.10%
Discount rate	12%
Expected volatility	65.0%
Exercise price	\$0.01
Share price	\$10.12
Fair value	\$0.15

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***11.4 Paycheck Protection Program Loan***

On May 3, 2020, the Company was granted a Paycheck Protection Program loan ("PPP Loan") from Wells Fargo Bank, National Association in the aggregate amount of \$248,396, pursuant to the PPP Loan. The PPP Loan proceeds were received on May 11, 2020.

The Paycheck Protection Program, ("PPP"), established under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") enacted on March 27, 2020, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities ("Qualified Expenses"), and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP Loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

The Company used the proceeds for purposes consistent with the PPP and believes that its use of the loan proceeds met the conditions for forgiveness of the PPP Loan. Therefore, the PPP Loan qualified for recognition as a government grant in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS20"). The proceeds were recognized as reduction to expense as the Qualified Expenses were incurred over the eight weeks following the receipt of the PPP Loan proceeds. No amounts are recorded in the Company's consolidated statements of financial position as at December 31, 2020 in relation to the PPP Loan.

**Note 12: Equity**

***12.1 Common Stock***

The Company had 209,000,000 of Common Stock A ("CS A") shares authorized, 111,623,377 and 109,041,555 shares issued and outstanding as at December 31, 2020 and December 31, 2019, respectively. CS A shares are the standard stock that the option holders convert into and include the restricted shares remaining to vest (Note 12.3). Holders of CS A shares are entitled to one vote in respect to each CS A share held.

The Company had 165,000,000 of Common Stock B ("CS B") shares authorized, 54,925,626 and 54,925,656 shares issued and outstanding as at December 31, 2020 and December 31, 2019 respectively. Holders of CS B shares are entitled to ten (10) votes in respect to each CS B share held.

In January 2019, the Company entered into a Stock Purchase Agreement with PHI to purchase 75,000,000 shares of CS B shares for aggregate proceeds of \$12,450,000, bringing the total number of CS B shares held by PHI to 140,000,000. In February 2019, 78,628,128 CS B shares were transferred to CS A shares in connection with PHI's share distribution. The remaining 54,925,656 CS B shares outstanding are held by three members of PHI.

***12.2 Stock Options***

During 2018 and through February 2019, PHI was the majority owner of the Company. During this period, PHI issued options to acquire PHI stock to employees of the Company ("PHI Options"). The PHI Options had 10-year contractual terms and included service vesting conditions (e.g. time-vested) in relation to the employees' services performed for Sturdivant. The service conditions of the PHI Options have graded vesting whereby the awards vest in equal monthly installments over terms ranging from 1 to 4 years. In accordance with IFRS 2 *Share-based Payments* ("IFRS 2") guidance on share-based payment transactions among group entities, the Company accounted for the PHI Options as equity-settled share-based payment transactions to its employees.

In February 2019, the PHI Options were cancelled and replaced by options issued by the Company, changing the underlying equity security of the options from common stock of PHI to CS A shares of the Company. PHI agreed to contribute 6,445,982 shares of CS B back to the Company so that the Company may increase the number of shares available under its equity incentive plan.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Stock options issued by the Company are issued pursuant to the 2018 Equity Incentive Plan approved by the Board of Directors of the Company. The purpose of the Plan is to promote the interests of the Company and its stockholders by aiding the Company in attracting and retaining employees, officers, consultants, and advisors capable of assuring the future success of the Company.

These stock options were valued based on the grant date fair value of the instruments, net of estimated forfeitures, using a Black-Scholes option pricing model. The risk-free rate was based on US zero coupon bond with a remaining term equal to the expected life of the options. The expected lives were based on the average of vesting periods and contractual expiration terms. The expected dividend yield was zero. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have public trading and volatility history prior to the Company going public. The following table sets forth the assumptions at the time of grant:

	<b>Year Ended</b> <b>December 31, 2020</b>	<b>Year Ended</b> <b>December 31, 2019</b>
Volatility	91.56% - 91.96%	80.73% -124.80%
Risk-free interest rate	0.32%-0.39%	1.34% - 2.71%
Expected term	2-10 years	2-10 years
Dividend yield	0%	0%
Forfeiture rate	-	-
Share price	\$0.11	\$0.06
Exercise price	\$0.06-\$0.09	\$0.01-\$0.06

Management uses independent valuations to determine the price of the underlying shares.

The total grant-date fair value of the stock options is recognized as expense over the vesting period, which is the requisite service period. The Company recognized expense associated with stock option awards as follows:

	<b>Year ended</b> <b>December 31, 2020</b>	<b>Year ended</b> <b>December 31, 2019</b>
Cost of goods sold	\$ 46,860	\$ 2,012
Sales and marketing	111,166	1,753
General and administration	73,663	80,036
Total	<u>\$ 231,689</u>	<u>\$ 83,801</u>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A summary of stock option activity during the year ended December 31, 2020 and December 31, 2019 is as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2018	6,440,515	\$ 0.06	7.9
Granted	2,442,500	0.06	
Exercised	(4,750,393)	0.01	
Forfeited	(34,634)	0.06	
Expired	(53,051)	0.06	
Outstanding at December 31, 2019	4,044,937	\$ 0.05	9.0
Exercisable at December 31, 2019	1,611,114	\$ 0.03	8.2
Granted	6,670,500	0.11	
Exercised	(69,386)	0.05	
Forfeited	(485,263)	0.06	
Expired	(481,441)	0.03	
Outstanding at December 31, 2020	9,679,347	\$ 0.09	9.2
Exercisable at December 31, 2020	4,460,276	\$ 0.07	8.8

The assessed grant-date fair value of options granted during the years ended December 31, 2020 and December 31, 2019 were \$0.11 per option and \$0.06 per option, respectively.

**12.3 Restricted Stock**

On August 1, 2018, the Company granted 1,725,000 Common Stock A restricted shares with a grant-date fair value of \$22,180. These restricted shares vest monthly over three to four years. The following table summarizes the status of the restricted stock:

	Number of Restricted Stock	Grant Price
Balance at August 1, 2018 (inception)	-	\$ -
Granted	1,725,000	\$ 0.01
Forfeited	-	
Vested	(273,442)	
Balance at December 31, 2018	1,451,558	\$ 0.01
Granted	-	
Forfeited	(916,662)	
Vested	(389,592)	
Balance at December 31, 2019	145,304	\$ 0.01
Granted	-	
Forfeited	-	
Vested	(56,250)	
Balance at December 31, 2020	89,054	\$ 0.01

The Company recognized expense associated with restricted stock awards as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Cost of goods sold	\$ -	\$ 1,093
Sales and marketing	-	7,501
General and administration	570	-
Total	\$ 570	\$ 8,594

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13: Income Taxes**

The provisions from income taxes consist of the following as at December 31, 2020 and December 31, 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current	27,790	\$ -
Deferred:	(254,670)	-
Total tax provision	<u>\$ (226,880)</u>	<u>\$ -</u>

A reconciliation of total income tax expense and the amount computed by applying the combined U.S. federal and state statutory income tax rates of 29.84% to loss before provision from income taxes as at December 31, 2020 and December 31, 2019 is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Loss before taxes	\$ (63,066,703)	\$ (14,469,994)
Income tax expense (recovery) based on	(18,819,104)	(3,038,699)
Non-deductible expenses	17,723,930	1,351,441
Increase in uncertain tax position	1,531,265	-
Change in benefits not recognized	1,159,627	2,529,250
Benefits realized due to acquisition	(2,084,233)	-
Adjustment to expected income tax benefit	261,635	(841,992)
Income tax (recovery) expense	<u>\$ (226,880)</u>	<u>\$ -</u>

Under Section 280E of the Internal Revenue Code prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting normal business expenses, such as payroll and rent, from gross income (revenue less cost of goods sold). Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for Federal purposes, the IRS has subsequently applied Section 280E to state-legal cannabis businesses. Cannabis businesses operating in states that align their tax codes with the IRC are also unable to deduct normal business expenses from their state taxes. The non-deductible expenses shown in the effective rate reconciliation above is comprised primarily of the impact of applying IRC Section 280E to the Company's businesses that are involved in selling cannabis, along with other typical non-deductible expenses.

The Company's deferred tax assets and liabilities are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Deferred tax assets:		
Net operating losses	\$ 3,915,543	\$ 2,661,007
Non-deductible provisions and reserves	147,638	-
Other deferred assets	45,670	532,097
Gross deferred tax assets	<u>4,108,851</u>	<u>3,193,104</u>
Valuation allowance	(4,068,249)	(3,193,104)
Total deferred tax assets	<u>\$ 40,602</u>	<u>\$ -</u>
Deferred tax liabilities:		
Intangible assets	4,437,988	-
Deferred tax liabilities:	4,437,988	-
Net deferred tax asset (liability)	<u>\$ (4,397,386)</u>	<u>\$ -</u>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company evaluates deferred tax assets to ensure that the estimated future taxable income will be sufficient to the amount and timing of recovery. After considering the positive and negative evidence, deferred tax assets are recognized to the extent that future recovery is possible. The benefits not recognized have been applied based on the Company's historical results from operations. If events or circumstances change, the deferred tax assets will be adjusted at that time resulting in an income tax benefit.

The following table summarizes the components of unrecognized temporary differences:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Federal and State tax losses	\$ 3,769,700	\$ 2,921,846
Other timing differences	298,549	271,258
Total unrecognized temporary differences	<u>\$ 4,068,249</u>	<u>\$ 3,193,104</u>

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The Company is not recognizing deferred tax asset balances pertaining to state temporary differences, including state tax losses, as it is probable that the benefit will be not realized.

Federal and state tax laws impose significant restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership of the Company, as defined by Internal Revenue Code Section 382 (Section 382). No formal 382 study has been completed. The Company has \$7,986,227 of net operating losses for federal income tax purposes and \$25,321,663 of net operating loss carryforwards for state income tax purposes as of December 31, 2020. Per Tax Cuts and Jobs Act of 2017, federal net operating loss (NOL) carryforwards generated in 2018 and future years can be carried forward indefinitely. The state net operating loss carryforwards, if not utilized, will expire beginning in 2038.

The Company has available tax losses that may be carried forward to apply against future years' income for income tax purposes in certain jurisdictions as follows:

<u>Expiration year</u>	<u>Federal</u>	<u>State and Local</u>	<u>Total</u>
2034	\$ -	\$ -	\$ -
2036	-	-	-
2037	-	-	-
2038	-	3,098,999	3,098,999
2039	-	9,466,762	9,466,762
2040	-	12,755,902	12,755,902
Indefinite	<u>7,986,227</u>	-	<u>7,986,227</u>
Total	<u>\$ 7,986,227</u>	<u>\$ 25,321,663</u>	<u>\$ 33,307,890</u>

The statute of limitations on tax returns for the Internal Revenue Service and California Franchise Tax Board are 3 and 4 years respectively. Net operating losses remains open for examination beyond these statute of limitations for both the Internal Revenue Service and California Franchise Tax Board.

In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted. The Act, among other provisions, reinstates the ability of corporations to carry net operating losses back to the five preceding tax years for losses incurred during the tax years 2018, 2019 and 2020. Additionally, the CARES Act, has increased the excess interest limitation on modified taxable income from 30 percent to 50 percent. The Company has made a reasonable estimate of the effects on existing deferred tax balances and has concluded that the CARES Act does not have a significant impact on the deferred tax balances.

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company endeavors to comply with tax laws and regulations where it does business, but cannot guarantee that, if challenged, the Company's interpretation of all relevant tax laws and regulations will prevail and that all tax benefits recorded in the combined financial statements will ultimately be recognized in full. The Company has taken reasonable efforts to address uncertain tax positions and has determined that some of the positions taken would fail to meet the probable threshold for recognizing transactions or tax positions in the consolidated financial statements. Accordingly, the Company recorded a reserve of \$4,222,395 relating to the deductibility of certain cost of goods sold expenses under IRC 280E as uncertain tax positions in the consolidated financial statements as of December 31, 2020, and the Company does not expect any significant tax increase or decrease to these positions within the next 12 months. In making these determinations, the Company presumes that the taxing authorities will have full knowledge of all relevant facts and circumstances, and, if necessary, the Company will pursue resolution of disputed tax positions by appeals or litigation.

**Note 14: Related Party Transactions**

In February 2019, PHI entered into an agreement to provide management services to LCV over a two-year term for \$4,000,000. LCV prepaid the entire management services fee in February 2019. The remaining prepaid balance as at December 31, 2020 and December 31, 2019 was \$250,000, and \$2,250,000, respectively. These balances are included in prepaids and other current assets as at December 31, 2020, and 2019, respectively.

During the year ended December 31, 2020 the Company had provided an additional short term note receivable to Half Moon Grow in the amount of \$667,000, with an interest rate of 5.0% per annum, which was paid in full as of December 31, 2020

The Company had the following related party notes receivable as at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
Secured related party promissory note, created from Half Moon Grow, Inc. dated December 11, 2019, in the principal amount of \$200,000 with maturity of December 11, 2020. The principal is due at maturity. Interest rate of five percent (5.0%) per annum, to accrue if note is not paid in full as of the maturity date. The note had a total outstanding balance of \$200,000 as of December 31, 2019.	-	200,000
<b>Total notes receivable - related party</b>	<b>-</b>	<b>200,000</b>

Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following:

	For the year ended December 31, 2020		For the year ended December 31, 2019	
Short term	\$	1,926,410	\$	950,296
Share based payments		300,005		7,467
<b>Total</b>	<b>\$</b>	<b>2,226,415</b>	<b>\$</b>	<b>957,763</b>

**Note 15: Leases**

**15.1 Right-of-use assets**

IFRS 16 was adopted on January 1, 2019, without restating prior year figures. IAS 17 applies to the year ended December 31, 2018.

The Company leases its business facilities and vehicles from third parties. The leases expire under various terms through 2026, some contain renewal provisions. The following is lease activity for the years ended December 31, 2020, and December 31, 2019:

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Right of use Buildings	Right of use Vehicles	Right of use Total
<b>Cost</b>			
Recognized January 1, 2019	\$ -	\$ 38,141	\$ 38,141
Additions	2,730,608	-	2,730,608
At December 31, 2019	2,730,608	38,141	2,768,749
Acquired via business combination (note 4)	1,525,309	47,736	1,573,045
<b>At December 31, 2020</b>	<b>\$ 4,255,917</b>	<b>\$ 85,877</b>	<b>\$ 4,341,794</b>
<b>Accumulated depreciation</b>			
Recognized January 1, 2019	\$ -	\$ -	\$ -
Expense	209,234	12,714	221,948
At December 31, 2019	209,234	12,714	221,948
Expense	968,383	40,351	1,008,734
<b>At December 31, 2020</b>	<b>\$ 1,177,617</b>	<b>\$ 53,065</b>	<b>\$ 1,230,682</b>
<b>Net book value</b>			
At January 1, 2019	\$ -	\$ 38,141	\$ 38,141
At December 31, 2019	\$ 2,521,374	\$ 25,427	\$ 2,546,801
<b>At December 31, 2020</b>	<b>\$ 3,078,300</b>	<b>\$ 32,812</b>	<b>\$ 3,111,112</b>

Depreciation on right-of-use assets was \$1,008,734 and \$221,948, for the years ended December 31, 2020, and December 31, 2019, respectively.

**15.2 Lease liabilities**

Future minimum lease payments under non-cancelable operation leases as at December 31, 2020 are as follows:

<b>Maturity analysis for lease liabilities</b>	<b>Scheduled Payments</b>
Less than one year	\$ 1,657,670
One to five years	4,092,458
Total undiscounted lease liability	5,750,128
Impact of discount	(2,133,564)
Lease liability at December 31, 2020	3,616,564
<b>Less: current portion of lease liability</b>	<b>(895,803)</b>
<b>Lease liability, net of current portion</b>	<b>\$ 2,720,760</b>

The following table sets forth the lease liability activity for the years ended December 31, 2020, and December 31, 2019:

Recognized January 1, 2019	\$ 38,141
Additions	2,730,608
Payments	(384,796)
Interest	299,029
At December 31, 2019	2,682,982
Acquired via business acquisition (note 4)	1,573,047
Payments	(1,554,773)
Interest	915,308
<b>At December 31, 2020</b>	<b>\$ 3,616,564</b>

**LEFT COAST VENTURES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 16: Commitments and Contingencies**

***16.1 Regulatory environment***

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits, or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of December 31, 2020, marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

***16.2 Claims & litigation***

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**Note 17: Subsequent Events**

The Company has evaluated subsequent events through March 12, 2021, the date the consolidated financial statements were available to be issued.

On November 24, 2020 the Company entered into a definitive transaction agreement with TPCO Holding Corp ("TPCO"), formerly Subversive Capital Acquisition Corp., whereby TPCO will acquire all of the outstanding shares of the Company. The acquisition of the Company closed on January 15, 2021.

In connection with the acquisition, the Company's convertible notes payable, warrant liability and derivative liability were converted on January 15, 2021. In addition, the notes payable was repaid immediately following the closing of the transaction.

Concurrently with closing of the transaction above, the Company acquired all of the issued and outstanding units of SISU Extraction, LLC ("SISU") from the existing members of SISU. Under the terms of the SISU Agreement, the Corporation was obligated to fund the consideration to acquire SISU. Upon closing, SISU members received consideration of approximately \$81,000,000 (subject to certain adjustments and holdbacks) comprised of (i) a number of common shares of TPCO equal to approximately \$66,000,000 by a deemed value of \$10.00 and (ii) \$15,000,000 in cash.

**SCHEDULE "C"**

**SISU ANNUAL FINANCIAL STATEMENTS**

(see attached)

# SISU Extraction, LLC

Financial Statements  
December 31, 2020 and 2019

**SISU EXTRACTION, LLC**

**INDEX TO FINANCIAL STATEMENTS**

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	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	3
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	5
Statements of Income	6
Statements of Changes in Members' Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and  
Members of SISU Extraction,  
LLC.

### **Opinion**

We have audited the accompanying financial statements of SISU Extraction, LLC. (the Company), which comprise the financial position as of December 31, 2020 and 2019 and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SISU Extraction, LLC. as of December 31, 2020 and 2019, and the results of its financial performance and its cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report. We are required to be independent of SISU Extraction, LLC. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibility for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

Armanino<sup>LLP</sup>  
Certified Public Accountants  
Bellevue, Washington, United States of America

March 12, 2021

**SISU EXTRACTION, LLC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in United States Dollars)**

<b>As at</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,207,472	\$ 2,364,135
Accounts receivable (Note 4)	890,296	1,401,820
Inventories (Note 5)	4,552,407	711,882
Prepays and other current assets	51,599	-
	12,701,774	4,477,837
Right-of-use asset (Note 9.1)	749,547	718,307
Property, plant and equipment, net (Note 6)	1,174,561	1,604,269
Other assets	34,175	29,976
<b>Total Assets</b>	<b>\$ 14,660,057</b>	<b>\$ 6,830,389</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,083,927	\$ 1,116,431
Accrued liabilities (Note 7)	4,936,254	264,382
Lease liability, current (Note 9.2)	157,672	101,408
	6,177,853	1,482,221
Lease liability, non-current (Note 9.2)	736,533	682,933
<b>Total Liabilities</b>	<b>6,914,386</b>	<b>2,165,154</b>
<b>Members' equity</b>		
Members' deficit (Note 8)	(7,678,270)	(925,000)
Retained earnings	15,423,941	5,590,235
<b>Total Members' Equity</b>	<b>7,745,671</b>	<b>4,665,235</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 14,660,057</b>	<b>\$ 6,830,389</b>

*See the accompanying notes to these financial statements.*

Nature of operations (Note 1)  
Commitments and contingencies (Note 10)  
Subsequent events (Note 13)

**SISU EXTRACTION, LLC.**  
**STATEMENTS OF INCOME**  
(Expressed in United States Dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenue (Note 11)	\$ 101,854,513	\$ 30,742,098
Cost of goods sold		
Cost of goods sold - direct material	79,741,254	18,632,501
Cost of goods sold - direct labor	5,320,460	2,808,047
Cost of goods sold - overhead	4,486,455	2,805,567
Cost of goods sold - depreciation and amortization (Note 6 & 9.1)	942,263	699,260
Total cost of goods sold	90,490,432	24,945,375
Gross profit	11,364,081	5,796,723
Operating expenses		
General and administration	1,299,239	699,298
Depreciation and amortization (Note 6)	4,446	646
Total operating expenses	1,303,685	699,944
Income from operations	10,060,396	5,096,779
Other expense		
Finance costs, net	(206,460)	(141,097)
Other expense	(20,230)	(262,735)
Total other expense	(226,690)	(403,832)
Net income	\$ 9,833,706	\$ 4,692,947

*See the accompanying notes to these financial statements.*

**SISU EXTRACTION, LLC.**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**(Expressed in United States Dollars)**

	<b>Members'</b>	<b>Retained</b>	
	<b>Deficit</b>	<b>Earnings</b>	<b>Total</b>
<b>Balance at December 31, 2018</b>	\$ 2,015,000	\$ 897,288	\$ 2,912,288
Contributions (Note 8)	60,000	-	60,000
Distributions (Note 8)	(3,000,000)	-	(3,000,000)
Net income	-	4,692,947	4,692,947
<b>Balance at December 31, 2019</b>	(925,000)	5,590,235	4,665,235
Contributions (Note 8)	35,000	-	35,000
Distributions (Note 8)	(6,788,270)	-	(6,788,270)
Net income	-	9,833,706	9,833,706
<b>Balance at December 31, 2020</b>	\$ (7,678,270)	\$ 15,423,941	\$ 7,745,671

*See the accompanying notes to these financial statements.*

**SISU EXTRACTION, LLC.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in United States Dollars)**

	Year Ended December 31, 2020	Year Ended December 31, 2019
<b>Cash flow provided by (used in) operating activities</b>		
Net income	\$ 9,833,706	\$ 4,692,947
Add (deduct) items not involving cash		
Depreciation expense (Note 6)	754,024	557,878
Depreciation of right-of-use assets (Note 9.1)	192,685	142,028
Loss on disposal of property, plant and equipment	20,230	262,735
Change in non-cash working capital		
Accounts receivable	511,524	137,776
Inventories (Note 5)	(3,840,525)	(632,514)
Prepays and other current assets	(51,599)	-
Other assets	(4,199)	(18,425)
Accounts payable	(32,504)	517,614
Accrued and other current liabilities	4,671,872	185,065
	12,055,214	5,845,104
<b>Cash flow used in investing activities</b>		
Proceeds from disposal of property, plant and equipment	2,000	358,390
Purchases of property, plant and equipment (Note 6)	(346,546)	(1,719,012)
	(344,546)	(1,360,622)
<b>Cash flow (used in) provided by financing activities</b>		
Payments of lease liabilities (Note 9.2)	(114,061)	(34,281)
Members contribution (Note 8)	35,000	60,000
Members distribution (Note 8)	(6,788,270)	(3,000,000)
	(6,867,331)	(2,974,281)
<b>Increase in cash</b>	4,843,337	1,510,201
<b>Cash, beginning of the year</b>	2,364,135	853,934
<b>Cash, end of the year</b>	\$ 7,207,472	\$ 2,364,135
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ (14,355)	\$ -

*See the accompanying notes to these financial statements.*

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1: Nature of Operations and Summary:**

***1.1 Background***

SISU Extraction, LLC ("SISU") was formed under the laws of California in September 2017. SISU is a full-service supply chain solution offering processing of harvested plant material into distillate/oil, and flower sales services to cultivators. SISU also provides wholesale concentrates and flower as well as white labeling services to the largest brands in the state of California. Based in Eureka, California, SISU developed a business model first offering cultivators a 60/40 profit split for distillation services in 2018, soon followed by the industry leading 70/30 split. This business model has evolved to an industry leading profit center for farms producing 20 percent of the total legal distillate sold in California that is used in edibles and vaporizer cartridges. SISU works with over 475 cultivators statewide and has expanded its product offering to wholesale flower with a high-volume flower showroom in Downtown Los Angeles. SISU works to provide farms and brands the freedom to spend time and effort on their respective market segments by simplifying the steps between soil and sales. SISU's registered address is 2779 Fickle Hill Road, Arcata, California, 95525.

**Note 2: Significant Accounting Policies**

***2.1 Basis of Presentation***

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") and the accounting policies set out below have been applied consistently to all years presented. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations have been reflected herein.

***2.2 Functional and Presentation Currency***

The Company's functional currency, as determined by management, is the United States ("U.S.") dollar. These financial statements are presented in U.S. dollars.

***2.3 Use of Estimates and Judgments***

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

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Company. However, the financial impact and duration cannot be reasonably estimated at this time.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

Management has applied significant estimates and assumptions related to the following:

*Inventory*

Inventories of the Company's finished goods and raw materials are valued at the lower of cost or net realizable value ("NRV") as in accordance with IAS 2, *Inventories*. Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. Inventories are carried at NRV whenever such becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes, which are based on management's judgment. To the extent that actual losses on inventory differ from those estimated, inventory, net earnings, and comprehensive income will be affected in future periods.

*Estimated useful lives and amortization of property, plant and equipment*

Amortization of property, plant and equipment is dependent upon estimates of useful lives based on management's judgment. Property, plant and equipment impairment testing require management to make estimates in the impairment testing model. On an annual basis, the Company tests whether property, plant and equipment is impaired. Impairment is influenced by judgment in defining a cash generating unit and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable value of property, plant and equipment is determined using discounted future cash flow models, which incorporate assumptions regarding projected future cash flows and capital investment, growth rates and discount rates.

*Accrued liabilities*

Estimates of accrued liabilities are based on management's judgment, as well as other information obtained from vendors and third parties, and historical experience.

*Lease liabilities*

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate was developed using assumptions related to market conditions, collateral, and term.

**2.4 Financial instruments**

*Classification*

On initial recognition, the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income (FVOCI)

The classification under IFRS 9, *Financial Instruments* ("IFRS 9"), is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cashflows and for which those cashflows correspond solely to principal repayments and interest payments are measured at amortized cost.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL, or if the Company has made an election to measure them at FVTPL.

The classification of financial instruments under IFRS 9 is as follows:

<b>Financial Instrument</b>	<b>Classification under IFRS 9</b>
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Accounts payable	Amortized cost
Accrued and other current liabilities	Amortized cost

*Measurement*

Initial recognition – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss – Changes in fair value after initial recognition, whether realized or not, are recognized through the statements of income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of income when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of income when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

*Derecognition*

Financial assets – The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the statements of income.

Financial liabilities – The Company derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the statements of income.

**2.5 Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

**2.6 Accounts Receivable**

Accounts receivable are carried at the original invoiced amount less credit losses. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company assesses whether a loss allowance is needed based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement. There was no bad debt expense for the year ended December 31, 2020. The Company incurred bad debt expense of \$26,950 for the year ended December 31, 2019. As at December 31, 2020 and 2019, the Company had no allowance for credit losses.

**2.7 Inventories**

Inventories of the Company's finished goods and raw materials are valued at the lower of cost or NRV as in accordance with IAS 2.9. Inventories are carried at NRV whenever such becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Cost is determined using the weighted average cost basis. Products for resale are valued at cost. The cost of inventory includes direct product costs, direct labor costs, and an allocation of manufacturing overhead costs. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. Inventory items identified to be obsolete and unusable are written off and charged as expense in the period such losses are identified. The Company has never recorded a write-down of inventory. The Company had no inventory reserves as at December 31, 2020 and 2019.

**2.8 Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation related to assets used in production is recorded in cost of goods sold. Depreciation related to non-production assets is recorded through operating expenses. Depreciation is calculated on a straight-line basis over the expected useful life of the asset as follows:

Office & Computer Equipment	3 to 7 years
Security Equipment	5 to 7 years
Manufacturing Equipment	1 to 5 years
Processing Equipment	3 years
Leasehold Improvements	5 to 10 years
Trailers	5 years
Vehicles	3 to 5 years

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the financial statement of income in the year the asset is derecognized.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

***2.9 Impairment of Assets***

The Company assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount, which is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, if any, are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income, unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. The Company recognized no impairment charges on assets for the years ended December 31, 2020 and 2019.

***2.10 Fair Value Measurements***

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities, are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying values of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued and other current liabilities approximated their fair values due to the short period of time to maturity or repayment.

***2.11 Income Taxes***

The Company is a limited liability company that is treated as a partnership for U.S. federal and state income tax purposes. Accordingly, the Company is not subject to federal or state income taxes. The income or loss of the Company is included in the return of its members. Therefore, no provision, liability, or benefit for income taxes has been included in these financial statements. The Company does not have any unrecognized tax benefits as at December 31, 2020 and 2019. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in income tax expense. As at December 31, 2020 and 2019, the Company did not accrue any interest or penalties related to uncertain tax positions.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

***2.12 IFRS Revenue Recognition***

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company enters into contracts that can include various products, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. The revenue recognition policy is consistent for sales generated directly with customers and sales generated indirectly through solution partners and resellers.

Revenues are recognized upon the application of the following steps:

1. Identification of a contract or contracts with a customer;
2. Identification of performance obligation(s) in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, the performance obligation is satisfied.

Contracts with customers are at the point of sale and while often include transfer multiple products to a customer; they do not require future obligations. The Company generally considers each transaction as a separate performance obligation. Products are generally sold without a right of return, except for the extremely rare instance of a significant product defect identified upon delivery, which is not considered a separate performance obligation.

The Company allocates the transaction price for each contract to each performance obligation based on the relative standalone selling price ("SSP") for each performance obligation. The Company uses judgment in determining the SSP for products. The Company typically determines an SSP range for its products which are reassessed on a periodic basis or when facts and circumstances change. For all performance obligations (multiple products), the Company is able to determine SSP based on the observable prices of products sold separately in comparable circumstances to similar customers.

In certain instances, the Company may provide incentives and discounts. The discounts are generally applied to promotional products. The discounts are determinable and fixed at the inception of the contract and accounted for as a reduction of the purchase price. Contracts do not include a significant financing component.

The majority of customer contracts, which may be in the form of purchase orders, contracts or purchase agreements, contain performance obligations for delivery of agreed upon products. Typically, when a customer contract contains multiple performance obligations, satisfaction of these obligations occurs simultaneously, at a single point in time (or within the same accounting period). Transfer of control typically occurs at the time of delivery and title and the risks and rewards of ownership have passed to the customer, and the Company has a right to payment. Thus, the Company generally recognizes revenue upon delivery of the product. Contract assets are recognized when performance is completed in advance of billings.

All shipping and handling activities are performed before the customers obtain control of products and accounted for as cost of goods sold.

The Company does not have any customer contracts that contain future deliverables that meet the definition of unsatisfied performance obligations in accordance with IFRS 15 "Revenue from Contracts with Customers". See Note 11 for disaggregation of revenue.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

**2.13 IFRS Accounting Pronouncements Adopted in 2019**

*IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which supersedes IAS 17 "Leases" ("IAS 17"), IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged as under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards. The application of the standard has resulted in a change in the Company's accounting policy for recognition of leases.

Upon adoption, the Company recognized lease liabilities for leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 25.16% as at January 1, 2019.

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Company applied the following practical expedients permitted by the standard:

- Application of the short-term leases exemption to leases with a remaining lease term of less than 12 months as at the date of initial application,
- Combination of each lease component and any associated non-lease components as a single lease component,
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- Exclusion of low-value assets.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the previous determinations pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease have been maintained.

Based on the foregoing, the impact of the adoption of IFRS 16 January 1, 2019, is summarized below:

- Right-of-use assets of \$513,216 were recognized,
- Lease liabilities of \$471,503 were recognized, including current portion of \$43,616,
- Prepayments of \$41,713 related to previous operating leases were derecognized.

The following represents the reconciliation of lease liabilities as at January 1, 2019 to the operating lease commitments as at December 31, 2018:

<b>Reconciliation of lease liabilities</b>	
Operating lease commitments as of December 31, 2018	\$ 872,325
Discounting	(400,822)
<b>Lease liabilities due to initial application of IFRS 16 as of January 1, 2019</b>	<b>\$ 471,503</b>

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

The Company leases certain business facilities and vehicles from third parties under operating agreements that specify minimum rentals. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions; the Company assesses whether a contract is, or contains, a lease at the inception of the contract. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. In an operating lease, lease payments were recognized as an expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which the economic benefits were consumed. Any prepaid rent and accrued rent were recognized under other current assets and other current liabilities, respectively.

From January 1, 2019, right-of-use assets and corresponding lease liabilities are recognized for all leases in effect at the commencement date.

The lease payments for these contracts are generally recognized on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed. The Company has lease agreements with lease and non-lease components and accounts for such components as a single lease component.

Lease liabilities are initially measured at the present value of the lease payments, which are not paid at the commencement date, over the lease term. Lease payments used in lease liability calculations include:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- Variable lease payment that are based on an index or a rate,
- Amounts expected to be payable by the lessee under residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. As most of the Company's leases do not provide an implicit rate, the Company's estimated incremental borrowing rate, based on the information available at commencement date, is used to determine the present value of lease payments. The implicit rate is used when readily determinable. Lease payments are split into principal and interest portions using the effective interest method. Subsequently, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, change in the lease term, change in the in-substance fixed lease payments, or change in the assessment to purchase the underlying asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, any initial direct costs, and any restoration costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset using the straight-line method.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

***2.14 IFRS Accounting Pronouncements Adopted in 2020***

*Conceptual Framework*

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company adopted this amendment in its financial statements as of January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting did not have a material impact on the financial statements.

*Definition of a Business*

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020 and is to be applied prospectively. The Company adopted the amendment to IFRS 3 in its financial statements as of January 1, 2020. The adoption of the amendment to IFRS 3 did not have a material impact on the financial statements.

**Note 3: Capital Management**

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for equity members. The Company defines capital as net equity, comprised of members' capital and retained earnings. The Company seeks to ensure that it has sufficient cash resources to maintain its ongoing operations and finance its, corporate and administration expenses, working capital and overall capital expenditures. The Company has financed its recent liquidity needs through net income from operations (and in earlier periods, from contributions from its members).

There have been no changes to the Company's capital management since the prior fiscal year. The Company is not subject to externally imposed capital requirements.

**Note 4: Financial Instruments and Risk Management**

*Financial Instruments*

The Company initially recognizes cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities on the date they originate. All other financial assets and financial liabilities are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company measures financial instruments by grouping them into classes upon initial recognition, based on the purpose of the individual instruments. The Company initially measures all financial instruments at fair value plus, in the case of financial instruments not classified as FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial instruments.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

*Financial Risk Factors*

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Two customers accounted for more than 10% of the Company's revenue for the years ended December 31, 2020 and 2019. The Company regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

The aging of the Company's accounts receivable was as follows:

	<u>Current</u>	<u>1-30 days past due</u>	<u>31-60 days past due</u>	<u>61-90 days past due</u>	<u>Over 91 days past due</u>	<u>Total</u>
As At December 31, 2019	\$ 350,890	\$ 278,705	\$ 3,920	\$ 328,204	\$ 440,101	\$ 1,401,820
As At December 31, 2020	\$ 251,354	\$ 314,144	\$ 7,535	\$ (41,300)	\$ 358,563	\$ 890,296

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year except for lease obligations (Note 9).

(c) Regulatory risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance with regulatory requirements. Due to the nature of the industry, regulatory requirements can be more stringent than other industries and may also be punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition. The Company routinely monitors regulatory changes occurring in the cannabis industry at the city, state, and national levels. Although the general regulatory outlook for the cannabis industry has been moving in a positive direction, unforeseen regulatory changes could have a material adverse effect on the business as a whole.

(d) Asset forfeiture risk

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

**Note 5: Inventories**

Inventories consist of raw materials and finished goods. Finished goods consist of distillates & crude oil extracted from cannabis plant material as well as cannabis flower held for resale, and raw materials consist of the harvested cannabis plant material.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

Inventories consist of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Raw materials	\$ 55,729	\$ 47,801
Finished goods	4,496,678	664,081
Total inventory	\$ 4,552,407	\$ 711,882

For the years ended December 31, 2020 and 2019, inventory recorded to cost of sales was \$61,518,060 and \$7,497,186, respectively.

**Note 6: Property, Plant and Equipment**

Property, plant and equipment consist of the following:

COST	Office and Computer Equipment	Security Equipment	Manufacturing Equipment	Leasehold Improvements	Processing Equipment	Trailers	Vehicles	Total
As at December 31, 2019	8,391	13,761	1,824,343	69,047	-	34,625	115,150	2,065,317
Additions	28,379	20,025	211,245	6,029	8,986	18,882	53,000	346,546
Disposals	-	-	-	-	-	-	(23,400)	(23,400)
As at December 31, 2020	\$ 36,770	\$ 33,786	\$ 2,035,588	\$ 75,076	\$ 8,986	\$ 53,507	\$ 144,750	\$ 2,388,463
<b>ACCUMULATED DEPRECIATION</b>								
As at December 31, 2019	1,193	2,819	433,098	5,253	-	6,438	12,247	461,048
Depreciation	4,004	3,126	700,079	9,802	561	8,846	27,606	754,024
Disposals	-	-	-	-	-	-	(1,170)	(1,170)
As at December 31, 2020	\$ 5,197	\$ 5,945	\$ 1,133,177	\$ 15,055	\$ 561	\$ 15,284	\$ 38,683	\$ 1,213,902
<b>Net book value</b>								
As at December 31, 2019	\$ 7,198	\$ 10,942	\$ 1,391,245	\$ 63,794	\$ -	\$ 28,187	\$ 102,903	\$ 1,604,269
As at December 31, 2020	\$ 31,573	\$ 27,841	\$ 902,411	\$ 60,021	\$ 8,425	\$ 38,223	\$ 106,067	\$ 1,174,561

Depreciation expense was \$754,024 and \$557,878 for the years ended December 31, 2020 and 2019, respectively.

**Note 7: Lines of Credit**

In June 2020, the Company entered into a payables servicing and security agreement with a commercial lender. The agreement provides a \$1,000,000 revolving loan. Interest rate of 3.0% monthly, paid monthly with a maturity date of June 2021. The agreement is secured by all the assets of the Company. As at December 31, 2020 the outstanding balance of this agreement was \$100,000, and is included in the accrued liabilities balance. The agreement requires the Company to maintain certain covenants and the Company was in compliance with these covenants as at December 31, 2020.

**Note 8: Members' Equity**

For the years ended December 31, 2020 and 2019, the Company received capital contributions in the amount of \$35,000 and \$60,000, respectively. For the years ended December 31, 2020 and 2019, the Company paid distributions to the members of \$6,788,270 and \$3,000,000, respectively.

**Note 9: Leases**

**9.1 Right-of-use Assets**

IFRS 16 was adopted on January 1, 2019, without restating prior year figures. Refer to Note 2.13 for additional information.

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

The Company leases its business facilities and vehicles from third parties under operating agreements. The leases expire under various terms through 2025, some contain renewal provisions. The following is lease activity for the years ended December 31, 2020 and 2019:

	<b>Right of use Buildings</b>
<b>Cost</b>	
Recognized January 1, 2019	\$ 513,216
Additions	347,119
<b>At December 31, 2019</b>	<b>\$ 860,335</b>
Additions	223,925
<b>At December 31, 2020</b>	<b>\$ 1,084,260</b>
<b>Accumulated Depreciation</b>	
Recognized January 1, 2019	\$ -
Expense	142,028
<b>At December 31, 2019</b>	<b>\$ 142,028</b>
Expense	192,685
<b>At December 31, 2020</b>	<b>\$ 334,713</b>
<b>Net book value</b>	
<b>At January 1, 2019</b>	<b>\$ 513,216</b>
<b>At December 31, 2019</b>	<b>\$ 718,307</b>
<b>At December 31, 2020</b>	<b>\$ 749,547</b>

Depreciation on right-of-use assets is recorded in the Statements of Income within "Cost of goods sold – depreciation and amortization". Depreciation on right-of-use assets was \$192,685 and \$142,028 for the years ended December 31, 2020 and 2019, respectively.

**9.2 Lease liabilities**

Future minimum lease payments under non-cancelable operation leases as at December 31, 2020 are as follows:

<b>Maturity analysis for lease liabilities</b>	<b>Scheduled payments</b>
Less than one year	\$ 353,700
One to five years	1,031,826
More than five years	-
Total undiscounted lease liability	1,385,526
Impact of discount	(491,321)
Lease liability at December 31, 2020	894,205
<b>Less: current portion of lease liability</b>	<b>(157,672)</b>
<b>Lease liability, net of current portion</b>	<b>\$ 736,533</b>

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

The following tables set forth lease liability activity for the years ended December 31, 2020 and 2019:

<b>Recognized January 1, 2019</b>	\$	471,503
Additions		347,119
Payments		(175,400)
Interest		141,119
<b>At December 31, 2019</b>	<b>\$</b>	<b>784,341</b>
Additions		223,925
Payments		(318,700)
Interest		204,639
<b>At December 31, 2020</b>	<b>\$</b>	<b>894,205</b>

As part of the finance costs in the accompanying Statements of Income, the Company incurred included lease liability activity for interest in the amounts of \$204,639, and \$141,119 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the Company had no commitment to short-term leases.

**Note 10: Commitments and Contingencies**

***10.1 Litigation***

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable. Currently, there is no pending litigation against the Company.

***10.2 Contractual Agreements with Cultivators***

The Company enters into several agreements with cultivators whereby the Company splits the proceeds from the sale of the finished goods (i.e., distillates/oil) produced from the cultivators' supplied raw materials which represents the cost of the raw materials used to produce the finished goods. The Company is unable to determine a reasonable estimate to record the cost of these raw materials as inventory due to certain variables. These variables include the quantity of distillates and oil extracted from cultivators' supplied raw materials, the quality of distillates and oil, and market price fluctuations, among others. The Company records the cost of these materials as cost of goods sold in the same accounting period that revenue is recorded and considers these agreements to be similar to a royalty arrangement.

**Note 11: Revenue Disaggregation**

Revenue disaggregation consists of the following:

	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31, 2020</b>		<b>December 31, 2019</b>
Flower sales	\$ 60,044,271	\$	4,583,948
Distillate and oil sales	41,810,242		26,158,150
<b>Net revenue</b>	<b>\$ 101,854,513</b>	<b>\$</b>	<b>30,742,098</b>

**SISU EXTRACTION, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 12: Related Party Transactions**

Key management includes the Chief Executive Officer ("CEO") of the Company. Compensation awarded to the CEO was comprised of the following:

	<b>Year ended</b>		<b>Year ended</b>
	<b>December 31, 2020</b>		<b>December 31, 2019</b>
Short term payments	\$ 245,119	\$	132,000

**Note 13: Subsequent Events**

The Company has evaluated subsequent events through March 12, 2021, the date the financial statements were available to be issued.

On November 24, 2020 Left Coast Ventures ("LCV") entered into a definitive transaction agreement with TPCO Holding Corp ("TPCO"), formerly Subversive Capital Acquisition Corp., whereby TPCO will acquire all of the outstanding shares of LCV. The acquisition of LCV closed on January 15, 2021.

Concurrently with the closing of the transaction above, the Company entered into a definitive transaction agreement with LCV whereby LCV acquired all of the issued and outstanding units from the existing members of the Company. The acquisition of the Company closed on January 15, 2021.

Under the terms of the definitive transaction agreement, TPCO was obligated to fund the consideration to acquire the Company. Upon closing, the members of the Company received consideration of approximately \$81,000,000 (subject to certain adjustments and holdbacks) comprised of (i) a number of common shares of TPCO equal to approximately \$66,000,000 by a deemed value of \$10.00 and (ii) \$15,000,000 in cash.

**SCHEDULE "D"**

**PRO FORMA FINANCIAL STATEMENTS**

(see attached)

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**

**Pro forma Consolidated Financial Statements**

**As at December 31, 2020**

**(Expressed in United States dollars)**

**(Unaudited)**

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Pro Forma Consolidated Statement of Financial Position**  
**(Expressed in United States dollars) (Unaudited)**

	TPCO December 31, 2020 \$	Caliva December 31, 2020 \$	LCV December 31, 2020 \$	Sisu December 31, 2020 \$	Total \$	Note 4	Pro Forma Adjustments \$	Pro Forma Consolidated \$
<b>Assets</b>								
Current assets								
Cash and cash equivalents	-	9,233,947	3,340,966	7,207,472	19,782,385	(g)	280,298,339	
						(i)	63,035,000	
						(j)	(25,217,449)	337,898,275
Cash and securities held in escrow	582,622,025	-	-	-	582,622,025	(a)	(17,880,000)	
						(e)	(20,125,000)	
						(g)	(264,318,686)	
						(g)	(280,298,339)	-
Accounts receivable	-	2,176,121	1,174,891	890,296	4,241,308			4,241,308
Inventories	-	14,158,198	6,807,639	4,552,407	25,518,244			25,518,244
Biological assets	-	1,181,925	-	-	1,181,925			1,181,925
Prepaid expenses and other assets	24,977,765	4,947,309	604,800	51,599	30,581,473			30,581,473
<b>Total Current Assets</b>	<b>607,599,790</b>	<b>31,697,500</b>	<b>11,928,296</b>	<b>12,701,774</b>	<b>663,927,360</b>		(264,506,135)	399,421,225
Prepaid expenses and other assets	81,333	1,450,317	2,187,000	34,175	3,752,825			3,752,825
Property and equipment	-	8,691,369	3,334,969	1,174,561	13,200,899			13,200,899
Right-of-use assets	-	53,362,933	3,111,112	749,547	57,223,592			57,223,592
Goodwill	-	-	5,870,714	-	5,870,714	(b)	(5,870,714)	
						(c)	366,217,510	366,217,510
Intangible assets	-	4,737,936	15,499,415	-	20,237,351	(b)	(20,237,351)	
						(b)	404,480,000	404,480,000
Equity method investments	-	-	4,751,269	-	4,751,269			4,751,269
Deferred tax asset	-	293,600	-	-	293,600			293,600
Investment in Tarukino	-	591,545	-	-	591,545			591,545
Investment in joint venture	-	-	-	-	-			-
<b>Total Assets</b>	<b>607,681,123</b>	<b>100,825,200</b>	<b>46,682,775</b>	<b>14,660,057</b>	<b>769,849,155</b>		<b>480,083,310</b>	<b>1,249,932,465</b>
<b>Liabilities</b>								
Current liabilities								
Accounts payable	-	8,372,014	5,570,468	1,083,927	15,026,409			15,026,409
Accrued and other liabilities	28,321,972	11,273,084	4,685,444	4,936,254	49,216,754	(e)	(20,125,000)	29,091,754
Class A Restricted Voting Shares subject to redemption	582,622,025	-	-	-	582,622,025	(g)	(264,318,686)	
						(g)	(318,303,339)	-
Line of credit	-	12,117,347	-	-	12,117,347	(j)	(12,117,347)	-
Consideration payable	-	2,458,844	-	-	2,458,844			2,458,844
Contingent considerations	-	-	2,083,677	-	2,083,677	(a)	197,577,000	199,660,677
Notes payable	-	-	15,400,000	-	15,400,000	(j)	(15,400,000)	-
Convertible notes payable	-	-	24,037,312	-	24,037,312	(b)	(24,037,312)	-
Income tax payable	-	-	4,917,669	-	4,917,669			4,917,669
Loan payable	-	5,819,450	-	-	5,819,450			5,819,450
Brand strategy liability	-	-	-	-	-	(m)	18,500,000	18,500,000
Lease liability	-	1,334,957	895,803	157,672	2,388,432			2,388,432
<b>Total Current Liabilities</b>	<b>610,943,997</b>	<b>41,375,696</b>	<b>57,590,373</b>	<b>6,177,853</b>	<b>716,087,919</b>		(438,224,684)	277,863,235
Put option and non-exercise liability	-	11,323,333	-	-	11,323,333	(j)	(11,323,333)	-
Lease liability	-	59,226,348	2,720,760	736,533	62,683,641			62,683,641
Warrant liability	-	-	18,600,000	-	18,600,000	(b)	(18,600,000)	-
Derivative liability	-	-	23,741,000	-	23,741,000	(b)	(23,741,000)	-
Contingent liability	-	-	-	-	-			-
Contingent considerations	-	-	320,821	-	320,821			320,821
Deferred tax liabilities	-	-	4,397,386	-	4,397,386	(b)	120,535,040	124,932,426
Other long-term liabilities	-	-	1,642,646	-	1,642,646			1,642,646
<b>Total Liabilities</b>	<b>610,943,997</b>	<b>111,925,377</b>	<b>109,012,986</b>	<b>6,914,386</b>	<b>838,796,746</b>		(371,353,977)	467,442,769
<b>Shareholders' Equity</b>								
Share capital, net	43,287,766	3,849	16,647	(7,678,270)	35,629,992	(a)	409,291,000	
						(d)	7,657,774	
						(g)	575,000,000	
						(i)	63,135,000	
						(i)	(100,000)	
						(k)	25,000,000	
						(l)	20,240,000	1,135,853,766
Series A preferred shares	-	82,894,680	-	-	82,894,680	(d)	(82,894,680)	-
Series B preferred shares	-	69,712,226	-	-	69,712,226	(d)	(69,712,226)	-
Series B preferred shares to be issued	-	250,000	-	-	250,000	(d)	(250,000)	-
Contributed Surplus	-	30,132,738	18,602,009	-	48,734,747	(d)	(48,734,747)	-
						(j)	11,323,333	11,323,333
Non-Controlling Interest	-	(455,852)	-	-	(455,852)	(d)	455,852	-
Deficit	(46,550,640)	(193,637,818)	(80,948,867)	15,423,941	(305,713,384)	(f)	2,299,898	
						(d)	259,162,744	
						(g)	(256,696,661)	
						(m)	(18,500,000)	
						(k)	(25,000,000)	
						(l)	(20,240,000)	(364,687,403)
<b>Total Shareholders' Equity</b>	<b>(3,262,874)</b>	<b>(11,100,177)</b>	<b>(62,330,211)</b>	<b>7,745,671</b>	<b>(68,947,591)</b>		<b>851,437,287</b>	<b>782,489,696</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>607,681,123</b>	<b>100,825,200</b>	<b>46,682,775</b>	<b>14,660,057</b>	<b>769,849,155</b>		<b>480,083,310</b>	<b>1,249,932,465</b>

The accompanying notes are an integral part of this pro forma consolidated statement of financial position.

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Pro Forma Consolidated Statement of Loss and Comprehensive Loss**  
**For the year ended December 31, 2020**  
**(Expressed in United States dollars) (Unaudited)**

	TPCO December 31 2020 \$	Caliva December 31 2020 \$	LCV December 31 2020 \$	Sisu December 31 2020 \$	Total \$	Note 4	Pro Forma Adjustments \$	Pro Forma Consolidated \$
<b>Revenues</b>	-	64,492,179	22,315,883	101,854,513	188,662,575			188,662,575
<b>Cost of Sales</b>	-	48,326,399	17,635,800	90,490,432	156,452,631			156,452,631
<b>Fair value changes to biological assets and changes in inventory sold</b>	-	542,661	-	-	542,661			542,661
<b>Gross Profit</b>	-	16,708,441	4,680,083	11,364,081	32,752,605			32,752,605
<b>Operating Expenses</b>								
General and administration	8,813,918	60,214,242	11,737,400	1,299,239	82,064,799	(u)	(11,323,333)	
						(v)	18,500,000	89,241,466
Sales and marketing	-	-	3,092,098	-	3,092,098	(w)	25,000,000	
						(n)	20,240,000	48,332,098
	<b>8,813,918</b>	<b>60,214,242</b>	<b>14,829,498</b>	<b>1,299,239</b>	<b>85,156,897</b>		<b>52,416,667</b>	<b>137,573,564</b>
<b>Loss before other income (expense)</b>	<b>(8,813,918)</b>	<b>(43,505,801)</b>	<b>(10,149,415)</b>	<b>10,064,842</b>	<b>(52,404,292)</b>		<b>(52,416,667)</b>	<b>(104,820,959)</b>
<b>Other income (expense)</b>								
Interest income	2,350,312	-	-	-	2,350,312			2,350,312
Depreciation of right-of-use assets	-	-	-	-	-			-
Depreciation of property and equipment	-	(3,061,352)	(1,091,714)	(4,446)	(4,157,512)			(4,157,512)
Amortization of intangible asset	-	(2,294,065)	(166,418)	-	(2,460,483)	(o)	2,460,483	-
						(o)	(13,656,000)	(13,656,000)
Interest expense	(2,350,312)	(7,282,633)	(6,746,027)	-	(16,378,972)	(p)	9,096,339	(7,282,633)
Amortization of issue costs on Class A warrants	(31,555,890)	-	-	-	(31,555,890)	(q)	31,555,890	-
Underwriting commissions	-	-	-	-	-	(q)	(20,125,000)	(20,125,000)
Loss on change in fair value of derivative liability	-	-	(16,884,000)	-	(16,884,000)	(r)	16,884,000	-
Loss on change in fair value of warrant liability	-	-	(14,525,926)	-	(14,525,926)	(r)	14,525,926	-
Loss on change in fair value of note payable at FVTPL	-	-	(9,474,074)	-	(9,474,074)	(r)	9,474,074	-
Loss on change in fair value of contingent consideration	-	-	(1,734,498)	-	(1,734,498)			(1,734,498)
Gain on debt modification	-	-	1,505,967	-	1,505,967	(r)	(1,505,967)	-
Gain from non-controlling subsidiary	-	-	160,876	-	160,876			160,876
Share of loss in joint venture	-	(554,657)	-	-	(554,657)	(s)	(60,855)	(615,512)
Gain on investment in Tarukino	-	91,545	-	-	91,545			91,545
Other expense	-	(1,269,991)	(3,961,474)	(226,690)	(5,458,155)	(t)	4,008,658	(1,449,497)
	<b>(31,555,890)</b>	<b>(14,371,153)</b>	<b>(52,917,288)</b>	<b>(231,136)</b>	<b>(99,075,467)</b>		<b>52,657,548</b>	<b>(46,417,919)</b>
<b>Net loss before income tax</b>	<b>(40,369,808)</b>	<b>(57,876,954)</b>	<b>(63,066,703)</b>	<b>9,833,706</b>	<b>(151,479,759)</b>		<b>240,881</b>	<b>(151,238,878)</b>
Income tax (benefit)	-	(1,380,588)	(226,880)	-	(1,607,468)			(1,607,468)
<b>Net loss and comprehensive loss for the year</b>	<b>(40,369,808)</b>	<b>(56,496,366)</b>	<b>(62,839,823)</b>	<b>9,833,706</b>	<b>(149,872,291)</b>		<b>240,881</b>	<b>(149,631,410)</b>

*The accompanying notes are an integral part of this pro forma consolidated statement of loss and comprehensive loss.*

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Notes to the Pro-Forma Financial Statements**  
**(Expressed in United States dollars)**  
**(Unaudited)**

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## **1. BASIS OF PRESENTATION**

The unaudited pro forma consolidated financial statements of TPCO Holding Corp (formerly known as Subversive Capital Acquisition Corp.) ("TPCO") as at and for the year ended December 31, 2020 (the "Pro Forma Financial Statements"), have been prepared by management in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS"), for illustrative purposes only, after giving effect to the proposed merger transactions between TPCO, CMG Partners, Inc. ("Caliva"), Left Coast Ventures, Inc. ("LCV") and SISU Extraction, LLC ("Sisu") on the basis of the assumptions and adjustments described in notes 2, 3 and 4. These Pro Forma Financial Statements do not include all of the disclosures required by IFRS.

The Pro Forma Financial Statements of the Company have been compiled from:

- (a) the audited financial statements of TPCO for the years ended December 31, 2020 and December 31, 2019;
- (b) the audited consolidated financial statements of Caliva for the years ended December 31, 2020 and December 31, 2019;
- (c) the audited consolidated financial statements of LCV for the years ended December 31, 2020 and December 31, 2019; and
- (d) the audited financial statements of Sisu for the years ended December 31, 2020 and December 31, 2019.

It is management's opinion that the unaudited Pro Forma Financial Statements, include all adjustments necessary for the fair presentation, in all material respects, of the transactions described in notes 3 and 4 in accordance with IFRS, applied on a basis consistent with TPCO's accounting policies, except as otherwise noted. The unaudited Pro Forma Financial Statements are not necessarily indicative of the financial position that would have resulted if the combination had actually occurred on December 31, 2020. Further, these unaudited pro forma financial statements are not necessarily indicative of the results of operations that may be achieved in the future. Actual amounts recorded subsequent to the transaction will likely differ from those recorded in these Pro Forma Financial Statements.

The unaudited Pro Forma Financial Statements should be read in conjunction with the historical financial statements and notes thereto of TPCO, Caliva, LCV and Sisu included elsewhere in this document.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The unaudited pro forma consolidated financial statements have been compiled using the significant accounting policies, as set out in the audited financial statements of TPCO as at December 31, 2020. Management has determined that no material pro forma adjustments are necessary to conform the accounting policies of Caliva, LCV and Sisu to the accounting policies used by TPCO in the preparation of its audited financial statements. Additional accounting policies related to Caliva, LCV and Sisu will be included in the TPCO consolidated financial statements after acquisition on a going forward basis.

### **3. PRO FORMA PRELIMINARY PURCHASE PRICE ALLOCATION AND ASSUMPTIONS**

TPCO was a special purpose acquisition corporation incorporated under the laws of the Province of British Columbia for the purpose of effecting, directly or indirectly, an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving TPCO (a “Qualifying Transaction”).

On November 24, 2020, TPCO announced that it had entered into definitive transaction agreements in respect of each of Caliva (the “Caliva Agreement”) and LCV (the “LCV Agreement” and together with the Caliva Agreement, the “Transaction Agreements”) pursuant to which TPCO shall acquire, directly or indirectly, all of the equity of Caliva and LCV (each, a “Target Business” and collectively, the “Target Businesses”) as well as the execution of an agreement among TPCO, Caliva, OG Enterprises Branding, Inc., SC Branding, LLC and SC Vessel 1, LLC and a brand strategy agreement by and between TPCO and SC Branding, LLC related to the relationship with and services of Shawn C. Carter p/k/a JAY-Z (together, the “OG Enterprises Transaction”). TPCO also announced that it had entered into the binding heads of terms agreement with Roc Nation, LLC (“Roc Nation”) (the “Roc Binding Head of Terms”) which sets out the terms pursuant to which The Parent Company shall become Roc Nation’s “Official Cannabis Partner”, Roc Nation will provide strategic and promotional services to The Parent Company and its brands including the promotion of The Parent Company’s brand portfolio, and the provision of artist and influencer relationship services, as well as various other services specifically described therein. The acquisition of the Target Businesses by TPCO shall be referred to as the “Transaction” and will constitute TPCO’s Qualifying Transaction.

Additionally, pursuant to the LCV Agreement, immediately following the closing of the Transaction, TPCO will pay, or cause LCV to pay, to the Sisu members the following in full satisfaction of the consideration owed by LCV for the acquisition of Sisu pursuant to the Agreement and Plan of Merger, dated February 21, 2020, as amended by that First Amendment dated September 15, 2020, by and among LCV, LCV Holdings 710, LLC and Sisu (the “Sisu Merger Agreement”): consideration of approximately \$81 million (subject to certain adjustments and holdbacks) comprised of (i) a number of common shares of TPCO equal to approximately \$66 million divided by a deemed value of \$10.00 and (ii) \$15 million in cash.

On November 24, 2020, TPCO also announced that it had received executed subscription agreements from certain insiders of the Target Businesses and certain other accredited investors in respect of a private placement of approximately \$63 million of subscription receipts of TPCO Inc., a wholly-owned subsidiary of TPCO at a price of \$10.00 per subscription receipt (the “Private Placement”). Pursuant to the subscription receipt agreement, each subscription receipt will be exchanged for common shares on a one for one basis. Certain purchasers under the Private Placement also received, for no additional consideration, in aggregate approximately 466,000 Common Shares from the Sponsor upon closing of the Transaction in consideration of their purchase of the Subscription Receipts. The proceeds from the Private Placement were used in connection with the Transaction and to fund the growth of TPCO following closing of the Transaction.

The description of the definitive transaction agreements, both below and elsewhere in this document, is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the agreements, which may be found on TPCO’s profile on SEDAR.

#### **The Caliva Transaction**

Pursuant to the Caliva Agreement, the shareholders of Caliva agreed to sell all of the issued and outstanding securities of Caliva to TPCO in exchange for the issuance of a number of common shares of TPCO equal to approximately \$282.9 million (subject to certain adjustments and holdbacks) divided by a deemed value of \$10.00. The Caliva Agreement also contains trading price consideration which entitles the sellers to receive additional common shares of TPCO, if the volume weighted average price per share of TPCO commons shares at any time during the period beginning on the closing date and ending on the second anniversary of the closing date achieves certain values.

#### **The LCV Transaction**

Pursuant to the LCV agreement, the shareholders of LCV agreed to sell all of the issued and outstanding securities of LCV to TPCO in exchange for the issuance of a number of common shares of TPCO equal to approximately \$70 million (subject to certain adjustments and holdbacks) divided by a deemed value of \$10.00. The LCV Agreement also contains trading price consideration which entitles the sellers to receive additional common shares of TPCO, if the volume weighted average price per share of TPCO commons shares at any time during the period beginning on the closing date and ending on the second anniversary of the closing date achieves certain values.

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Notes to the Pro-Forma Financial Statements**  
**(Expressed in United States dollars)**  
**(Unaudited)**

**3. PRO FORMA PRELIMINARY PURCHASE PRICE ALLOCATION AND ASSUMPTIONS (continued)**

**The OG Enterprises Transaction**

TPCO indirectly acquired a 50% interest in OGE as a result of its acquisition of Caliva. On January 19, 2021, following closing of the Transaction, TPCO acquired the remaining 50% of OGE from SC Vessel 1, LLC. As consideration for the remaining 50% interest in OGE, SC Vessel 1, LLC received 3,000,000 Common Shares and a contingent right to receive up to an additional 1,000,000 Common Shares in the event the 20-day VWAP of the Common Shares reaches \$13.00, \$17.00 and \$21.00 within three years of closing, with one-third issuable upon the achievement of each price threshold, respectively.

Each of the acquisitions above has been accounted for in accordance with IFRS 3 “Business Combinations”, as each of their operations constitutes a business. The allocation of the purchase price has been prepared on a preliminary basis as the final purchase price allocation report has not been completed as of the date of these unaudited pro forma financial statements. The identified fair value of net assets below are a result of management’s best estimates and assumptions after taking into account all relevant information available. The final purchase price allocations may result in adjustments to the preliminary estimate of the purchase date fair values disclosed in the table below.

The following tables summarize the consideration paid and the fair value of the identifiable assets acquired, and liabilities assumed as of the proposed date of acquisition of the Target Businesses:

The total purchase price consideration is summarized as follows:

	<b>Caliva</b>	<b>LCV</b>	<b>Sisu</b>	<b>Total</b>
Share consideration	\$ 280,110,000	\$ 40,943,000	\$ 50,222,000	\$ 371,275,000
Share consideration - OG Enterprises	30,360,000	-	-	30,360,000
Cash	-	-	17,680,000	17,680,000
Expense fund amount	-	-	200,000	200,000
Present value of holdback	-	-	7,656,000	7,656,000
Contingent considerations				
Trading price consideration	154,376,000	34,306,000	-	188,682,000
Trading price consideration - OG Enterprises	8,895,000	-	-	8,895,000
Earnout consideration	-	-	-	-
<b>Total consideration</b>	<b>\$ 473,741,000</b>	<b>\$ 75,249,000</b>	<b>\$ 75,758,000</b>	<b>\$ 624,748,000</b>

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Notes to the Pro-Forma Financial Statements**  
**(Expressed in United States dollars)**  
**(Unaudited)**

**3. PRO FORMA PRELIMINARY PURCHASE PRICE ALLOCATION AND ASSUMPTIONS (continued)**

A preliminary estimate of the fair value of the assets to be acquired and the liabilities to be assumed by TPCO in connection with the proposed acquisitions is as follows:

	Caliva per FS \$	Fair value adjustment \$	Caliva fair value adjusted \$	LCV per FS \$	Fair value adjustment \$	LCV fair value adjusted \$	Sisu per FS \$	Fair value adjustment \$	Sisu fair value adjusted \$	Note 3	Total \$
<b>ASSETS ACQUIRED</b>											
Cash and cash equivalents	9,233,947	-	9,233,947	3,340,966	-	3,340,966	7,207,472	-	7,207,472	(a)	19,782,385
Accounts receivable	2,176,121	-	2,176,121	1,174,891	-	1,174,891	890,296	-	890,296	(a)	4,241,308
Inventory	14,158,198	-	14,158,198	6,807,639	-	6,807,639	4,552,407	-	4,552,407	(a)	25,518,244
Biological assets	1,181,925	-	1,181,925	-	-	-	-	-	-	(a)	1,181,925
Prepaid expenses and other assets	6,397,626	-	6,397,626	2,791,800	-	2,791,800	85,774	-	85,774	(a)	9,275,200
Property and equipment	8,691,369	-	8,691,369	3,334,969	-	3,334,969	1,174,561	-	1,174,561	(a)	13,200,899
Right-of-use assets	53,362,933	-	53,362,933	3,111,112	-	3,111,112	749,547	-	749,547	(a)	57,223,592
Goodwill	-	-	-	5,870,714	(5,870,714)	-	-	-	-	(c)	-
Existing intangible assets	4,737,936	(4,737,936)	-	15,499,415	(15,499,415)	-	-	-	-	(c)	-
Market related intangible assets	-	89,500,000	89,500,000	-	-	16,600,000	-	21,700,000	21,700,000	(f)	127,800,000
Customer relationships	-	-	-	-	4,200,000	4,200,000	-	-	-	(f)	4,200,000
Covenants-not-to-compete	-	-	-	-	-	-	-	180,000	180,000	(f)	180,000
License	-	218,100,000	218,100,000	-	17,600,000	17,600,000	-	36,600,000	36,600,000	(f)	272,300,000
Equity method investments	-	-	-	4,751,269	-	4,751,269	-	-	-	(a)	4,751,269
Deferred tax asset	293,600	-	293,600	-	-	-	-	-	-	(a)	293,600
Investment in Tarukino	591,545	-	591,545	-	-	-	-	-	-	(a)	591,545
Investment in joint venture	-	-	-	-	-	-	-	-	-	(e)	-
<b>Total assets acquired at fair value</b>	<b>100,825,200</b>	<b>302,862,064</b>	<b>403,687,264</b>	<b>46,682,775</b>	<b>17,029,871</b>	<b>63,712,646</b>	<b>14,660,057</b>	<b>58,480,000</b>	<b>73,140,057</b>		<b>540,539,967</b>
<b>LIABILITIES ASSUMED</b>											
Accounts payable	8,372,014	-	8,372,014	5,570,468	-	5,570,468	1,083,927	-	1,083,927	(b)	15,026,409
Accrued and other liabilities	11,273,084	-	11,273,084	4,685,444	-	4,685,444	4,936,254	-	4,936,254	(b)	20,894,782
Line of credit	12,117,347	-	12,117,347	-	-	-	-	-	-	(b)	12,117,347
Consideration payable	2,458,844	-	2,458,844	-	-	-	-	-	-	(b)	2,458,844
Contingent considerations - current portion	-	-	-	2,083,677	-	2,083,677	-	-	-	(b)	2,083,677
Contingent considerations - non-current portion	-	-	-	320,821	-	320,821	-	-	-	(b)	320,821
Notes payable	-	-	-	15,400,000	-	15,400,000	-	-	-	(b)	15,400,000
Convertible notes payable	-	-	-	24,037,312	(24,037,312)	-	-	-	-	(d)	-
Lease liability - current portion	1,334,957	-	1,334,957	895,803	-	895,803	157,672	-	157,672	(b)	2,388,432
Lease liability - non-current portion	59,226,348	-	59,226,348	2,720,760	-	2,720,760	736,533	-	736,533	(b)	62,683,641
Put option and non-exercise liability	11,323,333	-	11,323,333	-	-	-	-	-	-	(b)	11,323,333
Warrant liability	-	-	-	18,600,000	(18,600,000)	-	-	-	-	(d)	-
Derivative liability	-	-	-	23,741,000	(23,741,000)	-	-	-	-	(d)	-
Income tax payable	-	-	-	4,917,669	-	4,917,669	-	-	-	(b)	4,917,669
Loan payable - non-current portion	5,819,450	-	5,819,450	-	-	-	-	-	-	(b)	5,819,450
Deferred tax liabilities	-	91,664,800	91,664,800	4,397,386	11,443,200	15,840,586	-	17,427,040	17,427,040	(b)/(f)	124,932,426
Other long-term liabilities	-	-	-	1,642,646	-	1,642,646	-	-	-	(b)	1,642,646
<b>Total Liabilities</b>	<b>111,925,377</b>	<b>91,664,800</b>	<b>203,590,177</b>	<b>109,012,986</b>	<b>(54,935,112)</b>	<b>54,077,874</b>	<b>6,914,386</b>	<b>17,427,040</b>	<b>24,341,426</b>		<b>282,009,477</b>
Goodwill			273,643,913			65,614,228			26,959,369	(g)	366,217,510
<b>Total purchase price</b>			<b>473,741,000</b>			<b>75,249,000</b>			<b>75,758,000</b>		<b>624,748,000</b>

**TPCO Holding Corp. (formerly known as Subversive Capital Acquisition Corp.)**  
**Notes to the Pro-Forma Financial Statements**  
**(Expressed in United States dollars)**  
**(Unaudited)**

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### **3. PRO FORMA PRELIMINARY PURCHASE PRICE ALLOCATION AND ASSUMPTIONS (continued)**

A preliminary estimate of the fair value of the assets to be acquired and the liabilities to be assumed by TPCO in connection with the proposed acquisitions is as follows: (continued)

- (a) The carrying values of all current assets and non-current assets acquired are assumed to be representative of their estimated fair values.
- (b) The carrying values of current liabilities and non-current liabilities assumed are assumed to be representative of their estimated fair values.
- (c) Existing intangible assets and goodwill recorded in the acquired Target Businesses are revalued to \$nil on a preliminary basis.
- (d) The carrying values of the convertible debt, derivative liability and warrant liability in LCV are revalued to \$nil on a preliminary basis as management expects that these instruments will be converted to equity of LCV prior to the closing of the Transaction.
- (e) The carrying value of the investment in joint venture is revalued to nil as TPCO will own 100% of OG Enterprises Branding Inc. upon closing of the Transaction and will cease to account for the investment of OG Enterprises Branding Inc. under the equity method.
- (f) A preliminary fair value estimate of \$404,480,000 has been assigned to intangible assets representing market related intangible assets, customer relationships, covenants-not-to-compete and licenses. The assumptions used to determine the fair value of the acquired intangible assets may change as TPCO finalizes the purchase price allocations following the completion of the acquisitions. Deferred tax liabilities of \$120,535,040 arose as a result of recognizing the identified intangible assets acquired.
- (g) Goodwill represents the different between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not deductible for tax purposes.

As the consolidated statements of financial position for Caliva, LCV and Sisu are already included, the only adjustments required (further detailed in note 4) are for the payment of the consideration, fair value adjustments to assets and liabilities acquired, recognition of goodwill and elimination of all items in shareholders' equity.

### **4. PRO FORMA ADJUSTMENTS**

#### ***Pro forma adjustments to the consolidated statement of financial position***

The unaudited pro forma consolidated financial position reflects the following adjustments as if the transactions described in note 3 had occurred on December 31, 2020:

- (a) To record cash paid, contingent consideration and shares issued on the acquisitions.
- (b) To record (i) fair value adjustments to existing intangible assets, goodwill, convertible debt, derivative liability and warrant liability and investment in joint venture; and (ii) the recognition of identifiable intangible assets acquired and the related deferred tax liabilities in the Transaction, including market related intangible assets, customer relationships, covenants-not-to-compete and licenses, as discussed in note 3(c) to 3(f).
- (c) To record goodwill which represents the excess of preliminary estimated purchase price over the estimated fair value of the net identifiable assets acquired and liabilities assumed by TPCO.
- (d) To record elimination of all items in shareholders' equity upon each respective acquisition thereof by TPCO.
- (e) To record the settlement of deferred underwriting commissions of \$20,125,000, which is paid on completion of the Transaction;
- (f) To record the gain on repayment of the line of credit. The gain of \$2,299,898 is recorded in other income as the difference between the carrying value of \$9,817,449 and fair value of \$12,117,347 (see Note (j) for debt settlement).

#### 4. PRO FORMA ADJUSTMENTS (continued)

*Pro forma adjustments to the consolidated statement of financial position (continued)*

- (g) The Pro Forma Financial Statements include \$264,318,686 of redemptions based on results subsequent to the year-end. On or following the completion of the Transaction, each Class A Restricted Voting Share will be automatically converted into one common share of TPCO. Upon this conversion, the \$280,298,339 Class A Restricted Voting Shares which were classified as a liability in the financial statements of TPCO is transferred to common shares. Additionally, the cash and securities held in escrow relating to the Class A Restricted Voting Shares will be released into cash and cash equivalent upon completion of the Transaction.
- (h) On or following the completion of the Transaction, each Class B Share will be automatically converted into the proportionate voting shares of TPCO on a 100-for-1 basis. Each proportionate voting share may at any time, at the option of the holder, be converted into common shares at a ratio of 100 common shares per proportionate voting share. Upon this conversion, the \$6,775,000 Class B Shares which were classified as an item of share capital included in "Share capital, net" in the financial statements of TPCO will be transferred to common shares included as part of "Share capital, net".
- (i) To record the gross proceeds of \$63,135,000 from the Private Placement, net of estimated issuance cost of \$100,000.
- (j) To record a series of debt settlements that will take place concurrently with or immediate after closing: (i) settlement of \$9,817,449 for the line of credit (see Note 4 (f) above for additional information); (ii) cash settlement of \$15,400,000 for note payable and loan payable; and (iii) settlement of the put option and non-exercise liability of \$11,323,333 through the contributed surplus account as a result of the extinguishment of the liability. The liability was extinguished by way of entering into the brand and talent agreements by TPCO as part of the OG Enterprises Transaction. Should any of these take place prior to closing, the purchase price allocations may change as TPCO finalizes the details of the definitive transaction agreements.
- (k) To record the issuance of 2,470,356 commons shares of TPCO for a total of \$25,000,000 to Roc Nation, LLC for the provision of promotion, marketing and advertising services of TPCO's cannabis brands and related products, pursuant to the terms of the binding head of terms agreement entered between Roc Nation, LLC and TPCO.
- (l) To record the issuance of 2,000,000 commons shares of TPCO for a total of \$20,240,000 to SC Branding, LLC as marketing expense for services to be provided by Shawn C. Cater p/k/a JAY-Z prior to closing of the Transaction, pursuant to the terms of the brand strategy agreement entered between SC Branding, LLC and TPCO.
- (m) To record the brand strategy liability for a total of \$18,500,000 to SC Branding, LLC pursuant to the terms of the brand strategy agreement between SC Branding, LLC and TPCO.

#### 4. PRO FORMA ADJUSTMENTS (continued)

***Pro forma adjustments to the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020***

The unaudited pro forma consolidated statement of loss and comprehensive loss for the year ended December 31, 2020 reflects the following adjustments as if the transactions described in note 3 had occurred on January 1, 2020:

- (n) To record the marketing expense incurred in relation to the brand strategy agreement mentioned above in note 4(l).
- (o) To record reversal of amortization of existing intangible assets revalued to \$nil as a result of the acquisitions and the recognition of amortization of intangible assets acquired in the acquisitions with the following estimated useful life assumptions: market related intangible assets – 10 years; customer relationships – 5 years; covenants-not-to-compete – 5 years; and license – indefinite.
- (p) To record: (i) the elimination of interest allocable to the Class A Restricted Voting Shares as at the beginning of the period and (ii) financing costs related to convertible debt settled concurrently at closing mentioned above in note 4(b).
- (q) To record: (i) the elimination of amortization of issue costs on Class A warrants as of the beginning of the period as the conversion of Class A Restricted Voting Share into common shares of TPCO was assumed to occurred on January 1, 2020 and (ii) reclassify underwriting commissions of \$20,125,000. See note 4 (e) for additional information.
- (r) To record the reversal of the change in fair value of (i) derivative liability, (ii) warrant liability and (iii) notes payable and (iv) gain on debt modification associated with debt settlements that will take place concurrently at or immediate after closing.
- (s) To record an increase of expenses by \$60,855 for the year ended December 31, 2020 to reflect management's best estimate of additional expenses in relation to the OG Enterprises Transaction.
- (t) To record the gain on repayment of the line of credit (see Note 4 (f) above for additional information) and reversal of change in fair value of the line of credit which is repaid immediately after closing of the Transactions.
- (u) To record the settlement of the put option and non-exercise liability immediate after closing of the Transactions
- (v) To record an increase in expenses by \$18,500,000 pursuant to the terms of the brand strategy agreement between SC Branding, LLC and TPCO.
- (w) To record the expense for the issuance of 2,470,356 commons shares of TPCO for a total of \$25,000,000 to Roc Nation, LLC for the provision of promotion, marketing and advertising services of TPCO's cannabis brands and related products, pursuant to the terms of the binding head of terms agreement entered between Roc Nation, LLC and TPCO.

#### 5. TAX RATE

Section 280E of the Internal Revenue Code ("IRC") prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting normal business expenses, such as payroll and rent, from gross income (revenue less cost of goods sold). Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for Federal purposes, the IRS has subsequently applied Section 280E to state-legal cannabis businesses. Cannabis businesses operating in states that align their tax codes with the IRC are also unable to deduct normal business expenses from their state taxes. Whereas the Company's statutory rate is expected to be 29.80%, actual rates will differ as a result of the temporary and permanent differences, as well as the limitations placed with respect to Section 280E. The pro forma effective income tax rate applicable to the operations subsequent to the completion of the Transaction is 35% to 48%.

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**6. PRO FORMA EARNINGS PER SHARE**

The Pro Forma Earnings per Share ("Proforma EPS) has been adjusted to reflect the pro forma consolidated net loss for the year ended December 31, 2020. In addition the number of shares used in calculating the pro forma consolidated basic and diluted earnings per share is the total number of common shares of TPCO has outstanding as of the closing of the Transactions. TPCO has outstanding warrants of 28.75 million that are exercisable 65 days after the completion of the Transactions at an exercise price of \$11.50 per share and expire five years after the completion of the Transactions. The assumption is that the TPCO warrants are out of money and therefore, these instruments have been excluded from the determination of diluted EPS for the purpose of these pro forma consolidated statement of net loss.

The following is a breakdown of the EPS calculation:

	<b>December 31, 2020</b>
Net loss from continuing operations attributable to owners of the parent	\$ <u>(149,631,410)</u>
Weighted average number of shares	<u>123,946,380</u>
Loss per share	\$ <u>(1.21)</u>