Consolidated Financial Statements

# Elixxer Ltd.

For the year ended December 31, 2020 and for the fifteen months ended December 31, 2019

INDEX

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Elixxer Ltd.:

***Opinion***

We have audited the consolidated financial statements of Elixxer Ltd., and its subsidiaries (together 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, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2020 and for the fifteen-month period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

***Basis for Opinion***

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

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 in the consolidated financial statements, which describes the events and conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated. 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 in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 John C. Sinclair.

Baker Tilly WM LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 30, 2021

## Elixxer Ltd.

# Consolidated Statements of Financial Position

**(Amounts expressed in Canadian dollars unless otherwise stated)**

| | As at December 31, 2020 $ | As at December 31, 2019 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **2,102,748** | 924,502 |
| Interest receivable *(note 5)* | **—** | 1,149,519 |
| Convertible debentures receivable (*note 9)* | **—** | 717,103 |
| Other receivables | **222,551** | 100,087 |
| **Total current assets** | **2,325,299** | 2,891,211 |
| | | |
| **Non-current assets** | | |
| Equity instruments (*note 6)* | **15,990,925** | 506,605 |
| Investments in associates (note 8) | **—** | 9,836,547 |
| Convertible debentures receivable (*note 9)* | **2,129,909** | 5,869,743 |
| Royalty streams (*note 10)* | **—** | 4,449,448 |
| Loans to directors and officers (*note 11)* | **362,453** | 395,876 |
| Fixtures and fittings | **5,547** | 7,513 |
| **Total non-current assets** | **18,488,834** | 21,065,732 |
| | **20,814,133** | 23,956,943 |
| | | |
| **Liabilities and equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **2,962,507** | 2,438,612 |
| Convertible debentures payable (*note 12)* | **1,123,075** | 1,748,823 |
| Conversion feature of convertible debentures payable (*note 12)* | **—** | 3,146 |
| Other loans payable (*note 13)* | **11,970,042** | 6,587,429 |
| **Total current liabilities** | **16,055,624** | 10,778,010 |
| | | |
| **Equity** | | |
| Share capital (*note 14)* | **49,571,514** | 48,963,926 |
| Warrants (*note 14)* | **4,296,673** | 4,361,691 |
| Contributed surplus | **13,520,910** | 12,714,473 |
| Accumulated other comprehensive loss | **36,777** | 22,746 |
| Deficit | **(62,667,365)** | (52,883,903) |
| **Total equity** | **4,758,509** | 13,178,933 |
| | **20,814,133** | 23,956,943 |

Going concern uncertainty (*note 1)*
Contingent liabilities and commitments (*note 17)*
Subsequent events (*note 19)*

*See accompanying notes*

On behalf of the Board

***(s) "Mohammed Ghafari"*** Director

***(s) "Rafi Hazan"*** Director

## Elixxer Ltd.

# Consolidated Statements of Loss and Comprehensive Loss

**(Amounts expressed in Canadian dollars unless otherwise stated)**

| | For the year ended December 31, 2020 | For the fifteen months ended December 31, 2019 |
|---|---|---|
| | $ | $ |
| Revenue | | |
| Finance income *(note 4)* | **1,086,901** | 1,491,735 |
| Other revenue | **16,272** | 156,346 |
| | **1,103,173** | 1,648,081 |
| Expenses | | |
| Administrative expenses *(note 4)* | **3,291,221** | 11,000,657 |
| Finance expense *(notes 4)* | **3,305,139** | 1,309,335 |
| Depreciation | **1,966** | 2,455 |
| Share of losses of associates *(note 8)* | **865,411** | 1,881,748 |
| Fair value adjustment of convertible debentures and royalty streams *(note 9 and 10)* | **8,189,282** | — |
| Impairment of loans receivables *(note 7)* | **—** | 3,015,085 |
| Impairment of investment in associates and joint ventures | **—** | 1,516,210 |
| Provision for doubtful receivables *(note 5)* | **2,167,594** | 336,413 |
| Extinguishment of convertible debenture payable *(note 12)* | **—** | 1,008,482 |
| (Gain) on conversion of convertible debentures receivable *(note 8)* | **(363,936)** | — |
| Net (gain) loss on financial assets measured at fair value through profit or loss *(notes 6, 9 and 10)* | **(6,393,109)** | 5,835,191 |
| Net gain on financial liabilities measured at fair value through profit or loss *(note 12)* | **(151,656)** | (797,918) |
| Realized gain on sale of investments in associates *(note 8 (c))* | **(75,012)** | — |
| Foreign exchange losses | **49,735** | 221,544 |
| | **10,886,635** | 25,329,202 |
| Net loss for the period | **(9,783,462)** | (23,681,121) |
| Other comprehensive income (loss) | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign exchange gain on translation of foreign subsidiaries | **14,031** | 22,746 |
| Other comprehensive income | **14,031** | 22,746 |
| Comprehensive loss | **(9,769,431)** | **(23,658,375)** |
| Net loss per share | | |
| Basic and fully diluted | **(0.02)** | (0.05) |
| Weighted average number of outstanding shares | **576,923,557** | 470,171,841 |

*See accompanying notes*

# Elixxer Ltd.

## Consolidated Statements of Changes in Equity
### (Amounts expressed in Canadian dollars unless otherwise stated)

| For the year ended December 31, 2020 | Share capital | | Warrants | | Contributed surplus | Accumulated other comprehensive loss<br>Foreign currency translation reserve | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | # | $ | # | $ | $ | $ | $ | $ |
| Balance – October 1, 2018 | 380,288,641 | 32,335,757 | 49,218,314 | 4,537,871 | 10,003,130 | - | (29,202,782) | 17,673,976 |
| Foreign exchange gain on translation of foreign subsidiaries, net of taxes | - | - | - | - | - | 22,746 | - | 22,746 |
| Net loss for the period | - | - | - | - | - | - | (23,681,121) | (23,681,121) |
| Comprehensive loss for the period | - | - | - | - | - | 22,746 | (23,681,121) | (23,658,375) |
| Issuance of convertible debentures payable *(notes 12 and 14)* | - | - | 12,048,055 | 397,733 | - | - | - | 397,733 |
| Issuance of shares to acquire equity investments *(notes 8 and 14)* | 35,167,001 | 4,019,588 | - | - | - | - | - | 4,019,588 |
| Issuance of shares to settle accounts payable and accrued liabilities *(note 14)* | 2,432,390 | 250,272 | - | - | - | - | - | 250,272 |
| Issuance of shares to settle Arlington private placement *(note 14)* | 104,000,000 | 10,400,000 | - | - | - | - | - | 10,400,000 |
| Issuance of shares to settle Arlington private placement finders' fees *(note 4 and 16)* | 3,120,000 | 312,000 | - | - | - | - | - | 312,000 |
| Issue costs - convertible debentures payable *(note 12)* and Arlington private placement *(note 14)* | - | (312,000) | - | (4,541) | - | - | - | (316,541) |
| Share purchase loans to directors and officers repaid during the period *(notes 11 and 14)* | - | 209,750 | - | - | - | - | - | 209,750 |
| Share purchase loans to directors and officers - accretion during the period *(notes 11 and 14)* | - | (17,737) | - | - | - | - | - | (17,737) |
| Exercise of stock options *(note 14)* | 500,000 | 39,173 | - | - | (14,173) | - | - | 25,000 |
| Expiry of warrants *(note 14)* | - | - | (2,744,592) | (495,321) | 495,321 | - | - | - |
| Extension of 2017 warrants *(note 14)* | - | - | (24,871,822) | (1,146,928) | 1,146,822 | - | - | - |
| Issuance of shares to settle AIP private placement *(note 14)* | 35,000,000 | 1,727,123 | 35,000,000 | 1,072,877 | - | - | - | 2,800,000 |
| Stock-based compensation *(notes 4 and 14)* | - | - | - | - | 1,083,267 | - | - | 1,083,267 |
| Balance – December 31, 2019 | 560,508,032 | 48,963,926 | 69,649,955 | 4,361,691 | 12,714,473 | 22,746 | (52,883,903) | 13,178,933 |
| **Balance – January 1, 2020** | **560,508,032** | **48,963,926** | **68,649,955** | **4,361,691** | **12,714,473** | **22,746** | **(52,883,903)** | **13,178,933** |
| Foreign exchange gain on translation of foreign subsidiaries, net of taxes | - | - | - | - | - | 14,031 | - | 14,031 |
| Net loss for the period | - | - | - | - | - | - | (9,783,462) | (9,783,462) |
| Comprehensive loss for the period | - | - | - | - | - | 14,031 | (9,783,462) | (9,769,431) |
| Expiry of warrants *(note 14)* | - | - | (12,048,055) | (393,192) | 393,192 | - | - | - |
| Issuance of convertible debentures payable *(notes 12 and 14)* | - | - | 14,200,000 | 73,015 | - | - | - | 73,015 |
| Issue costs - convertible debentures payable *(note 12)* | - | - | - | (5,369) | - | - | - | (5,369) |
| Share purchase loans to directors and officers repaid during the year *(notes 11 and 14)* | - | 21,905 | - | - | - | - | - | 21,905 |
| Share purchase loans to directors and officers - accretion during the year *(notes 11 and 14)* | - | (17,122) | - | - | - | - | - | (17,122) |
| Issuance of shares to settle AIP loan *(note 14)* | 46,333,333 | 463,333 | - | - | - | - | - | 463,333 |
| Issuance of warrants to settle YA private placement *(note 14)* | 26,666,666 | 139,472 | 26,666,666 | 260,528 | | | | 400,000 |
| Stock-based compensation *(notes 4 and 14)* | - | - | - | - | 413,245 | - | - | 413,245 |
| **Balance – December 31, 2020** | **633,508,031** | **49,571,514** | **97,468,566** | **4,296,673** | **13,520,910** | **36,777** | **(62,667,365)** | **4,758,509** |

*See accompanying notes*

# Consolidated Statements of Cash Flows
**(Amounts expressed in Canadian dollars unless otherwise stated)**

| | **For the year ended December 31, 2020** | **For the fifteen months ended December 31, 2019** |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss for the period | **(9,783,462)** | (23,681,121) |
| Finance income *(note 4)* | **(1,086,208)** | (1,283,089) |
| Finance expense *(note 4)* | **3,207,788** | 859,223 |
| Net (gain) loss of financial assets measured at fair value through profit or loss | **(6,393,109)** | 5,835,192 |
| Net (gain) of financial liabilities measured at fair value through profit or loss | **(151,656)** | (797,918) |
| Impairment of loans receivables *(note 7)* | **—** | 3,015,085 |
| Impairment of investments in associates *(note 8)* | **—** | 1,516,210 |
| Share of losses of associates *(note 8)* | **865,410** | 1,881,748 |
| Fair value adjustment of convertible debenture receivables and royalty | **8,189,282** | — |
| Extinguishment of convertible debentures payable (note 12) | **—** | 1,008,482 |
| (Gain) on conversion of convertible debenture receivable (note 8) | **(363,936)** | — |
| Provision for doubtful receivables *(note 5)* | **2,167,594** | 336,413 |
| Interest payment | **1,966** | 2,456 |
| Stock-based compensation *(notes 4 and 14(d))* | **413,245** | 1,083,267 |
| Interest payments | **(446,337)** | — |
| Realized gain on sale of shares | **(75,012)** | — |
| Unrealized foreign exchange loss | **24,348** | 102,700 |
| | **(3,430,087)** | (10,121,352) |
| Change in non-cash working capital items | | |
| Increase (decrease) in account payable | **539,531** | 2,167,594 |
| Increase in other receivables | **(122,464)** | (27,653) |
| Deferred revenue | **—** | (116,357) |
| **Net cash flows from operating activities** | **(3,013,020)** | (7,912,780) |
| **Investing activities** | | |
| Acquisition of equity investments | **—** | (358,547) |
| Restricted cash transfers to trust account | **—** | 759,136 |
| Payments for non-refundable deposits | **—** | (1,223,593) |
| Issuance of loans receivable | **—** | (4,928,203) |
| Issuance of loans to joint ventures and associates | **—** | (6,181,649) |
| Acquisition of convertible debentures receivable | **—** | (4,289,247) |
| Sale of investment in associates | **1,060,830** | — |
| **Cash flows from investing activities** | **1,060,830** | (16,222,103) |
| **Financing activities** | | |
| Proceeds of Elixxer shares – Arlington private placement *(note 13 (a))* | **—** | 13,200,000 |
| Convertible debenture issue costs *(note 15)* | **(5,369)** | (46,763) |
| Proceeds of Elixxer shares – private placement *(note 14 (a) (ii))* | **400,000** | — |
| Proceeds from issuance of other loans payable *(note 13 (a))* | **3,355,000** | 6,393,535 |
| Repayment of convertible debenture payable *(note 12)* | **(659,195)** | (1,288,355) |
| Proceeds from the exercise of stock options and warrants *(note 14)* | **—** | 234,750 |
| Proceeds from bank loan *(note 13 (c))* | **40,000** | — |
| **Cash flows from financing activities** | **3,130,436** | 18,493,167 |
| **Increase (decrease) in cash** | **1,178,246** | (5,641,716) |
| Cash, beginning of period | **924,502** | 6,566,218 |
| **Cash, end of period** | **2,102,748** | 924,502 |
| **Supplemental cash flow information** | | |
| Issuance of shares to acquire equity instruments *(note 14)* | **—** | 4,019,588 |
| Issuance of warrants in connection with convertible debenture payable *(note 12 and 14)* | **73,015** | 397,733 |
| Issuance of warrants in connection with private placement *(note 14)* | **260,528** | 1,072,877 |
| Bridge loan to acquire Etea notes *(note 13)* | **—** | 2,800,000 |
| Issuance of shares to loans payable *(note 13)* | **602,805** | — |
| Interest paid | **446,338** | 241,467 |

*See accompanying notes*

### 1. Nature of operations and going concern uncertainty

Elixxer Ltd. ("Elixxer" or the "Company") was incorporated under the Canada Business Corporations Act on July 9, 2004. Elixxer is a publicly listed company and its shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "ELXR" ("LG" prior to August 6, 2019). The registered office of Elixxer is located at 800 Square-Victoria, Suite 3700, Montréal, Québec, Canada.

Elixxer and its wholly-owned subsidiaries, LGC Finance Limited (formerly Leni Gas Cuba Limited) ("LGC Finance"), LGC Capital EU OU ("LGC Estonia") and LGC Capital Spain S.L ("LGC Spain"), are collectively referred to as the "Company" in these consolidated financial statements.

Elixxer invests in the legal global cannabis market. The Company's aim is to be involved and invested in jurisdictions globally that allow legal cultivation and production of cannabis products, with the exception of investments in businesses operating in the United States. To date, the Company has expanded to securing significant positions in emerging legal cannabis companies in Australia, Canada, Jamaica, Switzerland and Italy.

All amounts are expressed in Canadian dollars unless otherwise noted. Certain amounts in these consolidated financial statements are expressed in British pounds ("GBP"), Australian dollars ("AUD"), United States dollars ("USD"), Euros ("EUR") and Swiss Francs ("CHF").

**Going Concern Uncertainty**

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. The use of these principles may not be appropriate.

To date, the Company has not earned significant revenues and is considered to be in the development stage. Operating and administration expenditures comprise a significant portion of the Company's activities. Investing in the legal cultivation and production of cannabis products is highly speculative and involves inherent risks.

The Company's current committed cash resources are insufficient to cover expected expenditures for the next 12 months. The Company's ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurance that management will be successful in securing adequate financing. In addition, while the Company's future development activities in relation to its cannabis investments look promising, there can be no assurance that the results of its investment strategies will be successful in the near term.

The Company reported a net loss for the year ended December 31, 2020 of $9,783,462 (for the fifteen months ended December 31, 2019 of $23,681,121). As at December 31, 2020, the Company's current liabilities exceeded its current assets by $13,730,325 (December 31, 2019 – $7,886,799). These recurring losses and the need for continued financing to further successful development activities indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern.

These consolidated financial statements do not give effect to any adjustments to the carrying values and classifications of assets and liabilities that might be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

***Statement of compliance***
The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On July 16, 2019, the Company announced that it is changing its financial year end to December 31 from its previous year end of September 30. As a result, the Company has prepared consolidated financial statements as at December 31, 2019 incorporating financial results for the fifteen-month transition period from October 1, 2018 to December 31, 2019. Afterwards, the Company reverted to a customary reporting calendar on a December 31 year end, with fiscal quarters ending on the last day of March, June, September and December each year.

The consolidated financial statements have been prepared on a historical basis, except for equity instruments, convertible debentures receivable, royalty streams and the embedded derivative in connection with the convertible debentures payable that have been measured at fair value.

The Board of Directors authorized these consolidated financial statements for issue on April 30, 2021.

***Basis of consolidation***
The consolidated financial statements include the financial statements of Elixxer and its subsidiaries as described in note 1. All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full on consolidation.

The consolidated financial statements of the subsidiaries are prepared using the same reporting year / period and same accounting policies as Elixxer.

***Functional and presentation currency***
These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Elixxer. The functional currency of LGC Finance is the GBP and that of LGC Estonia and LGC Spain are each the EUR.

### 2.2 Use of estimates and judgments
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the date of the consolidated financial statements. Uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

**(a) Share-based payments and warrants**
The estimation of the fair value of options and warrants at the date of grant requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The fair value of each option or warrant is evaluated using the Black-Scholes pricing model or a valuation model based on stochastic simulations at the date of grant. The Company has made estimates as to the volatility, the expected life of options or warrants, and where applicable, expected forfeiture rates. The expected life of the option or warrant is based on historical data. The expected volatility is based on the historical volatility of the Company or comparable companies, as applicable, over the period of the expected life of the stock option or warrant. These estimates may not necessarily be indicative of future actual patterns. The assumptions and model used for estimating the fair value are disclosed in notes 12 and 14 (b) and 14 (c).

**(b) Fair value measurement of equity instruments, convertible debentures receivable and royalty streams**
The fair value of equity instruments, convertible debentures receivable, royalty streams and embedded derivatives contained within convertible debentures payable, is measured using valuation techniques including discounted cash flow ("DCF") models, Monte Carlo simulations and funded production capacity. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful initial public offering ("IPO"), and also appropriate valuation multiples. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

**(c) Recoverability of loans receivables**
There is no reliable third-party credit rating on any of the strategic partners from which the Company has a loans receivable balance. Therefore, the Company judgmentally assigns a credit rating to each loan based on quantitative and qualitative factors which include but are not limited to review of borrower's business plan, cash flow forecasts and financial standing.

**(d) Interest rate of comparable financial instruments**
The Company reviews the interest rates of comparable debt instruments with similar maturity term and credit rating as the loan being analysed. Based on the review the Company assigns a FV Interest Rate to each of its loans receivable. The Company may judgmentally exclude certain outliers in this analysis.

**(e) COVID-19**
The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the recent outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company and its investees by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. Presently, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods. The Company is monitoring its investment portfolio and possible disruptions to the underlying businesses as a result of COVID-19. The extent of any disruption and the long-term consequences to those businesses is not yet clear.

**2.3 New standards adopted**

**Accounting Pronouncements Adopted**

Amendment to IFRS 3: Definition of a Business

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The Company has adopted the IFRS 3 amendment as of January 1, 2020, with no impact on its consolidated financial statements.

IAS 1: Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued "Definition of Material", an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. Materiality is defined as "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." This amendment is effective for the annual period beginning January 1, 2020. The Company has adopted IAS 1 and IAS 8 as of January 1, 2020, with no impact on its consolidated financial statements.

**New Standards and Interpretations Issued but Not Yet Adopted**

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current ("Amendments to IAS 1"). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract ("Amendments to IAS 37") amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

The Company does not expect these amendments to have a material impact on the consolidated financial statements in the period of initial application.

## 3. Principal accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

***Cash and cash equivalents***
Cash and cash equivalents consist of highly liquid investments, such as guaranteed investment certificates and deposit accounts with Canadian, Spanish or Estonian chartered banks, cashable within three months of the date of original issue.

***Investment in associates and joint ventures***
An associate is an entity over which the Company is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Control is achieved when the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company's share of net assets of the associate or joint venture since the acquisition date.

The Company's net loss reflects the share of the results of the associates or joint ventures. Any change in other comprehensive loss of those investees is presented as part of the Company's other comprehensive loss. In addition, when there has been a change recognized directly in the equity of the associates or joint ventures, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains or losses resulting from transactions between the Company and the associates or joint ventures are eliminated to the extent of the interest in the associates or joint ventures.

The financial statement of the associates and joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint ventures. At each reporting date, the Company determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Company calculates the amount of the impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss in statement of loss and comprehensive loss.

***Share capital and warrants issued through issuance of units***

Proceeds from shares and warrants are allocated between share capital and warrants on a relative fair value basis, whereby the fair value of the warrants is determined using a valuation model based on stochastic simulations and the fair value of share capital is based on the trading value on the TSX-V. On the exercise of the warrants, the carrying amounts are transferred from warrants to share capital, whereas on expiry of the warrants, carrying amounts are transferred to contributed surplus.

Costs incurred in connection with the issuance of shares or warrants are allocated based on the fair value of each component and netted against each such component.

Contributed surplus – Contributed surplus consists of share-based compensation expense relating to options vesting, net of exercises and forfeitures. In addition, all cancellations and forfeitures related to warrants and are moved to contributed surplus.

Accumulated other comprehensive loss consists of cumulative translation adjustments.

***Share-based compensation***

Where employees are rewarded using share-based payments, the fair value of the employee's services are determined by reference to the fair value of the equity instruments granted. The fair value of each option is determined using Black-Scholes pricing model at the date of grant. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. All share-based remuneration is recognized as an expense with a corresponding increase to contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates of forfeitures are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Share-based payments for non-employee services, including warrants, are measured at the fair value of the goods or services received and are recorded at the date the goods or services are received. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instrument granted.

Upon exercise of share options, the proceeds received are allocated to share capital, together with the cumulative expense recorded in contributed surplus. On the exercise of warrants, the proceeds received as well as the carrying amount of the warrants are transferred from warrants to share capital, whereas on expiry of the warrants the carrying amount is transferred to contributed surplus.

***Taxes***

***Current income taxes***

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the current income tax amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in total comprehensive profit (loss) or equity is recognized in other comprehensive income (loss) or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provision where appropriate.

***Deferred income taxes***

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax asserts are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income taxes are not recognized for temporary differences which arise on initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profits will be available to allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

***Commodity taxes***

Expenses are recognized net of the amount of sales taxes, except where the sales taxes incurred are not recoverable from the taxation authority, in which case the sales taxes are recognized as part of the expense item.

***Net loss per share***

Net loss per share computations are based upon the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to ordinary shares by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common shares due to the anti-dilutive effect of the outstanding warrants, share options and the convertible debentures payable.

***Foreign currency translation***

*(i) Foreign operations*

The assets and liabilities of subsidiaries that have a functional currency different from that of Elixxer are translated into Canadian dollars at the closing rate at the date of the statement of financial position and revenues and expenses are translated at the average rate for the period and the difference is recorded in other comprehensive income (loss). Upon disposal or substantive disposal of a foreign subsidiary, the foreign currency translation reserve is removed from accumulated other comprehensive income (loss) and recognized in net profit (loss). In addition, upon disposal of an equity instrument held by a foreign operation, the related foreign exchange amount initially accounted for in other comprehensive income (loss), in excess of the amount reclassified in net profit (loss), is reclassified to deficit.

*(Ii) Transactions in foreign currency*
Transactions in foreign currencies are translated at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the reporting date. All differences that arise are recoded in net profit (loss). Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

***Financial instruments***
**Initial classification**
The classification of the Company's financial instruments is as follows:

| Classification | Financial instrument | Description |
|---|---|---|
| **Financial assets measured at amortized cost** | Cash | Cash balances with banks |
| | Interest receivable | Interest due but unpaid in respect of loans or debentures receivable |
| | Other receivables | Amounts receivable from third parties |
| | Loans to directors and officers | Amounts receivable from directors and officers |
| | Loans receivable | Loans receivable and long-term receivables |
| **Financial assets measured at FVTPL** | Convertible debentures receivable | Convertible debentures receivable including conversion feature |
| | Royalty streams | Royalty streams acquired that do not satisfy the definition of an intangible asset |
| | Equity instruments | Equities of publicly traded and private entities |
| **Financial liabilities at amortized cost** | Accounts payable, accrued liabilities and other loans payable | Amounts payable to suppliers and third parties and loan payable to third parties |
| | Convertible debentures payable | Financial liability host component of convertible debentures payable |
| **Financial liabilities measured at FVTPL** | Conversion feature of convertible debentures payable | Conversion feature embedded in convertible debentures payable and accounted for separately from the financial liability host |

**Criteria for classification**
Under IFRS 9 the Company can classify, measure and account for its loans receivable and other receivables as amortized cost, FVOCI (with recycling) and FVTPL while equity instruments can be classified as FVOCI (with no recycling) or FVTPL. The Company analyzes each financial asset on an individual basis. The analysis and classification is driven by the following criteria:

| Classification | Criteria |
|---|---|
| **Amortized cost** | • Held within a business model whose objective is to hold assets in order to collect contractual cash flows and;<br>• Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. |
| **Financial assets measured at FVOCI (with recycling)** | • Held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets and;<br>• Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. |
| **FVTPL** | • All loans receivable and investments not measured at amortized cost or at FVOCI must be measured at FVTPL. |

| | Criteria |
|---|---|

| **Classification** | |
|---|---|
| **Investments in equity instruments** | |
| **FVTPL** | • Investment acquired with the purpose of sale or,<br>• Evidence of historical short-term profit making on similar instruments. |
| **FVOCI (with no recycling)** | • Investment made primarily for non-financial benefits such as strategic alliances and strategic investments. |

### Measurement

After classification as amortized cost, FVTPL or FVOCI, the Company uses the following policy for initial measurement and subsequent measurement at each reporting period.

| **Classification** | **Initial measurement** | **Subsequent measurement** | **Changes in fair value** |
|---|---|---|---|
| **Amortized cost** | Fair value less expected credit loss | Amortized cost using the effective interest method | Reported in consolidated statement of loss when realized or impaired. Interest accretion on loans is recorded in “Finance income” on the consolidated statement of loss. |
| **FVTPL** | Fair value | Re-measured at subsequent reporting dates to fair value.<br>Re-measured using the Black- Scholes option pricing valuation model or other techniques if quoted market prices are not available. | Reported in “Net gain (loss) on financial assets measured at FVTPL” on the consolidated statement of loss. |
| **Financial liabilities** | Fair value | Amortized cost using the effective interest method. | Reported in consolidated statement of loss when liability is extinguished. The interest accretion is recorded in “Finance expense” on the consolidated statement of loss. |
| **Financial liabilities measured at FVTPL** | Fair value | Re-measured at subsequent reporting dates to fair value.<br>Re-measured using the Black- Scholes option pricing valuation model or other techniques if quoted market prices are not available. | Reported in “Net gain (loss) on financial liabilities measured at FVTPL” on the consolidated statement of loss. |

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted [unadjusted] market prices in active markets for identical assets or liabilities, or
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. or
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization [based on the lowest level input that is significant to the fair value measurement as a whole] at the end of each reporting period.

### Impairment of financial assets

*Financial assets carried at amortized cost*

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

(Amounts expressed in Canadian dollars unless otherwise stated)

***Revenue recognition***
Revenue, consisting of a guarantee given, is recognized at the fair value of the consideration received over the guarantee period on a straight-line basis. Finance income consisting of interest is recognized as it is earned in the statement of loss and comprehensive loss.

***Segment reporting***
The Company operates in one reportable segment. The information provided is consistent with the internal reporting provided to the chief operating decision maker.

## 4. Finance income and expense and administrative expenses

The following is a breakdown of the nature of expenses included in finance income, administration expenses and finance expense for the year ended December 31, 2020 and for the fifteen months ended December 31, 2019:

| | For the year ended December 31, 2020 $ | For the fifteen months ended December 31, 2019 $ |
|---|---|---|
| **Finance income:** | | |
| Interest on loans and note receivable *(note 5)* | — | 188,981 |
| Interest on convertible debentures receivables *(note 5)* | **1,051,740** | 1,225,674 |
| Accretion of loan to Oriah *(note 7)* | — | 25,955 |
| Accretion of loans to directors and officers *(note 11)* | **34,468** | 50,811 |
| Other interest | **693** | 314 |
| **Total** | **1,086,901** | 1,491,735 |
| | | |
| **Administrative expenses:** | | |
| Directors' fees and consultancy | **883,766** | 1,628,500 |
| Stock-based compensation *(note 14(d))* | **413,245** | 1,083,267 |
| Salaries and other employee benefits | **371,107** | 660,722 |
| Legal fees | **317,962** | 1,844,024 |
| Consultancy fees | **263,638** | 1,791,864 |
| Investor / public relations | **231,787** | 436,469 |
| Office expenses | **224,617** | 228,664 |
| Regulatory | **221,970** | 963,626 |
| Finder's fee *(note 8(a) and 9(c))* | — | 449,513 |
| Professional fees | **218,183** | 272,384 |
| Travel and business development | **114,629** | 916,795 |
| Due diligence fees | — | 41,990 |
| Other administration | **30,317** | 682,839 |
| **Total** | **3,291,221** | 11,000,657 |

(Amounts expressed in Canadian dollars unless otherwise stated)

| | For the year ended December 31, 2020 $ | For the fifteen months ended December 31, 2019 $ |
|---|---|---|
| **Finance expense:** | | |
| Loss on modification of loans payable *(note 13)* | **608,171** | — |
| Accretion on fair valuation of loan to Oriah *(note 7)* | **—** | 33,650 |
| Fair value adjustment on extension of loans to directors and officers *(note 11)* | **72,661** | — |
| Interest on convertible debentures payable *(note 12)* | **184,744** | 412,746 |
| Accretion of convertible debentures payable *(note 12)* | **253,468** | 627,158 |
| Issue cost of convertible debentures payable *(note 12)* | **97,365** | 8,250 |
| Interest on loans payable *(note 13)* | **1,426,901** | 227,531 |
| Issuance of shares of loan payable *(note 13)* | **463,333** | — |
| Accretion expense on loans payable *(note 13)* | **198,496** | — |
| **Total** | **3,305,139** | 1,309,335 |

## 5. Interest receivable

A breakdown of interest receivable as at December 31, 2020 and 2019 and the respective changes during the year ended December 31, 2020 and fifteen months ended December 31, 2019, are summarized as follows:

| | Etea Sicurezza Group Ltd - Loan $ | Etea Sicurezza Group Ltd - Note $ | Tricho-Med $ | Global Canna Labs $ | Evolution BNK SRL $ | Little Green Pharma $ | Total |
|---|---|---|---|---|---|---|---|
| **Balance, October 1, 2018** | — | — | 75,886 | 15,342 | 47,422 | — | 138,650 |
| Interest earned | 112,098 | 76,883 | 547,742 | 219,110 | 440,446 | 18,376 | 1,414,655 |
| Interest purchased | — | 150,308 | — | — | — | — | 150,308 |
| Payment | — | — | — | — | (208,646) | — | (208,646) |
| Provision for doubtful receivables | (112,098) | (224,315) | — | — | — | — | (336,413) |
| Impact of currency translation | — | (2,876) | — | — | (6,159) | — | (9,035) |
| **Balance, December 31, 2019** | — | — | 623,628 | 234,452 | 273,063 | 18,376 | 1,149,519 |
| Interest earned | — | — | 402,488 | 175,479 | 466,924 | 6,849 | 1,051,740 |
| Provision for doubtful receivables | — | — | (1,026,116) | (409,931) | (731,547) | — | (2,167,594) |
| Reclassification to investment in associates | — | — | — | — | — | (24,853) | (24,853) |
| Impact of currency translation | — | — | — | — | (8,440) | (372) | (8,812) |
| **Balance, December 31, 2020** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |

(Amounts expressed in Canadian dollars unless otherwise stated)

## 6. Equity Instruments

A breakdown of equity instruments as at December 31, 2020 and 2019 are summarized as follows:

| | Little Green Pharma Limited | Zimmer International Inc. | Viridi Unit SA | Freia Farmaceutici SRL | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance, October 1, 2018** | 3,652,023 | — | — | — | 3,652,023 |
| Purchases – at cost | — | 358,547 | — | — | 358,547 |
| Reclassification from investments in associates | — | — | 500,000 | — | 500,000 |
| Revaluation gain (loss) | (131,499) | (358,547) | 6,605 | — | (483,441) |
| Reclassification to investments in associates | (3,520,524) | — | — | — | (3,520,524) |
| **Balance, December 31, 2019** | **—** | **—** | **506,605** | — | **506,605** |
| Reclassification from investments in associates | 6,413,593 | — | | 2,677,618 | 9,091,211 |
| Revaluation gain (loss) | 8,817,962 | — | (506,605) | (1,918,248) | 6,393,109 |
| **Balance, December 31, 2020** | **15,231,555** | **—** | **—** | **759,370** | **15,990,925** |

### (a) Little Green Pharma Limited (formerly Habi Pharma Pty Ltd)

As at September 30, 2018, the fair value of the Company's investment in LGP was determined to be $3,652,053, which represented an interest of 14.21% in LGP.

On May 22, 2019, the Company announced it had entered into an agreement to acquire additional shares of Little Green Pharma for consideration of AUD5,500,000 ($4,986,186). On completion, the additional shares acquired increased the Company's equity ownership in LGP to 40.4%.

On May 29, 2019, the Company completed the first payment of AUD1,146,925 ($1,073,286) in respect of this transaction. Until the transaction was completed this payment was accounted for as a non-refundable deposit.

On August 26, 2019, the Company announced that it had received conditional approval by the TSX Venture Exchange (the "TSX-V") and had consequently closed this transaction by making the final payment under the agreement totaling AUD4,353,075 ($3,912,894).

Taking into consideration the Company's equity stake of 40.4% and its ability to be on the Board of Directors of LGP, management concluded that Elixxer had attained significant influence over LGP and reclassified it as an investment in associate as at December 31, 2019. For the fifteen months ended December 31, 2019, the movement in the fair value of the Company's equity instrument in Little Green Pharma amounted to a loss $131,499.

From June 2020, the Company commenced selling its shares in LGP and as at September 30, 2020, the Company's equity interest in LGP reduced to 20.53% and management conducted a review of its investment in LGP and concluded that it no longer exerted significant influence over the operations of LGP. In addition, during December 2020, the Company's equity interest in LGP decreased from 20.53% to 19.76% due to additional financing from LGP investors other than Elixxer. Consequently, the Company reclassified the value of its investment in LGP to equity instruments and adjusted the carrying value of the equity investment to its fair value of $15,231,555 as at December 31, 2020. Subsequent to December 31, 2020, the Company's equity interest in LGP decreased from 19.76% to 15.55% due to additional financing from LGP investors other than Elixxer.

### (b) Zimmer International Inc.

On January 31, 2019, the Company entered into an agreement to purchase from Global Canna Labs Limited, its 6.75% interest in the share capital of Zimmer International Inc. ("Zimmer"), a pharmaceutical and health care distribution business in the Caribbean, Mexico and South America, for USD270,000 ($358,547). As at December 31, 2019, management concluded the fair value of the Company's investment in Zimmer was $Nil. For the fifteen months ended December 31, 2019, the movement in the fair value of the Company's investment in Zimmer amounted to a loss of $358,547.

(Amounts expressed in Canadian dollars unless otherwise stated)

**(c) Investment in Viridi Unit SA**

In October 2019, the Company's equity interest in Viridi Unit SA ("Viridi") decreased from 30% to 18.4% due to additional financing of Viridi from investors other than Elixxer. As at that date, management conducted a review of its investment in Viridi and concluded that it no longer exerted significant influence over the operations of Viridi. Consequently, the Company reclassified the value of its investment in Viridi to equity instruments and adjusted the carrying value of the investment down to its fair value of $506,605 (see note 8).

During the year ended December 31, 2020, the Company recorded a revaluation loss against its investment in the Viridi equity amounting to $506,605, which resulted from Viridi's financial performance not being in line with expectations.

**(d) Freia Farmaceutici S.R.L.**

In May 2020, the Company's equity interest in Freia decreased from 22.31% to 19.36% due to additional financing from Freia investors other than Elixxer. As at that date, management conducted a review of its investment in Freia and concluded that it no longer exerted significant influence over the operations of Freia and consequently, the Company reclassified the value of its investment in Freia to equity instruments and adjusted the carrying value of the equity investment down to its fair value of $759,370 as at December 31, 2020.

## 7. Loans and note receivable

A breakdown of loans receivable as at December 31, 2020 and 2019 are as follows:

| | Etea Sicurezza Group Ltd - Loan | Etea Sicurezza Group Ltd – note | Evolution BNK SRL | CLV Frontier Brands PTY Ltd. | Oriah Biotanical Pty Ltd. | Freia Farmaceutici SRL | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Balance, October 1, 2018** | — | — | 1,576,266 | — | — | — | 1,576,266 |
| Loans advanced | 111,805 | 2,649,692 | 1,591,727 | 70,665 | 199,768 | 224,903 | 4,848,560 |
| Discount | — | — | — | — | (33,650) | — | (33,650) |
| Accretion | — | — | — | — | 25,955 | — | 25,955 |
| Loan losses | (111,805) | (2,649,692) | — | (70,665) | (182,923) | — | (3,015,085) |
| Reclassification to convertible debenture receivable | — | — | (3,171,133) | — | — | — | (3,171,133) |
| Reclassification to investments in associates | — | — | — | — | — | (228,665) | (228,665) |
| Foreign currency loss on translation | — | — | 3,140 | — | (9,150) | 3,762 | (2,248) |
| **Balance, December 31, 2019 and 2020** | — | — | — | — | — | — | — |

**(a) Etea Sicurezza Group Ltd.**

*(i) Loans receivable*

During the fifteen months ended December 31, 2019, the Company provided additional loans to Etea Sicurezza totaling EUR74,481 ($111,805). As at December 31, 2019, the Company determined this loan was also uncollectable and wrote-off the full balance of $111,805.

*(ii) Note receivable*

On November 8, 2019, the Company entered into an agreement to acquire all rights, title and interest in the USD1,000,000 Etea Sicurezza notes that were the subject of the Etea Guarantee as well as an additional note issued by Etea Sicurezza in the amount of USD1,000,000 from the initial holder thereof (the "Etea notes"). The total face value of Etea notes acquired inclusive of accrued interest was USD2,118,556 ($2,800,000). As a result, the Etea Guarantee was cancelled. The initial holder of the notes also assigned to the Company all of the security that it held in respect of the notes, including the debenture on the assets of Etea Sicurezza and the pledge of shares by Etea Sicurezza's principal shareholder. The purchase price for the transaction, including the Etea notes in the amount of $2,649,692, and accrued interest in the amount of $150,308, was $2,800,000 which was funded by way of a bridge loan to the Company from the initial holder of the notes.

In view of Etea Sicurezza's current challenging liquidity position, the Board of Directors decided to continue to record an impairment in full of its loan exposure to Etea Sicurezza. Consequently, during the fifteen months ended December 31, 2019 the Company recorded, an impairment charge related to the Etea notes amounting to $2,649,692. In addition, interest receivable, in the amount of $224,315 relating to these notes was written off.

**(b) Evolution BNK SRL loan receivable**

As at March 31, 2019 all conditions precedent relating to the Evolution Debenture, including TSX-V approval, had been completed. Consequently, the principal amount of the advance loan draw downs, in the amount of EUR2,115,000 ($3,171,133 after adjustment for foreign currency movement), was transferred to convertible debentures receivable as described in note 9 (c).

**(c) Oriah Botanicals Pty Ltd. loan receivable**

On March 12, 2019, the Company entered into an agreement with Oriah Botanicals Pty Ltd ("Oriah") under which the Company agreed to loan to Oriah the sum of USD150,000 ($199,768) for a period of 12 months. The loan was unsecured and interest-free. The Oriah loan is carried at its present value, which on initial recognition, incorporated a discount on fair valuation of the Oriah loan totalling $33,650 which was recognised in the consolidated statement of loss under finance expense (note 4).

As at December 31, 2019, management conducted an impairment review of the carrying value of the Oriah loan and concluded that the loan was uncollectible and consequently wrote off the amount of the loan, being $182,923.

**(d) Freia Farmaceutici S.R.L. loan receivable**

On January 30, 2019, the Company entered into an agreement with Freia Farmaceutici S.R.L.("Freia") for the provision of an unsecured, interest free loan of EUR150,000 ($224,903) for a period of three months ("the Freia Loan"). The Freia Loan was to be applied towards the completion of the Freia Investment as described in note 8 (b).

On May 16, 2019, the Company completed the first tranche of the Freia Investment, amounting to EUR1,000,000 ($1,513,354), which, net of the application of the Freia Deposit (note 9 (b)) and the Freia Loan resulted in a net payment of EUR750,000 ($1,134,382). On completion of the first tranche of the Freia investment, taking into consideration the Company's equity stake and its representation on Freia's board of directors, management concluded that Elixxer had attained significant influence over Freia. Consequently, as of June 30, 2019, the Company reclassified its investment in the Freia Loan to investments in associates *(refer to note 8 (b)).*

**(e) CLV Frontier Brands Pty Ltd ('CLV")**

On January 11, 2018, the Company announced the launch of new entity, CLV Frontier Brands Pty Ltd. ("CLV), in order to develop and market bespoke beers containing terpenes. The Company, along with two other corporate investors, each held a one-third interest in the Australian incorporated entity. As none of the shareholders could control the company, it was considered a joint venture and accounted for on an equity basis. During 2018, the Company advanced AUD33 ($31) in equity funding and EUR270,000 ($409,879) in additional loans.

As at September 30, 2018, given the inherent uncertainty as to CLV obtaining sufficient additional capital, the Company decided to stop further funding of CLV in order to focus its resources on its portfolio of cannabis investment opportunities. Accordingly, the Company recognized an impairment charge of $31 and wrote-off the loan receivable.

During the fifteen-month period ended December 31, 2019, the Company loaned an additional $70,665, for closing costs associated with the winding up of CLV and recognized a further impairment of $70,665.

(Amounts expressed in Canadian dollars unless otherwise stated)

## 8. Investments in associates

The table below presents the Company's associates as at December 31, 2019 and 2020:

| Associate | Country of registration | Nature of business | Holding December 31, 2020 | Holding December 31, 2019 |
|---|---|---|---|---|
| Freia Farmaceutici S.R.L. | Italy | Cannabis | **19.36%** | **22.31%** |
| Little Green Pharma | Australia | Cannabis | **19.76%** | **38.40%** |

A breakdown of investments in associates as at December 31, 2019 and 2020 are summarized as follows:

| | Viridi Unit SA | Freia Farmaceutici SRL | Little Green Pharma | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Balance, October 1, 2018** | — | — | — | — |
| Purchases – at cost | 4,019,588 | 2,198,090 | 3,912,894 | 10,130,572 |
| Reclassification to royalty streams | (1,327,346) | — | — | (1,327,346) |
| Reclassification from deposits | — | 150,307 | 1,073,286 | 1,223,593 |
| Reclassification from loans | — | 228,665 | — | 228,665 |
| Impact of currency translation | — | — | (41,503) | (41,503) |
| Reclassification from equity instruments | — | — | 3,520,524 | 3,520,524 |
| Share of income (loss) of associates | (676,032) | 56,375 | (1,262,091) | (1,881,748) |
| Impairment | (1,516,210) | — | — | (1,516,210) |
| Reclassification to equity instruments | (500,000) | — | — | (500,000) |
| **Balance, December 31, 2019** | **—** | **2,633,437** | **7,203,110** | **9,836,547** |
| Reclassification from convertible debenture receivable | — | — | 717,103 | 717,103 |
| Reclassification of interest on convertible debenture | — | — | 24,853 | 24,853 |
| Gain on conversion of convertible debenture | — | — | 363,937 | 363,937 |
| Share of income (loss) of associates | — | 44,181 | (909,592) | (865,411) |
| Sale of shares | — | — | (985,818) | (985,818) |
| Reclassification to equity investments | — | (2,677,618) | (6,413,593) | (9,091,211) |
| **Balance, December 31, 2020** | **—** | **—** | **—** | **—** |

### (a) Investment in Viridi Unit SA ("Viridi")

On December 12, 2018, the Company announced that it had closed its investment in Swiss cannabis company, Viridi, with Elixxer issuing 35,167,001 shares of its common stock in exchange for a 30% equity interest in Viridi (the "Viridi Equity") plus a 5% royalty on Viridi's net sales to customers introduced by the Company over ten years ("the Viridi Royalty") which together comprise the "Viridi Transaction". The total consideration for the Viridi Transaction amounted to CHF3,000,000 ($4,019,588) based on the Company's five-day volume weighted average share price of $0.1143 on the date of issue). In respect of this transaction, Elixxer paid a finder's fee to an arm's length party equal to 3% of the total consideration in cash ($124,241) and 2% of the total consideration by the issuance of 703,340 common shares of Elixxer ($77,367). For the fifteen months ended December 31, 2019, the Company incurred a charge of $201,608 in respect to these finder's fees *(note 4).*

### (i) Initial recognition of Viridi Transaction

For the purposes of initial recognition accounting, the Viridi Transaction was accounted for as two separate assets, being an investment in associate related to the Viridi equity component and a financial asset, an embedded derivative, comprising the Viridi Royalty. On initial recognition the Company used discounted cash flows incorporating assumptions of projected sales estimates and growth rates to calculate the fair value of the Viridi royalty component and then used the residual method, to allocate the remaining consideration paid to the Viridi equity component. The consideration allocated to the

Viridi royalty component ($1,327,346), comprising the royalty stream, was classified as FVTPL while the consideration allocated to the Viridi Equity component ($2,692,242), was accounted for as an investment in associates.

**(ii) Subsequent accounting for investment in associate (Viridi Equity)**

The consideration allocated to the investment in associate of $2,692,242 was accounted for at cost and the Company's share of profits and losses are recognized as incurred.

During the fifteen months ended December 31, 2019 the Company recorded total impairment charges against its investment in the Viridi equity amounting to $1,516,210, which resulted from Viridi's financial performance not being in line with expectations.

In October 2019, the Company's equity interest in Viridi decreased from 30% to 18.4% due to additional financing from Viridi investors other than Elixxer. As at that date, management conducted a review of its investment in Viridi and concluded that it no longer exerted significant influence over the operations of Viridi and consequently, the Company reclassified the value of its investment in Viridi to equity instruments and adjusted it to bring the carrying value of the investment down to its fair value of $506,605 *(see note 6).*

**(b) Freia Farmaceutici S.R.L. (note 7 (d))**

On October 23, 2018, the Company entered into a letter of intent with Freia for a proposed investment of up to EUR3,214,000 for up to a 35% interest in the share capital of Freia (the "Freia Investment"). Freia is based in Italy and is an approved producer of hemp-based pharmaceutical products. The Freia Investment was subject to the execution of definitive agreements and normal closing conditions and review and approval by TSX-V. Pursuant to the letter of intent, the Company paid a non-refundable deposit (the "Freia Deposit") of EUR100,000 ($149,935), that was to be applied to monies payable by the Company on completion of the Freia Investment.

On May 16, 2019, the Company completed the first tranche of the Freia Investment, amounting to EUR1,000,000 ($1,513,354), which, net of the application of the Freia Deposit (after foreign currency translation amounting to $150,307) and the Freia Loan ($228,665) (refer to note 7(d)), resulted in a net payment of EUR750,000 ($1,134,382). On completion of the first tranche, the Company's equity interest in Freia totaled 14.35%. The Company also appointed two members to Freia's board of directors.

On completion of the first tranche of the Freia investment, taking into consideration the Company's equity stake and its representation on Freia's board of directors, management concluded that Elixxer had attained significant influence over Freia. Consequently, as at June 30, 2019, the Company reclassified its investment in the Freia Deposit and the Freia Loan from non-refundable deposits and loans receivable respectively, to Investments in associates.

On June 27, 2019, the Company completed the second tranche of EUR714,000 ($1,063,708) bringing up its equity interest to 22.31% and the carrying value of its Freia investment to $2,577,062.

During the year ended December 31, 2020 the Company's share of profits in Freia amounted to $44,181 (for the fifteen months ended December 31, 2019 – $56,375).

In May 2020, the Company's equity interest in Freia decreased from 22.31% to 19.36% due to additional financing from Freia investors other than Elixxer. As at that date, management conducted a review of its investment in Freia and concluded that it no longer exerted significant influence over the operations of Freia and consequently, the Company reclassified the value of its investment in Freia to equity instruments and adjusted the balance to bring the carrying value of the investment down to its fair value of $759,370 *(see note 6 (d)).*

**(c) Little Green Pharma (note 6 (a))**

On August 26, 2019, the Company announced that that it had received conditional approval by the TSX-V and having executed payment for the outstanding amount of AUD4,353,075 ($3,912,894), it had successfully closed the acquisition of additional shares in LGP, increasing its equity ownership from 14.06% up to 40.4%. On completion of this transaction, management concluded that Elixxer had attained significant influence over LGP and consequently, the Company's existing investments in LGP, comprising its non-refundable deposit, in the amount of $1,031,783 (after translation adjustment), and equity instrument, in the amount of $3,520,524, were transferred into investments in associates resulting in an initial carrying value of $8,465,201.

(Amounts expressed in Canadian dollars unless otherwise stated)

During the year ended December 31, 2020, the Company's share of losses in Little Green Pharma amounted to $909,592 (for the fifteen months ended December 31, 2019 share of losses - $1,262,091).

During the year ended December 31, 2020, the Company divested 3,415,752 shares of Little Green Pharma (for fifteen months ended December 31, 2019 – Nil), at an average price of AUD0.33, for total proceeds of AUD1,135,141 ($1,060,830), which resulted in a reduction of the Company's interest in Little Green Pharma from 38.11% as at December 31, 2019 to 20.53% as at December 31, 2020. As a result, during year ended December 31, 2020, the Company recognized a realized gain on disposal of shares of Little Green Pharma of $75,012 (for the fifteen months ended December 31, 2019 – $Nil).

In October 2020, the Company's equity interest in LGP was 20.53% and management conducted a review of its investment in LGP and concluded that it no longer exerted significant influence over the operations of LGP. In addition, during December 2020, the Company's equity interest in LGP decreased from 20.53% to 19.76% due to additional financing from LGP investors other than Elixxer. Consequently, the Company reclassified the value of its investment in LGP to equity instruments and adjusted it to bring the carrying value of the investment to its fair value of $15,231,555 (see note 6 (a)).

Subsequent to December 31, 2020, the Company's equity interest in LGP decreased from 19.76% to 15.55% due to additional financing from LGP investors other than Elixxer.

## 9. Convertible debentures receivable

A breakdown in the movement of convertible debentures receivable and their respective royalty streams during the year ended December 31, 2020 and the fifteen months ended December 31, 2019 and the fair value adjustments recognized in the statement of loss during the year ended December 31, 2020 and fifteen months ended December 31, 2019 are as follows:

| | Tricho-Med Debenture $ | GCL Debenture $ | Evolution Debenture $ | Little Green Pharma Debenture $ | Total $ |
|---|---|---|---|---|---|
| **Balance, as at October 1, 2018** | 1,293,202 | 2,115,378 | **—** | **—** | 3,408,580 |
| Debentures issued acquired during the period – amounts drawn down / allocated face value | 2,249,136 | — | 1,323,008 | 717,103 | 4,289,247 |
| Reclassification from loans | — | — | 3,171,133 | — | 3,171,133 |
| Reclassification to royalty stream | (471,331) | 389,276 | (1,548,010) | — | (1,630,065) |
| FVTPL recognized in net gain (loss) during the year | (2,437,799) | (581,561) | 367,311 | — | (2,652,049) |
| **Balance, as at December 31, 2019** | 633,208 | 1,923,093 | 3,313,442 | 717,103 | 6,586,846 |
| Reclassification to investment in associates | **—** | **—** | **—** | **(717,103)** | **(717,103)** |
| FVTPL recognized in net gain (loss) during the year | **1,496,701** | **(1,923,093)** | **(3,313,442)** | **—** | **(3,739,834)** |
| **Balance, as at December 31, 2020** | **2,129,909** | **—** | **—** | **—** | **2,129,909** |

During the year ended December 31, 2020, total interest earned and recognized in the consolidated statements of loss in respect of these debentures amounted to $1,051,740 (For the fifteen months ended December 31, 2019 - $1,225,874).

### (a) Tricho-Med convertible debentures receivable

On January 8, 2018, the Company announced that it had finalized a transaction with Quebec-based Tricho-Med and had entered into a four-year secured convertible loan agreement in an amount of $4,000,000 (the "Tricho-Med Debenture"). Upon Tricho-Med obtaining a license to cultivate cannabis from the relevant regulatory authorities, the Tricho-Med

Debenture will automatically convert into common shares of Tricho-Med. On conversion, the Company would then receive 49% of Tricho-Med's then-issued and outstanding shares. In the event that Tricho-Med does not become a publicly listed company within twelve months of having obtained the license, the Company will receive such number of shares so that it owns 54% of the then-issued and outstanding shares of Tricho-Med. Upon conversion into equity, the Company will also be entitled to a 5% royalty on Tricho-Med's net sales for an unlimited time period. The Tricho-Med Debenture bears interest at an annual rate of 10%, has a term of four years, maturing on December 21, 2021, and is secured by first-ranking security on all of the assets of Tricho-Med. As at June 30, 2019, the amounts drawn down under the Tricho-Med Debenture totaled $4,000,000.

In October 2020, the Company filed an application with the Superior Court of Quebec for surrender and taking in payment of Tricho-Med's assets, which were pledged as security under the terms of the convertible debenture (note 17). As at December 31, 2020, the fair value of the convertible debenture was determined to be $2,129,909, which was calculated based on the fair value of the underlying Tricho-Med assets that were pledged as security under the terms of the convertible debenture. In addition, the Company provided a provision for doubtful accounts for interest receivables of $1,026,116 (note 5).

**(b) Global Canna Labs convertible debentures receivable**

On August 30, 2018 the Company announced the closing in trust of an investment in Global Canna Labs Limited ("GCL"), subject to the pending receipt of the TSX-V's final approval. Pursuant to the executed closing agreements, Elixxer subscribed for a $2,500,000 secured debenture (the "GCL Debenture"), automatically convertible into an initial 30% interest in GCL upon the successful completion of an IPO. In conjunction with the debenture agreement, the Company also agreed to buy a royalty at 5% on net sales of Global Canna for $3,091,558, payable by way of 15,854,141 shares of Elixxer at a price of $0.195 each. GCL has an option to repurchase the 5% royalty for an amount of $6,000,000. The consideration allocated to the royalty based on fair value was $3,476,180. In addition, the Company paid an arm's length finder's fee in respect of the transaction of $257,500, $128,750 in cash and $128,750 by way of 1,020,610 shares of Elixxer. The debenture bears interest at an annual rate of 7 %, has a term of four years, maturing on August 30, 2022. Both the debenture and the royalty are fully secured with a first ranking security on all of GCL's assets.

On September 20, 2018, the Company announced that it had received the final approval bulletin from the TSX-V in respect of Elixxer's investment into GCL. As at September 30, 2018, the GCL Debenture was fully drawn down with total consideration paid amounting to $5,591,558.

In view of Global Canna Labs's current challenging liquidity position, the Board of Directors decided to record a fair value adjustment to bring the fair value to $Nil for its convertible debenture receivable exposure to Global Canna Labs. Consequently, during the year ended December 31, 2020, the Company recorded, a fair value adjustment related to the Global Canna Labs convertible debenture receivable amounting to $1,923,093 (for the fifteen months ended December 31, 2019 - $Nil). In addition, interest receivable, in the amount of $409,931 relating to the convertible debenture receivable has been fully provided for and recorded in a provision for doubtful accounts.

**(c) Evolution convertible debentures receivable**

On August 13, 2018, the Company entered into a convertible debenture (the "Evolution Debenture") with 9379-1432 Québec Inc., ("QuebeCo"), Evolution BNK and Evolution ATM and their principals, to provide a EUR3,000,000 secured loan, convertible into a 49% equity interest upon the successful completion of an IPO. QuebeCo is the parent entity of Evolution BNK and Evolution ATM. The Evolution Debenture bears interest of 10% per annum and has a maturity of four years.

On August 13, 2018, the Company also entered into an agreement with QuebeCo for a 5% royalty on the net sales of Evolution BNK and Evolution ATM. The royalty is secured by the assets of QuebeCo.

As at March 3, 2019, all conditions precedent relating to the Evolution debenture, including TSX-V approval had been completed and consequently the amounts drawn down under the loan as at that date (totalling EUR 2,115,000 ($3,171,133)) were reclassified from loans receivable and recorded as convertible debentures receivable and royalty streams as disclosed below.

On May 21, 2019, the Company transferred a net amount of EUR627,590 to Evolution reflecting the final tranche of the Evolution Debenture totaling EUR885,000 ($1,323,008) less accrued interest up to May 15, 2019 and associated costs in connection with the Evolution Debenture. This final tranche was allocated directly between convertible debentures receivable and royalty streams in the consolidated statement of financial position as disclosed in note 10.

For the fifteen months ended December 31, 2019, the Company incurred a charge of $247,905 in respect to Evolution's finder's fees (note 4 and note 14(viii)), of which $135,000 was paid in cash and $112,905 was settled through the issuance of 1,129,050 shares of the Company.

In view of Evolution's current challenging liquidity position, the Board of Directors decided to record a fair value adjustment to bring the fair value to $Nil for its convertible debenture receivable exposure to Evolution. Consequently, during the year ended December 31, 2020, the Company recorded, a fair value adjustment related to the Evolution Debenture amounting to $3,313,442 (For the fifteen months ended December 31, 2019 - $Nil). In addition, interest receivable, in the amount of $761,364 relating to convertible debenture receivable have been fully provided for and recorded in a provision for doubtful accounts.

**(d) Little Green Pharma convertible debentures receivable**

On August 2, 2019, the Company announced that, following receipt of conditional approval by the TSX-V, it had subscribed for convertible notes of Little Green Pharma. (the "LGP Debenture") in the aggregate amount of AUD800,000 ($717,103).

The LGP Debenture was issued by LGP as part of a larger offering brokered by Canaccord Genuity (Australia) Limited. The debentures bear interest at the rate of 10% per annum and have a maturity date of July 31, 2020. The LGP Debentures were convertible into common shares of LGP upon LGP completing a qualifying initial public offering, a qualifying financing or an asset or share sale. In relation to a qualifying initial public offering, 50% of the LGP Debentures shall automatically convert at AUD0.30 per common share and the remaining 50% shall convert at the higher of AUD0.30 per share and 70% of the IPO price per common share.

As at March 31, 2020, these debentures were converted to common shares of LGP and reclassified to investment in associates (refer to note 8 (c)).

**(e) Initial recognition**

On initial recognition, the Tricho-Med Debenture, the GCL Debenture, the Evolution Debenture and the LGP Debenture were each classified as financial assets at fair value through profit or loss.

Each debenture acquired was determined to comprise a compound financial instrument comprising the host debt receivable and also its associated conversion feature. Where a debenture was acquired with an associated royalty stream this royalty component was determined to comprise a separate financial instrument. On initial recognition, Elixxer used the valuation techniques outlined below to calculate the fair value of each financial instrument acquired. Where appropriate, it then used the relative fair value method to allocate the total consideration paid across each financial instrument. Where amounts paid in respect of a convertible debenture were drawn down over a significant period of time, draw-down amounts were amalgamated into tranches and each tranche was assigned a unique initial recognition date based on the pattern of amounts drawn down.

On each initial recognition date and again at each quarter end, the fair values of each convertible debenture and the fair value of the Tricho-Med and Evolution royalty streams were estimated using valuation techniques including DCF models, Monte Carlo simulations and funded production capacity. The models incorporate management's estimates such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO, and also appropriate valuation multiples all based on published data from a basket of similar companies in cannabis sector.

The fair value of the GCL Royalty was estimated using discounted cash flows incorporating assumptions of projected sales estimates and growth rates. As the valuation techniques used in assessing the fair value of each component included lowest-level inputs that were significant to the fair value measurement that were unobservable, the valuation techniques employed have been categorized as being Level 3 in fair value hierarchy.

(Amounts expressed in Canadian dollars unless otherwise stated)

The fair value of the LGP Debenture was estimated using the binomial methodology.

As at December 31, 2020 the fair value of each component was re-assessed with increases in fair value for each instrument, except for the Day-1 gain, being recorded as fair value adjustments through the profit or loss. The fair values assessed for each instrument as at December 31, 2020 based on the cumulative tranches drawn down, and the respective movement in fair value recognized in profit or loss for the year ended December 31, 2020 and the fifteen months ended December 31, 2019 were as follows:

| **Financial instrument** | **Cumulative consideration drawn down** | **Fair value on initial recognition** | **Day-1 Gain (loss) on initial recognition** | **Fair value as at December 31, 2020** | **Cumulative FVTPL as at December 31, 2020 (i)** | **Cumulative FVTPL Fifteen months ended December 31, 2019** | **FVTPL Year ended December 31, 2020** |
|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Tricho-Med Debenture** | | | | | | | |
| Host debt receivable and conversion feature | 2,815,757 | 2,815,757 | — | 2,129,909 | (685,848) | (2,182,549) | 1,496,701 |
| Royalty stream *(note 10)* | 1,184,243 | 1,184,243 | — | — | (1,184,243) | 522,856 | (1,707,099) |
| **Total** | 4,000,000 | 4,000,000 | — | 2,129,909 | (1,870,091) | (1,659,693) | (210,398) |
| **GCL Debenture** | | | | | | | |
| Host debt receivable and conversion feature | 2,504,654 | 3,651,213 | 1,146,559 | — | (2,504,654) | (581,561) | (1,923,093) |
| Royalty stream *(note 10)* | 3,086,904 | 4,500,000 | 1,413,096 | — | (3,086,904) | (806,904) | (2,280,000) |
| **Total** | 5,591,558 | 8,151,213 | 2,559,655 | — | (5,591,558) | (1,388,465) | (4,203,093) |
| **Evolution Debenture** | | | | | | | |
| Host debt receivable and conversion feature | 2,946,131 | 2,070,618 | (875,513) | — | (2,946,131) | 367,311 | (3,313,442) |
| Royalty stream *(note 10)* | 1,548,010 | 1,043,513 | (504,497) | — | (1,548,010) | (1,085,661) | (462,349) |
| **Total** | 4,494,141 | 3,114,131 | (1,380,010) | — | (4,494,141) | (718,350) | (3,775,791) |
| **LGP Debenture** | | | | | | | |
| Host debt receivable and conversion feature | 717,103 | 901,367 | 184,264 | 717,103 | — | — | — |
| Reclass to Investment in Associates | | | | (717,103) | | | |
| **Total** | — | — | — | — | — | — | — |
| **Total** | | | | | | | |
| Host debt receivable and conversion feature | **8,983,645** | **9,438,955** | **455,310** | **2,847,012** | **(6,136,633)** | **(2,396,799)** | **(3,739,834)** |
| Royalty stream *(note 10)* | **5,819,157** | **6,727,756** | **908,599** | **—** | **(5,819,157)** | **(1,369,709)** | **(4,449,448)** |
| Reclass to Investment in Associates | **—** | **—** | **—** | **(717,103)** | **—** | **—** | **—** |
| **Total** | **14,802,802** | **16,166,711** | **1,363,909** | **2,129,909** | **(11,955,790)** | **(3,766,508)** | **(8,189,282)** |

(i) Where there is a Day-1 loss, cumulative FVTPL equals movement in FV since inception. Where there is a Day-1 gain cumulative FVTPL equals movement in FV since inception that exceeds Day-1 gain.

As at December 31, 2020, the amount of the Day-1 gain arising on the initial recognition of the GCL Debenture, as yet unrecognized through profit or loss, amounted to $2,559,655 (December 31, 2019 - $2,559,655).

During the year ended December 31, 2020, the total fair value adjustment recognized through the profit or loss account in respect of these debentures (excluding royalty streams) amounted to a loss of $3,739,834 (for the fifteen months ended December 31, 2019 – loss of $2,652,049).

(Amounts expressed in Canadian dollars unless otherwise stated)

## 10. Royalty streams

As at December 31, 2019 and 2020 and for the year ended December 31, 2020 and the fifteen months ended December 31, 2019 the breakdown of royalty stream assets was as follows:

| | Tricho-Med Royalty (note 9) $ | GCL Royalty (note 9) $ | Evolution Royalty (note 9) $ | Viridi Royalty (note 8) $ | Total $ |
|---|---|---|---|---|---|
| **Balance, October 1, 2018** | 715,559 | 3,476,180 | — | — | 4,191,739 |
| Consideration paid during the period | 471,331 | (389,276) | 1,548,010 | — | 1,630,065 |
| Acquisitions during the period | — | — | — | 1,327,346 | 1,327,346 |
| FVTPL recognized in net loss in period | 520,209 | (806,904) | (1,085,661) | (1,327,346) | (2,699,702) |
| **Balance, December 31, 2019** | **1,707,099** | **2,280,000** | **462,349** | — | **4,449,448** |
| FVTPL recognized in net loss in period | **(1,707,099)** | **(2,280,000)** | **(462,349)** | — | **(4,449,448)** |
| **Balance, December 31, 2020** | **—** | **—** | **—** | — | — |

## 11. Loans to directors and officers

| | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| | **Share purchase loans and advances to exercise stock options / warrants** $ | **Loans to fund payment of taxes** $ | **Share purchase loans and advances to exercise stock options / warrants** $ | **Loans to fund payment of taxes** $ |
| **Outstanding balance, beginning of period** | 170,847 | 395,876 | 362,860 | 362,802 |
| Loans repaid during the period | — | — | (209,750) | — |
| Fair value adjustment on extension | (22,371) | (50,303) | — | — |
| Accretion during the period | 17,588 | 16,880 | 17,737 | 33,074 |
| **Outstanding balance, end of period** | **166,064** | **362,453** | **170,847** | **395,876** |

In February 2018, the Company made loans to three of its officers and/or directors amounting to $609,411, in order to fund the exercise by them of stock options and to fund the payment by them of related taxes. The loans had an initial term of two years, and the Company had agreed to extend the maturity date of each of the loans for a period of two years. The extensions remain subject to the approval of the TSX Venture Exchange, subject to ratification in the next shareholder's meeting.

These loans to directors and officers do not bear interest and must be repaid within two years. In addition, on September 17, 2018, an advance was made to a director, totaling $171,654, to fund the exercise of warrants. The advance was repaid in early October 2018.

These loans are carried at their present value using a discount rate of 7%. The loans provided to directors and officers to fund the exercise of stock options, together with the advance to a director to fund the exercise of warrants have been reclassified and offset against share capital.

On February 12, 2020, Elixxer announced that it has agreed to extend the maturity date of three existing loans to the directors and officers which is subject to shareholder approval.

During the year ended December 31, 2020, the value of accretion income recognized in respect of these loans amounted to $34,468 (For the fifteen months ended December 31, 2019 - $50,811).

### 12. Convertible debentures payable

On January 31, 2018, the Company entered into an Investment Agreement (the "Original Debenture Agreement") with YA II PN Ltd. ("YA II"), a company incorporated in the Cayman Islands, and Riverfort Global Opportunities PCC Ltd ("Riverfort PCC") (formerly Cuart Investments PCC Limited), a company incorporated in Gibraltar. Under the Original Debenture Agreement, YA II and Riverfort PCC had subscribed for 25% and 75% respectively, for 9.5% secured convertible debentures (the "2018 Debentures") totaling USD2,340,000 ($2,947,401). The 2018 Debentures matured on February 8, 2019. The Company also issued 1,643,764 common share purchase warrants ("the Debenture Warrants"), which entitled the noteholders to acquire one common share of the Company at a price of $0.70 for a period of one year from the date of issuance.

On February 5, 2019, Riverfort PCC assigned and novated its rights, benefits and obligations under the 2018 Debenture Agreement to Riverfort Global Opportunities PLC ("Riverfort"), a company incorporated in England and Wales, pursuant to a novation agreement between the Company, YA II, Riverfort and Riverfort PCC.

On February 26, 2019, the Company entered into an updated Investment Agreement (the "Revised Debenture Agreement") with Riverfort and YA II which was subsequently completed on February 28, 2019 (the "Restatement Date").

Under the Revised Debenture Agreement, the new noteholders agreed to extend the maturity of the 2018 Debentures for a period of one year.

The novated debentures (the "2019 Debentures"), totaling USD2,340,000 ($3,087,630), mature on February 28, 2020 and bear interest at a rate of 12% per annum, and are repayable, one half in six equal instalments, on the 6th through to the 11th monthly anniversaries of the Restatement Date, with the balance due 12 months after the Restatement Date. Interest is payable on the three-month anniversary of the Restatement date and on each subsequent principal repayment date. Further, the 2019 Debentures may, at any time and at the holder's exclusive option, be converted into common shares at a price equal to the lesser of (i) $0.12 and (ii) 90% of the variable weighted average price of the Company's shares during the 5 trading days prior to the date of the conversion notice, subject to a minimum conversion price of $0.10. The Company has the right to repay the 2019 Debentures prior to the scheduled repayment dates, in whole but not in part, if the value of the Company's share price is less than 110% of the volume weighted average price at the Restatement Date. In the event of an early repayment, the Company will be liable to pay a prepayment fee amounting to 5% of the outstanding principal amount.

In addition, under the Revised Debenture Agreement, the Company agreed to issue to the new noteholders, 12,048,055 common share purchase warrants. Each warrant issued entitles the holder to acquire one common share of the Company at a price of $0.115, for a period of one year from the date of issuance.

On review of the relative terms of the original and revised debentures the Company determined that the 2019 Debenture terms were substantially different from those of the 2018 Debentures and consequently the Company has treated this transaction as comprising an extinguishment of debt (i.e. the 2018 Debentures) and an issuance of new debt (i.e. the 2019 Debentures).

The 2019 Debentures were determined to comprise two distinct financial instruments, the first being a compound financial instrument comprising the host or liability component, and also an embedded derivative comprising the associated equity conversion feature. The second financial instrument comprises the common share purchase warrants that were issued along with the Debentures.

On initial recognition, the fair value of the 2019 Debentures was estimated as outlined below, which resulted in fair values of $2,975,734 for the host debt component, $722,645 for the embedded derivative and $397,733 for the share purchase warrants resulting in a loss on extinguishment of convertible debentures payable of $1,008,482 as at December 31, 2019.

The fair value of the host or liability component of the convertible debenture was calculated by discounting the stream of future payments of interest and principal at 18.5% being the estimated market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have any associated share purchase warrants nor any embedded derivative features. The fair value of the embedded derivative comprising the equity conversion feature was estimated using a Monte Carlo simulation and that of the warrants, issued on February 28, 2019, was determined based on the Black-Scholes option pricing model. The relative weighted average assumptions used for these fair value estimates is set out as follows:

(Amounts expressed in Canadian dollars unless otherwise stated)

| **Assumption** | **Common share purchase warrants Issued (Black Scholes)** | **Embedded derivative (Monte Carlo simulation)** |
|---|---|---|
| Risk-free interest rate | 2.00% | 2.00% |
| Expected volatility | 114% | 114% |
| Dividend yield | Nil | Nil |
| Expected life (in years) | 1.0 | 1.0 |
| Exercise price | $0.12 | $0.12 |
| Share price | $0.09 | $0.09 |
| Fair value at grant date | $0.033 | $722,645 |

In connection with the Revised Debenture Agreement, the Company incurred cash settled issue costs amounting to $46,763 which have been pro-rated between the host debt component of the convertible debentures, the embedded derivative comprising the conversion feature and the common share purchase warrants, in the amounts of $33,972, $8,250 and $4,541, respectively. The issue costs of $8,250 related to the embedded derivative were expensed as incurred.

On March 16, 2020, the Company announced that, following receipt of conditional approval from the TSX Venture Exchange, it has now closed its previously announced convertible loan transaction (the “Loan”) with international investors led by YA II PN, Ltd. (the “Lenders”) pursuant to which they have agreed to refinance the principal amount of $USD1,183,000 (CAD $1,651,941) which is outstanding under expiring convertible notes. The Company is not receiving any new cash pursuant to the Loan. The Loan has a maturity date of January 1, 2021 (the “Maturity Date”) and bears interest at the rate of 12% per annum.

The principal amount of the Loan, up to a maximum of US$1,096,190, may be convertible into common shares of Elixxer (the “Shares”) at the option of the Lenders at a price per share of CAD$0.05 for a maximum of 28,847,105 shares. At closing, the Company had issued an aggregate of 14,200,000 common share purchase warrants (the “Warrants”) to the Lenders. Each Warrant entitles the holder thereof to acquire one Share at an exercise price of CAD$0.05 per Share until the Maturity Date.

The securities issued by the Company at the closing of the transaction, upon conversion of the Loan or upon the exercise of the Warrants are subject to restrictions on resale for a period of four months and one day from the date of closing.

On review of the relative terms of the original and revised debentures the Company determined that the 2020 Debenture terms were not substantially different from those of the 2019 Debentures and consequently the Company has treated this transaction as a modification (i.e. the 2019 Debentures).

The 2020 Debentures were determined to comprise two distinct financial instruments, the first being a compound financial instrument comprising the host or liability component, and also an embedded derivative comprising the associated equity conversion feature. The second financial instrument comprises the common share purchase warrants that were issued along with the Debentures.

On initial recognition, the relative fair value of the 2020 Debentures was estimated as outlined below, which resulted in fair values of $1,430,416 for the host debt component, $148,510 for the embedded derivative and $73,015 for the share purchase warrants.

The fair value of the host or liability component of the convertible debenture was calculated by discounting the stream of future payments of interest and principal at 19.8% being the estimated market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have any associated share purchase warrants nor any embedded derivative features. The fair value of the embedded derivative comprising the equity conversion feature was estimated using a Monte Carlo simulation and that of the warrants, issued on March 16, 2020, was determined based on the Black-Scholes option pricing model. The relative weighted average assumptions used for these fair value estimates is set out as follows:

(Amounts expressed in Canadian dollars unless otherwise stated)

| **Assumption** | **Common share purchase warrants Issued (Black Scholes)** | **Embedded derivative (Monte Carlo simulation) to delete** |
|---|---|---|
| Risk-free interest rate | 0.35% | 0.35% |
| Expected volatility | 124% | 124% |
| Dividend yield | Nil | Nil |
| Expected life (in years) | 0.079 | 0.75 |
| Exercise price | $0.05 | $0.05 |
| Share price | $0.025 | $0.025 |
| Fair value at grant date | $0.006 | $167,969 |

The carrying value of the host debt component of the debentures is accreted using the effective interest rate method over the term of the debenture, such that the carrying amount will equal the total face value of the debenture at maturity.

The embedded derivative component is carried in the consolidated statement of financial position at its fair value with movements therein recognized in profit or loss.

The fair value of embedded derivatives as at September 30, 2020 and December 31, 2019 were determined based on a Monte Carlo simulation using the weighted average assumptions set out as follows:

| **Assumption** | **2020 Debentures Embedded derivative as at September 30, 2020** | **2019 Debentures Embedded derivative as at December 31, 2019** |
|---|---|---|
| Risk-free interest rate | 0.12% | 1.66% |
| Expected volatility | 258% | 128% |
| Dividend yield | Nil | Nil |
| Expected life (in years) | 0.25 | 0.32 |
| Exercise price | $0.05 | $0.12 |
| Share Price | $0.02 | $0.05 |
| Fair value | $85,828 | $3,146 |

As the debenture matures January 1, 2021, the fair value of the embedded derivative as at December 31, 2020 was $Nil.

(Amounts expressed in Canadian dollars unless otherwise stated)

A breakdown of convertible debentures payable as at December 31, 2020 and December 31, 2019 is as follows:

| | Host debt component $ | Embedded derivative (Conversion feature) $ | Common share purchase warrants $ | Total $ |
|---|---|---|---|---|
| **Balance, October 1, 2018** | 2,528,720 | 78,419 | 156,429 | 2,763,568 |
| Accretion – 2018 Debentures | 505,602 | — | — | 505,602 |
| Change in fair value of embedded derivative – 2018 Debentures | — | (78,419) | — | (78,419) |
| Expiry of 2018 warrants transferred to contributed surplus | — | — | (156,429) | (156,429) |
| Foreign currency loss on translation – 2018 Debentures | 53,308 | — | — | 53,308 |
| Extinguishment of debt – 2018 Debentures | (3,087,630) | — | — | (3,087,630) |
| Issuance of 2019 Debentures – allocated fair value | 2,975,734 | 722,645 | 397,733 | 4,096,112 |
| Issue costs – 2019 Debentures | (33,972) | — | (4,541) | (38,513) |
| Accretion – 2019 Debentures | 121,556 | — | — | 121,556 |
| Repayment – 2019 Debentures | (1,288,355) | — | — | (1,288,355) |
| Change in fair value of embedded derivative – 2019 Debentures | — | (719,499) | — | (719,499) |
| Foreign currency gain on translation – 2019 Debentures | (26,140) | — | — | (26,140) |
| **Balance, December 31, 2019** | 1,748,823 | 3,146 | 393,192 | 2,145,161 |
| Accretion – 2019 Debentures | **40,348** | **—** | **—** | **40,348** |
| Change in fair value of embedded derivative – 2019 Debentures | **—** | **(3,146)** | | **(3,146)** |
| Repayment – 2019 Debentures | **(259,195)** | **—** | **—** | **(259,195)** |
| Expiry of 2018 warrants transferred to contributed surplus | **—** | **—** | **(393,192)** | **(393,192)** |
| Foreign currency loss on translation – 2019 Debentures | **121,965** | **—** | **—** | **121,965** |
| Modification of debt – 2019 Debentures | **(1,651,941)** | **—** | **—** | **(1,651,941)** |
| Issuance of 2020 Debentures – allocated fair value | **1,430,416** | **148,510** | **73,015** | **1,651,941** |
| Issue costs – 2020 Debentures | **—** | **—** | **(5,369)** | **(5,369)** |
| Accretion – 2020 Debentures | **213,120** | **—** | **—** | **213,120** |
| Repayment – 2020 Debentures | **(400,000)** | **—** | **—** | **(400,000)** |
| Change in fair value of embedded derivative – 2020 Debentures | **—** | **(148,510)** | **—** | **(148,510)** |
| Foreign currency gain on translation – 2020 Debentures | **(120,461)** | **—** | **—** | **(120,461)** |
| **Balance, December 31, 2020** | **1,123,075** | **—** | **67,646** | **1,190,721** |

| | **December 31, 2020 $** | December 31, 2019 $ |
|---|---|---|
| Total in current liabilities | **1,123,075** | 1,751,969 |
| Total equity | **67,646** | 393,192 |
| | **1,190,721** | 2,145,161 |

During the year ended December 31, 2020, interest expense pursuant to 2019 and 2020 Debentures amounted to $184,744 (for the fifteen months ended December 31, 2019 – $412,746).

(Amounts expressed in Canadian dollars unless otherwise stated)

## 13. Other loans payable

A breakdown of loans payable as at December 31, 2020 and December 31, 2019 are as follows:

| | **December 31, 2020 $** | December 31, 2019 $ |
|---|---|---|
| Arlington | **4,477,717** | 3,741,401 |
| GMF and AIP | **3,990,658** | 2,846,028 |
| AIP Fund | **3,461,667** | — |
| Windsor Family Credit Union | **40,000** | — |
| | **11,970,042** | 6,587,429 |

### (a) Arlington Capital Inc. ("Arlington')

On February 5, 2019, the Company entered into a loan agreement with Arlington, a company incorporated in the province of Quebec, Canada. Under the terms of the loan Arlington agreed to lend to Elixxer amounts totaling $2,000,000 for a period of one year (the "Arlington Loan"). The funds were to be used for working capital purposes. The loan is unsecured and bore interest at the rate 12% per annum for the first three months and thereafter bears interest at 22% per annum. The Company had the right to repay the loan at any time. The first amounts drawn down under the loan were received by the Company on February 19, 2019.
As at April 24, 2019, the total amounts drawn down under the Arlington Loan totalled $5,300,000. When the initial tranche of the placement closed on May 2, 2019, the gross proceeds receivable from Arlington, totalling $8,000,000 were offset against the Arlington Loan leaving net proceeds of $2,700,000 received in cash.

On May 2, 2019, the Company announced that it had closed the first tranche of its previously announced $10,400,000 non-brokered private placement financing with Arlington (note 16(a)). As part of negotiations for this transaction Arlington agreed to extend the principal amount of the Arlington Loan to include an additional $3,300,000 on the basis that once the private placement was completed the principal amount of the loan would be repaid by offsetting the principal outstanding against the placement proceeds.

On August 29, 2019, the Company entered into a second loan agreement with Arlington. Under the terms of the loan Arlington agreed to lend to the Company up to $4,670,000 for a period of 12 months. The funds are to be used for working capital purposes. The loan is unsecured and bears interest at the rate 12% per annum. The Company has the right to repay the loan at any time. As of December 31, 2019, amounts drawn down by the signing date were $3,593,535.

During the year ended December 31, 2020, the Company extended the maturity of the bridge loan and increased the principal amount by outstanding fees to $3,893,535 which includes an extension fee of $300,000. As a result of the extension, the Company recognized a loss on modification amounting to $236,552 (note 4).

For the year ended December 31, 2020 interest charged in respect of these loans, increased to $436,316 (for the fifteen months ended December 31, 2019 – $227,531), have been recorded in the consolidated statement of loss. As at December 31, 2020, interest accrued but unpaid in respect of the Arlington loans, totaling $584,183 (December 31, 2019 - $147,867), has been recorded in the consolidated statement of financial position under accounts payable and accrued liabilities.

### (b) Global Macro Fund L.P. ("GMF"), and AIP Asset Management Inc. ("AIP")

On November 8, 2019, the Company entered into an agreement to acquire all rights, title and interest in the USD1,000,000 Etea notes that were the subject of the Etea Guarantee as well as an additional note issued by Etea in the amount of USD1,000,000 from the initial holder thereof. The total face value of Etea notes acquired inclusive of accrued interest and monitoring fees was USD 2,118,556. As a result, the Etea Guarantee has been cancelled. The initial holder of the notes has also assigned to the Company all of the security that it held in respect of the notes, including the debenture on the assets of Etea and the pledge of shares by Etea's principal shareholder. The purchase price for the transaction, including the notes, accrued interest and security was $2,800,000 which was funded by way of a bridge loan to the Company from the initial holder of the notes, GMF., an Ontario limited partnership, and AIP, an Ontario corporation, in its capacity as security agent for the holder. The bridge loan incurs interest at the rate of LIBOR per annum plus 8%, is unsecured and is repayable on demand.

(Amounts expressed in Canadian dollars unless otherwise stated)

During the year ended December 31, 2020, the Company extended the maturity of the bridge loan to November 30, 2020 and increased the principal amount by outstanding fees to $3,000,000.

During the year ended December 31, 2020, the Company extended the maturity of the bridge loan and increased the principal amount by outstanding fees to $3,400,000 which includes an extension fee of $400,000. As a result of the extension, the Company recognized a loss on modification amounting to $371,619 (note 4).

For the year ended December 31, 2020 interest charged in respect of this loan, amounting to $763,509 (for the fifteen months ended December 31, 2019 – $Nil), have been recorded in the consolidated statement of loss. As at December 31, 2020, interest accrued but unpaid in respect of the bridge loan, totaling $590,657 (December 31, 2019 - $Nil), has been recorded in the consolidated statement of financial position under accounts payable and accrued liabilities.

**(c) Windsor Family Credit Union**
During April 2020, the Company received $40,000 from its financial institution for relief to support small business as a result of COVID-19. The loan is interest free until December 31, 2022; no minimum monthly interest payments required until January 1, 2023; no penalty for early repayments; and up to 25%, or $10,000, loan forgiveness if 75%, or $30,000, of principal loan is paid in full on or before December 31, 2022.

**(d) AIP Convertible Private Debt Fund L.P. ("AIP Fund")**
On October 7, 2020, the Company closed its previously announced secured loan for the principal amount of $4,000,000 with AIP Convertible Private Debt Fund L.P. effective August 28, 2020. The loan has a term of 24 months, bears interest at the rate of 17% per annum and is secured by a general security agreement on all of the present and future assets of the Company.

On closing, the Company paid to AIP Fund (i) a facility fee of $200,000; (ii) a closing fee of $250,000; and (ii) a monitoring agent fee of $195,000, in respect of the loan. The Company also issued to AIP Fund a bonus consisting of 46,333,333 common shares of the Company at the trading price of $0.01 per share, representing 20% of the net amount of the loan. These shares are subject to a hold period of four months and one day from the date of their issuance.

Elixxer intends to use the proceeds of the loan for working capital purposes and to pursue future investments.

During the year ended December 31, 2020, the value of accretion expense recognized in respect of these loans amounted to $106,667 (for the fifteen months ended December 31, 2019 - $Nil).

For the year ended December 31, 2020 interest charged in respect of this loan, amounting to $229,151 (for the fifteen months ended December 31, 2019 – $Nil), has been recorded in the consolidated statement of loss. As at December 31, 2020, interest accrued but unpaid in respect of the bridge loan, totaling $Nil (December 31, 2019 - $Nil), has been recorded in the consolidated statement of financial position under accounts payable and accrued liabilities.

## 14. Share capital

**Authorized - Common**

An unlimited number of common shares, voting, participating, without par value.

| **(a) Common shares** | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| | # | $ | # | $ |
| **Issued common shares** | **633,508,031** | **49,737,578** | 560,508,032 | 49,134,773 |
| Share purchase loans to directors and officers | **—** | **(166,064)** | — | (170,847) |
| **Issued and fully paid common shares** | **633,508,031** | **49,571,514** | 560,508,032 | 48,963,926 |

**Issuances during the year ended December 31, 2020**

(i) On October 7, 2020, the Company issued 46,333,333 common shares of the Company at a trading price of $0.01 per share, representing 20% of the net amount of the loan with AIP Convertible Private Debt Fund L.P. The shares are subject to a hold period of four months and one day from the date of their issuance.

(ii) On October 15, 2020, the Company announced that it has closed its previously announced private placement with a strategic investor. Pursuant to the non-brokered private placement, the Company issued 26,666,666 units of the Company at a price of $0.015 per common share for gross proceeds of $400,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable for a period of 60 months from the date of issuance at an exercise price of $0.05 each (note 14 (c)).

No commission or finder's fee has been paid in connection with the private placement. The Units have been issued pursuant to an exemption from the prospectus requirements of applicable securities legislation, and all securities are subject to a hold period of four months and one day from the date of issuance.

The proceeds of the private placement will be used by the Company for general working capital purposes and to pursue future investments. It is anticipated that no payments from the proceeds will be made to related parties of the Company, and the proceeds will not primarily be used to pay management fees of for investor relations activities.

**Issuances during the fifteen months ended December 31, 2019**

(i) On December 12, 2018, the Company issued 35,167,001 common shares of Elixxer at a price of $0.1143 per share representing a total consideration of $4,019,588 as payment for its 30% equity instrument in Viridi (note 8 (a)).

(ii) On December 12, 2018, the Company issued 703,340 common shares at a price of $0.11 per share for total consideration of $77,367, to settle a 2% finder's fee associated with the Company's investment in Viridi (note 8 (a)).

(iii) During the twelve months ended September 30, 2019, the Company issued 500,000 common shares at an average exercise price of $0.05 per share for total proceeds of $25,000 upon the exercise of stock options, and an amount of $14,173 related to exercised stock options were transferred from contributed surplus to share capital (note 14 (b)).

(iv) On May 2, 2019, the Company announced that it had raised gross proceeds of $8,000,000 at the first closing of a non-brokered private placement financing with Arlington (note 13) by issuing 80,000,000 common shares at $0.10 per share. The gross proceeds were netted against the outstanding principal balance on the Arlington loan leading to a net receipt of $2,700,000. On May 31, 2019, the Company completed a second closing of the Arlington private placement, raising gross proceeds of $2,400,000 by issuing an additional 24,000,000 common shares at $0.10 per share. The shares issued to Arlington were subject to a four month hold period. The Company incurred a finder's fee of $312,000 in connection with this financing.

(v) On May 31, 2019, the Company issued 3,120,000 common shares at a price of $0.10 per share for total consideration of $312,000, to settle the Arlington private placement finder's fee.

(vi) On August 20, 2019, the Company has entered into an agreement to settle an aggregate amount of $60,000 for services rendered to the Company by an arm's length service provider through the issuance of common shares of Elixxer (the "Debt Settlement"). Pursuant to the Debt Settlement, Elixxer would issue a total of 600,000 common shares at a deemed issue price of $0.10 per common share. Completion of the Debt Settlement occurred on September 3, 2019 following acceptance by the TSX-V. The shares issued pursuant to the Debt Settlement are subject to a four month hold period commencing on the date of issuance.

(vii) On November 12, 2019, the Company announced that a strategic investor AIP Private Capital ("AIP') would invest $2,800,000 into Elixxer pursuant to a non-brokered private placement of 35,000,000 units of the Company at a price of $0.08 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant was exercisable to purchase an additional common share of the Company at an exercise price of $0.10 per share for a period of three years from the date of issuance. Proceeds of the private placement were required to be used for general working capital purposes. On November 19, 2019, the Company received the conditional approval of the TSX-V for the private placement, and the private placement closed on November 20, 2019. All securities issued pursuant to the private placement were subject to a hold period of four months and one day. On November 22, 2019, the Company was in receipt of the $2,800,000.

(Amounts expressed in Canadian dollars unless otherwise stated)

(viii) On December 6, 2019, the Company issued 1,129,050 common shares at a price of $0.10 per share for total consideration of $112,905, to settle a 2.5% finder's fee associated with the Company's investment in Evolution (note 9 (c)).

**(b) Stock options**

On June 11, 2019, the Company amended the 2016 stock option plan to increase the number of common shares that may be issued thereunder. The stock option plan is a fixed stock option plan and the amendment increases the number of common shares reserved for issuance under the stock option plan from 71,230,957 to 83,331,796, being 20% of the issued and outstanding shares on April 17, 2019. The amendment to the 2016 stock option plan was approved by the Company's shareholders at the annual and special meeting of shareholders held on May 22, 2019. The Company received final acceptance of the amended stock option plan from the TSX-V on June 12, 2019.

On August 19, 2020, the Company announced that it had amended its stock option plan (the "Plan") to increase the number of common shares that may be issued thereunder. The Plan is a fixed stock option plan, and the amendment increases the number of common shares reserved for issuance under the Plan from 83,331,796 to 112,101,606, being 20% of the Company's issued and outstanding common shares as of the date hereof.

The amendment to the Plan is subject to the approval of (i) the TSX Venture Exchange and (ii) the Company's shareholders which approval will be sought at the Company's annual and special meeting of shareholders scheduled for mid 2021.

The Company also announced that it and certain insiders and consultants of Elixxer have agreed to cancel an aggregate of 16,800,000 stock options held by the optionees. The cancelled options include (i) 7,500,000 options granted on December 8, 2017 with an exercise price of $0.36 and an original expiry of December 8, 2027 and (ii) 9,300,000 options granted on April 16, 2018 with an exercise price of $0.16 and an original expiry of April 16, 2023. All of the cancelled options were voluntarily surrendered to the Company for no consideration. In addition to the cancelled options, 3,350,000 options have expired as the holders thereof are no longer eligible participants under the Plan. Following the cancellations and expirations, the Company has a total of 17,206,403 stock options currently issued and outstanding under the Plan.

The outstanding options as at December 31, 2019 and 2020 and the respective changes during the year ended December 31, 2020 and fifteen months ended December 31, 2019 are summarized as follows:

| | **Year ended December 31, 2020** | | **Fifteen months ended December 31, 2019** | |
|---|---|---|---|---|
| | **Number of options** # | **Weighted average exercise price** $ | **Number of options** # | **Weighted average exercise price** $ |
| **Outstanding, beginning period** | **57,627,733** | **0.21** | 62,194,400 | 0.22 |
| Granted during the period | **15,006,403** | **0.05** | 14,350,000 | 0.11 |
| Cancelled during the period | **(20,150,000)** | **(0.25)** | (8,000,000) | (0.23) |
| Expired during the period | **(7,166,667)** | **(0.12)** | (6,500,000) | (0.14) |
| Forfeited during the period | **(28,111,066)** | **(0.20)** | (3,916,667) | (0.10) |
| Exercised during the period | **—** | **—** | (500,000) | (0.05) |
| **Outstanding, end of period** | **17,206,403** | **0.06** | 57,627,733 | 0.21 |

(Amounts expressed in Canadian dollars unless otherwise stated)

The following options are outstanding and exercisable as at December 31, 2020:

| Options outstanding | | | | | |
|---|---|---|---|---|---|
| **Range of exercise price** $ | **Number outstanding** # | **Weighted average remaining contractual life** (in years) | **Weighted average exercise price** $ | **Number exercisable** # | **Weighted average exercise price** $ |
| 0.050 to 0.099 | 15,006,403 | 4.05 | 0.05 | 14,506,403 | 0.05 |
| 0.100 to 0.149 | 1,600,000 | 3,26 | 0.13 | 1,067,667 | 0.13 |
| 0.150 to 0.199 | 600,000 | 2,50 | 0.16 | 600,000 | 0.16 |
| **0.050 to 0.399** | **17,206,403** | **3.92** | **0.06** | **16,174,070** | **0.07** |

The fair value of stock options granted during the year ended December 31, 2020 and the fifteen months ended December 31, 2019 were estimated at their respective grant dates using the Black Scholes option pricing model, using the following weighted average assumptions:

| | Year ended December 31, 2020 | Fifteen months ended December 31, 2019 |
|---|---|---|
| Risk-free interest rate | **1.66%** | **1.70%** |
| Expected volatility | **150%** | **180%** |
| Dividend yield | **Nil** | **Nil** |
| Expected life (in years) | **5.00** | **5.01** |
| Exercise price at grant date | **$0.05** | **$0.10 - $0.13** |
| Share price at grant date | **$0.04** | **$0.10 - $0.13** |

**(c) Warrants**

The outstanding warrants as at December 31, 2020 and 2019 are summarized as follows:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of warrants # | Weighted average exercise price $ | Number of warrants # | Weighted average exercise price $ |
| **Outstanding balance, beginning of period** | **68,649,955** | **0.22** | 49,218,314 | 0.36 |
| Warrants issued during the period *(note 12)* | **40,866,666** | **0.05** | 47,048,055 | 0.10 |
| Warrants expired during the period | **(12,048,055)** | **(0.12)** | (27,616,414) | (0.23) |
| **Outstanding balance, end of period** | **97,468,566** | **0.16** | 68,649,955 | 0.22 |

As at December 31, 2020, the warrants outstanding had a weighted average life of 1.51 years and all warrants were exercisable (December 31, 2019 – 2.19 years).

The fair value of warrants granted during year ended December 31, 2020 and the fifteen months ended December 31, 2019, relating to the RiverFort debenture were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions:

| | Warrants – Year ended December 31, 2020 | Warrants – Fifteen months ended December 31, 2019 |
|---|---|---|
| Risk-free interest rate | **0.19% - 0.35%** | 1.8% |
| Expected volatility | **124% - 230%** | 114% |
| Dividend yield | **Nil** | Nil |
| Expected life (in years) | **0.79 – 4.9** | 1.0 |
| Share price at grant date | **$0.025 - $0.01** | $0.09 |
| Exercise price at grant date | **$0.05** | $0.09 |
| Fair value at grant date (not an assumption) | **$0.01** | $0.03 |

The fair value of the warrants granted during the fifteen months ended December 31, 2019 relating to the AIP non-brokered private placement, were estimated at their respective grant dates using a valuation model based on Black-Scholes option pricing model, using the following weighted average assumptions: risk free interest rate of 1.54%; expected volatility of 140%; dividend yield of Nil; expected life (in years) of 3.00; share price at grant date of $0.045; and exercise price of $0.10. Resulting in a fair value at grant date of $0.03.

The fair value of the 26,666,666 warrants granted during the year ended December 31, 2020 relating to the non-brokered private placement of $400,000, were estimated at their respective grant dates using a valuation model based on Black-Scholes option pricing model, using the following weighted average assumptions: risk free interest rate of 0.19%; expected volatility of 230%; dividend yield of Nil; expected life (in years) of 5.00; share price at grant date of $0.01; and exercise price of $0.05. Resulting in a fair value at grant date of $0.01.

**Extension of warrants**

On May 16, 2019, the Company announced that it would apply to the TSX-V for approval to extend the expiry date of an aggregate of 24,871,822 outstanding common share purchase warrants (the "2017 Warrants") that were issued in connection with a private placement which closed in December 2017. Each 2017 Warrant entitles the holder thereof to purchase one common share in the capital of the Company at an exercise price of $0.25 per share. A total of 19,871,822 of the 2017 Warrants originally had an expiry date of June 1, 2019, and 5,000,000 of the 2017 Warrants had an expiry date of June 7, 2019. The Company received approval from the TSX-V for the 2017 Warrant extension on May 22, 2019, and all of the 2017 Warrants had an expiry date of December 1, 2019, which have also now expired.

All other terms of the 2017 Warrants remained the same, including the acceleration option which allows the Company to accelerate the expiry date of the warrants to a date which is 30 days following the date of an acceleration notice in the event that the volume weighted average trading price of Elixxer's common shares is at least $0.30 for a period of ten consecutive trading days.

The fair value of 2017 Warrants extended during the fifteen months ended December 31, 2019 were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions: risk free interest rate of 1.73%; expected volatility of 99%; dividend yield of Nil; expected life (in years) of 0.53; share price at grant date of $0.10; and exercise price of $0.25. Resulting in a fair value at grant date of $0.0042.

As a result of the 2017 Warrant extension the Company has treated the original 2017 Warrants as having expired and been replaced by new 2017 Warrants. Consequently, in its statement of changes in equity, the Company has recorded a transfer from warrants to contributed surplus of $1,146,928, comprised of the original fair value of the 2017 Warrants totaling $1,041,931, and the fair value estimated for the replacement warrants totaling $104,997.

**(d) Stock-based compensation**

For the year ended December 31, 2020, the stock-based compensation expense included in the consolidated statement of loss, was $413,245, (for the fifteen months ended December 31, 2019 – $1,083,267).

## 15. Related party transactions

In addition to the related party transactions disclosed elsewhere, the Company entered into the following related party transactions in the normal course of operations.

**(a)** During the year ended December 31, 2020, the Company incurred fees from a number of management entities of which certain officers or directors of the Company are a related party, by virtue of economic interests in such entities. For the year ended December 31, 2020, the total amount for such services was $843,766, respectively which was recorded in directors' fees (for the fifteen months ended December 31, 2019 – $1,189,872). As at December 31, 2020, an amount of $243,923 (December 31, 2019 - $Nil) owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

(Amounts expressed in Canadian dollars unless otherwise stated)

**(b)** Compensation of key management personnel and Board of Directors.

Excluding the amounts reported above, during the year ended December 31, 2020 and 2019, the Company recorded the following compensation for key management personnel and the Board of Directors:

| | **For the year ended December 31, 2020 $** | **For the fifteen months ended December 31, 2019 $** |
|---|---|---|
| Directors' fees | **40,000** | 438,621 |
| Management fees (included within salaries and other employee benefits *(note 4)*) | **259,898** | 627,678 |
| Stock-based compensation | **360,036** | 1,087,129 |
| Total | **659,934** | 2,153,428 |

**(c)** The Company incurred interest charges on loans received from Arlington, a shareholder of the Company. For the year ended December 31, 2020, interest charged in respect of these loans, amounting to $436,316 (for the fifteen months ended December 31, 2019 – $189,842), have been recorded in the consolidated statement of loss. As at December 31, 2020, interest accrued but unpaid in respect of the Arlington loans, totaling $584,183 (December 31, 2019 - $147,867), has been recorded in the consolidated statement of financial position under accounts payable and accrued liabilities *(note 13).*

## 16. Financial instruments

### General objectives, policies and procedures

The Company's objective when managing capital are to safeguard its ability to continue its investments (note 1). As such, the Company relies primarily on the equity markets to fund its activities. In order to carry out planned activities and to pay for administrative costs, the Company will endeavor to spend its existing working capital and raise additional funds as needed. The Company has not paid any dividends.

The Company's Board of Directors has overall responsibility for the determination of the Company's risk management objectives and operating processes that ensure effective implementation of the policies set out below. The Company's Board of Directors receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

### Principles of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed through its activities to the following risks: credit risk; liquidity risk and market risk.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

(Amounts expressed in Canadian dollars unless otherwise stated)

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their classification and levels in the fair value hierarchy for the year / period ended:

| | | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| | **Fair value level** | **Carrying amount** $ | **Fair value** $ | **Carrying amount** $ | **Fair value** $ |
| **Financial assets** | | | | | |
| Equity instruments – FVTPL | I and II | **15,990,925** | **15,990,925** | 506,605 | 506,605 |
| Convertible debentures receivable - FVTPL | III | **2,159,163** | **2,159,163** | 6,586,846 | 6,586,846 |
| Royalty streams - FVTPL | III | **—** | **—** | 4,449,448 | 4,449,448 |
| Loans to directors and officers – amortized cost | | **362,453** | **362,453** | 395,876 | 395,876 |
| **Financial liabilities** | | | | | |
| Host debt component of convertible debentures payable - FVTPL | II | **1,123,075** | **1,123,075** | 1,748,823 | 1,748,823 |
| Embedded derivative - FVTPL | III | **—** | **—** | 3,146 | 3,146 |
| Other loans payable – amortized costs | | **11,970,042** | **11,970,042** | 6,587,427 | 6,587,427 |

For assets and liabilities measured at fair value as at December 31, 2020, there were no transfers between Level 1, Level 2, and Level 3 assets and liabilities during the year / period.

The fair values of the convertible debenture receivables classified as Level 3, were estimated using valuation techniques including DCF models, Monte Carlo simulation and funded production capacity. The models incorporate management estimates such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO by the investee, and also appropriate valuation multiples all based on published data from a basket of similar companies in the cannabis sector.

### Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the carrying value of its financial instruments.

The Company is exposed to credit risk from its cash, interest receivable, convertible debentures receivable and investments. The Company's maximum exposure to credit risk is limited to the carrying amount of debentures receivable, other receivables and loans to directors and officers at the reporting date, as summarized below:

| | **December 31, 2020** $ | **December 31, 2019** $ |
|---|---|---|
| Cash | **2,102,748** | 924,502 |
| Interest receivable | **—** | 1,149,519 |
| Convertible debentures receivable (current and non-current) | **2,129,909** | 6,586,846 |
| Other receivables | **222,551** | 100,087 |
| Total | **4,455,208** | 8,043,851 |

The Company reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

The following are the remaining contractual maturities of financial liabilities as of December 31, 2020 and 2019. The contractual amounts are gross and undiscounted, and include principal payments only:

| December 31, 2020 | Carrying amounts | Contractual cash flows 1 - 3 months | 6 - 12 months | Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 2,962,507 | $ 451,027 | $ 2,511,480 | $ **2,962,507** |
| Convertible debentures payable | 1,123,075 | 1,123,075 | - | **1,123,075** |
| Other loans payable | 11,970,042 | 7,970,042 | 4,000,000 | **11,970,042** |
| **Total** | **$ 16,055,624** | **$ 9,544,144** | **$ 6,511,480** | **$ 16,055,624** |

| December 31, 2019 | Carrying amounts | Contractual cash flows 1 - 3 months | 6 - 12 months | Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 2,438,612 | $ 489,518 | $ 1,949,094 | $ **2,438,612** |
| Convertible debentures payable | 1,748,823 | 1,748,823 | - | **1,748,823** |
| Other loans payable | 6,587,429 | - | 6,587,429 | **6,587,429** |
| **Total** | **$ 10,774,864** | **$ 2,238,341** | **$ 8,536,523** | **$ 10,774,864** |

### Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's primary market exposures are to foreign exchange risk and interest rate risk.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exchange risk arises primarily with respect to balances denominated in GBP, USD, AUD, EUR and CHF. The value of the Company's financial assets and liabilities may be affected unfavourably by fluctuations in currency rates and exchange control regulations. The Company has not entered into hedging instruments to manage exposure to currency movements at this stage.

## Elixxer Ltd.

### Notes to Consolidated Financial Statements
(Amounts expressed in Canadian dollars unless otherwise stated)

For the year ended December 31, 2020 and the fifteen months ended December 31, 2019

As at December 31, 2020 and 2019 the exposure of the Company to foreign exchange rates is summarized as follows

| **December 31, 2020** | **GBP** | **USD** | **AUD** | **EUR** | **CHF** |
|---|---|---|---|---|---|
| Cash and cash equivalents | (16,751) | 1,110 | 43 | 12,992 | — |
| Accounts payable and accrued liabilities | (344) | (117,288) | (2,184) | (50,190) | (16,631) |
| Equity instruments | — | — | 15,487,092 | 486,528 | — |
| Convertible debentures receivable | — | — | — | — | — |
| Royalty streams | — | — | — | — | |
| Convertible debentures payable – host debt component | — | (877,690) | — | — | — |
| **Total** | (17,095) | (993,868) | 15,484,951 | 449,330 | (16,631) |

:

| **December 31, 2019** | **GBP** | **USD** | **AUD** | **EUR** | **CHF** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 17,049 | 7,367 | 43 | 16,323 | — |
| Accounts payable and accrued liabilities | (3,338) | (6,460) | (9,265) | (11,133) | (24,054) |
| Interest receivable | | | 20,164 | 187,596 | |
| Equity instruments | — | — | — | — | 132,462 |
| Investment in associate | — | — | 7,904,274 | 1,809,186 | — |
| Convertible debentures receivable | — | — | 786,907 | 2,276,354 | — |
| Royalty streams | — | — | — | 317,636 | |
| Convertible debentures payable – host debt component | — | (2,340,000) | — | — | — |
| **Total** | 13,711 | (2,339,093) | 8,702,123 | 4,595,962 | 108,408 |

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at December 31, 2020 and 2019. This sensitivity does not represent the consolidated statement of comprehensive (loss) and the comprehensive (loss) impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in total comprehensive (loss) for the year ended December 31, 2020 and fifteen-month period ended December 31, 2019 would have been as follows:

| | **Impact on comprehensive (loss)** | | | | |
|---|---|---|---|---|---|
| **Fluctuation in foreign currency rate** | **CAD/GBP rate** $ | **CAD/USD Rate** $ | **CAD/AUD rate** $ | **CAD/EUR rate** $ | **CAD/CHF rate** $ |
| **Year ended December 31, 2020** | | | | | |
| + 5% | (1,488) | (63,371) | 760,830 | 35,021 | (1,199) |
| - 5% | 1,488 | 63,371 | (760,830) | (35,021) | 1,199 |
| **Fifteen-month period ended December 31, 2019** | | | | | |
| + 5% | 1,177 | (151,901) | 396,904 | 335,115 | 7,283 |
| - 5% | (1,177) | 151,901 | (396,904) | (335,115) | (7,283) |

(Amounts expressed in Canadian dollars unless otherwise stated)

***Interest rate risk***

The Company does not use any hedging instruments to manage interest rate risks.

The Company is exposed to the risk of variability in cash flows arising as a result of changes in benchmark interest rates on its bridge loan payable in connection with the Etea notes (see note 14). As at December 31, 2020 and for the fifteen-month period ended December 31, 2019 however, this risk is not considered to be material.

The Company is also exposed to the risk of variability in fair values on its fixed rate financial assets and liabilities at FVTPL. As at December 31, 2020, GCL and Evolution convertible debentures have been fully impaired, resulting in no exposure to the discount rates.

As at December 31, 2020, a 100 bp increase / decrease in the discount rates would have the following impact on the fair values of the convertible debentures receivable:

| | Effect on fair value in $ | |
|---|---|---|
| **December 31, 2020** | **100 bp increase** | **100 bp decrease** |
| **Counterparty** | | |
| Tricho-Med | (21,299) | 21,299 |
| **Total** | **(21,299)** | **21,299** |

| | Effect on fair value in $ | |
|---|---|---|
| **December 31, 2019** | **100 bp increase** | **100 bp decrease** |
| **Counterparty** | | |
| Tricho-Med | (32,571) | 32,571 |
| GCL | (41,489) | 41,489 |
| Evolution | (8,857) | 8,857 |
| **Total** | **(82,917)** | **82,917** |

## 17. Contingent liabilities and commitments

From time to time, the Company and/or its subsidiaries may become defendants in legal actions and the Company intends to defend itself vigorously against all legal claims. Elixxer is not aware of any claims against the Company that could reasonably be expected to have a materially adverse impact on the Company's consolidated financial position, results of operations or the ability to carry on any of its business activities.

On July 12, 2019, the Company was advised that it has been served by Tricho-Med with a motion for a declaratory judgement whereby Tricho-Med is seeking the cancellation of the convertible debenture it entered into with the Company in December of 2017 and to repay the entire amount advanced by the Company representing $4 million dollars plus the interest accrued thereon. Under the terms of the convertible debenture, upon Tricho-Med receiving its license to cultivate cannabis from Health Canada, the loan amount shall be converted into that number of common shares of Tricho-Med equivalent to 49% of Tricho-Med's capital on a fully diluted basis together with a 5% net sales royalty on all of Tricho-Med's future revenues. The Company believes that this action is without merit and the Company is well within its rights to continue to hold position with its investment in Tricho-Med.

In October 2020, the Company filed an application with the Superior Court of Quebec for surrender and taking in payment of Tricho-Med's assets, which were pledged as security under the terms of the convertible debenture (note 9).

(Amounts expressed in Canadian dollars unless otherwise stated)

Subsequent to December 31, 2020, the Company has received a potential claim by its former Chief Executive Officer in respect of the termination of his consulting agreement in the amount of approximately $1,050,000 offset by Elixxer's counter claim of $312,000 resulting in a net claim of $738,000.

## 18. Income taxes

A reconciliation of the expected income tax recovery applicable to accounting loss before income tax at the Canadian statutory income tax rate to income tax recovery for the year ended December 31, 2020 and fifteen-month period ended December 31, 2019 is as follows:

| | **Year ended December 31, 2020** $ | **Fifteen-month months ended December 31, 2019** $ |
|---|---|---|
| Loss before income tax | **(9,783,462)** | (23,681,121) |
| Income tax recovery at the combined Federal and Provincial tax rate 26.5% [2019 – 26.5%] | **(2,592,617)** | (6,299,178) |
| Non-deductible stock-based compensation and other non-deductible items | **112,154** | 364,723 |
| Non-deductible (taxable) portion of capital items | **315,224** | 1,753,885 |
| Effect of foreign tax rate differences | **—** | 12,191 |
| Non-recognition of tax benefits related to tax losses and deductible temporary differences | **2,200,689** | 4,168,379 |
| Other | **(35,450)** | — |
| Tax recovery | **—** | — |

The deferred tax asset and liabilities of the Company consist of the following:

| | **2020** **$** | **2019** **$** |
|---|---|---|
| **Deferred income tax assets** | | |
| Non-capital loss carry-forwards | **5,344,763** | 3,684,581 |
| Share and convertible debentures issue costs | **560,325** | 249,266 |
| Equity instruments | **(287,904)** | 334,196 |
| Convertible debenture receivable | **795,806** | 304,904 |
| Convertible debenture payable | **—** | 17,116 |
| Investments, other and loans receivable and loans to associates and joint ventures | **1,779,232** | 1,344,130 |
| Convertible debentures receivable | **391,926** | 366,310 |
| Capital losses carried forward | **34,558** | — |
| | **8,618,706** | 6,300,503 |
| **Deferred income tax liabilities** | | |
| Convertible debentures payable | **(117,512)** | — |
| **Deferred income tax assets** | **8,501,194** | 6,300,503 |
| Unrecognized deferred income tax assets | **(8,501,194)** | (6,300,503) |
| **Deferred income tax** | **—** | — |

No deferred tax asset has been recognized as it is not considered probable that there will be future taxable profits available.

As at December 31, 2020, Elixxer Ltd. had non-capital loss carry-forwards in the amount of $20,266,000 which are available to reduce future years' taxable income. These non-capital loss carry-forwards expire between the years 2031 and 2040. The Company also has $260,000 of capital losses available for carry-forward, which do not expire.

### 19. Subsequent events

**(a)** On February 26, 2021 the Company announced that it had been in discussions with YA II PN, Ltd. and Riverfort Global Opportunities PLC (the "Lenders") over claims that Elixxer is in default under the terms of its previously announced convertible loan agreement with the Lenders. Negotiations towards arriving at a resolution are ongoing; however, if such negotiations prove to be unsuccessful, it may result in the Lenders instituting default proceedings against the Company in order to recover amounts owing pursuant to the loan in the amount of USD$1,078,698, including accrued interest thereon. Although Elixxer has so far made several attempts to settle matters with the Lenders, including negotiations on the repayment of the amount owed, including payments consisting of cash and shares, it does not have the ability at present to repay the full amount in cash.

In the event where the Lenders and the Company cannot come to an agreement, a default under the terms of the Lenders' loan may trigger cross default provisions under the terms of the Company's secured loan agreement of 2019, pursuant to which $3,656,310 is owed, and the secured loan agreement of 2020, pursuant to which $3,964,826 is owed, plus accrued interest, for a total of CAD$7,964,825.52 with AIP Convertible Private Debt Fund L.P. ("AIP"). In light of the Lenders' position, AIP and Elixxer have entered into discussions in order to arrive at a solution including securities-for-debt conversion of amounts owed under the 2019 loan on substantially the same terms as previously announced by the Company on August 21, 2020, which referred to a price per share of $0.015 and a five-year warrant exercisable at $0.05 per share, all of which would be subject to shareholder and TSX Venture Exchange approval.

**(b)** On March 9, 2021, the Company announced that, in light of current market uncertainty and the further deterioration in the Company's share price, the Corporation's principal secured lender has requested that the debt settlement transactions announced on March 2, 2021 be effected at a price of $0.015 per share as opposed to the previously disclosed price of $0.02 per share.

As a result of this amendment, $3,656,310 (the "AIP Debt") of the $3,964,826, including interest and fees, owed to AIP Convertible Private Debt Fund LP ("AIP") pursuant to a secured loan agreement dated November 8, 2019 (the "AIP Loan") will be settled by the Company issuing to AIP a total of 243,754,000 common shares at a deemed issue price of $0.015 per share and 243,754,000 common share purchase warrants (the "AIP Debt Settlement"). Each warrant will be exercisable for a period of 60 months from the date of issuance at an exercise price of $0.05 each. AIP currently holds 55,233,333 common shares and 35,000,000 common share purchase warrants of the Corporation. The AIP Debt Settlement will result in AIP becoming a "control person" of Elixxer. Upon completion of the AIP Debt Settlement only, AIP would hold 298,987,333 common shares and 278,754,000 common share purchase warrants of the Corporation, representing approximately 34.08% of the Corporation's issued and outstanding common shares on an undiluted basis and 49.98% on a partially diluted basis. As such, the AIP Debt Settlement as proposed is subject to the Company obtaining shareholder approval which will be sought at the Company's next annual and special meeting of shareholders.

As a condition to Elixxer agreeing to this amendment, AIP has agreed not to request any further pricing changes, regardless of the share price going forward.

The Company also proposes to settle $3,656,310 (the "Arlington Debt") of the $4,603,507, including interest and fees, owed to Arlington Capital LP ("Arlington") pursuant to a loan agreement dated August 29, 2019 (the "Arlington Loan"). The Company will settle the Arlington Debt by issuing to Arlington a total of 243,754,000 common shares at a deemed issue price of $0.015 per share and 243,754,000 common share purchase warrants (the "Arlington Debt Settlement"). Each warrant will be exercisable for a period of 60 months from the date of issuance an exercise price of $0.05 each. The Arlington Debt Settlement will result in Arlington becoming a "control person" of Elixxer. Upon completion of the Arlington Debt Settlement only, Arlington would hold 347,754,000 common shares and 243,754,000 common share purchase warrants, representing approximately 39.64% of the Company's issued and outstanding common shares on an undiluted basis and 52.77% on a partially diluted basis. As such, the Arlington Debt Settlement as proposed is subject to the Company obtaining shareholder approval which will be sought at the Company's next annual and special meeting of shareholders. The Arlington Debt Settlement also constitutes a "related party transaction" as such term is defined in Regulation 61-101 respecting Protection of Minority Securityholders in Special Transactions given that Arlington currently holds 104,000,000 common shares of the Company. The Company relies on the exemption from the valuation requirement pursuant to subsection 5.5(b) of Regulation 61-101 as the securities of the Company are not listed or quoted on enumerated stock exchanges.

Upon completion of both the AIP Debt Settlement and the Arlington Debt Settlement, the Company would have approximately 1,121,016,031 common shares issued and outstanding with (i) AIP holding approximately 26.67% on an undiluted basis and approximately 41.27% on a partially diluted basis; and (ii) Arlington holding approximately 31.02% on an undiluted basis and approximately 43.34% on a partially diluted basis. Upon completion of both settlements, each of AIP and Arlington will have the right to nominate two members to Elixxer's Board of Directors, with at least two other members being independent.

The pricing of the common shares issuable pursuant to the debt settlements is in reliance of the temporary relief measures established by the TSX Venture Exchange (the "TSXV") on April 8, 2020 (and extended on September 16 and December 15, 2020) providing for temporary relief measures to its Policy 4.3, lowering the minimum pricing from $0.05 to $0.01 per share for shares issued pursuant to a debt settlement where the market price of an issuer's shares is not greater than $0.05. The market price of the Company's common shares at close of business on March 9, 2021 was $0.015.

Given the maximum number of shares allowable under the temporary relief measures of the TSXV, Elixxer will not be able to convert the entire amounts owed to AIP and Arlington, with balances of $308,516 and $947,197 remaining outstanding under the AIP Loan and the Arlington Loan, respectively.

Completion of the AIP Debt Settlement and the Arlington Debt Settlement as proposed is, in each case, subject to (i) completion of definitive agreements; (ii) approval of the TSXV; and (iii) shareholder approval as outlined above. All securities issued pursuant to the settlement of the AIP Debt Settlement and the Arlington Debt Settlement will be subject to hold period of four months and one day from the date of issuance. On April 26, 2021, the Company received conditional approval with respect to this transaction.