SLANG WORLDWIDE

Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

NOTICE TO READER

These interim condensed consolidated financial statements of SLANG Worldwide Inc. have been prepared by management and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), released by the Canadian Securities Administrators, the Company discloses that its external auditor has not reviewed these interim condensed consolidated financial statements, notes to the interim condensed consolidated financial statements, or the related Management's Discussion and Analysis.

SLANG Worldwide Inc.

Contents

SLANG Worldwide Inc.
Unaudited Interim Condensed Consolidated Statements of Financial Position
(Prepared in Canadian dollars)

As at	**(Unaudited) March 31, 2021**	(Audited) December 31, 2020
Assets		
Current		
Cash	**$12,399,684**	$6,476,873
Funds held in trust	**-**	131,705
Accounts receivable (Note 6)	**3,546,034**	2,594,155
Other receivables (Note 7)	**585,339**	537,636
Income taxes receivable	**98,921**	100,156
Prepaid and other deposits (Note 10)	**2,749,802**	3,203,392
Inventory (Note 8)	**4,905,810**	4,582,959
Biological assets (Note 9)	**12,915**	84,421
Current portion of notes receivable (Note 11)	**4,872,797**	370,152
Investments, at fair value (Note 12)	**500,000**	500,000
Total current	**29,671,302**	18,581,449
Prepaid and other deposits (Note 10)	**1,351,392**	1,351,392
Notes receivable (Note 11)	**-**	4,580,926
Investments, at fair value (Note 12)	**33,333**	33,333
Due from related parties (Note 14)	**482,370**	330,770
Right of use assets (Note 19)	**3,297,701**	3,489,462
Property, plant and equipment (Note 16)	**7,289,031**	7,527,568
Intangible assets (Note 17)	**41,977,864**	44,190,581
Goodwill (Note 4 & Note 18)	**27,185,759**	27,525,176
Total assets	**$111,288,752**	$107,610,657
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 21)	**$6,097,811**	$8,839,114
Loan payable (Note 23)	**2,333,431**	2,275,954
Current portion of notes payable (Note 24)	**1,357,678**	1,444,305
Current portion of lease liabilities (Note 25)	**320,479**	329,919
Current portion of deferred revenue (Note 26)	**632,251**	640,145
Contract liability (Note 22)	**489,260**	697,301
Due to related parties (Note 27)	**3,503,208**	3,615,991
Total current liabilities	**14,734,118**	17,842,729
Notes payable (Note 24)	**612,906**	808,137
Lease liabilities (Note 25)	**3,344,737**	3,465,910
Deferred revenue (Note 26)	**16,227,772**	16,590,414
Derivative liability (Note 28)	**3,088,231**	2,135,184
Convertible debenture (Note 28)	**44,696**	18,068
Total liabilities	**38,052,460**	40,860,442
Shareholders' equity		
Share capital (Note 29)	**251,087,941**	235,552,213
Share capital to be issued	**18,196,829**	18,068,262
Restricted share capital (Note 29)	**34,625,303**	33,603,783
Contributed surplus	**19,569,226**	12,297,317
Warrants (Note 29)	**7,194,772**	15,590,961
Deficit	**(254,526,832)**	(246,245,525)
Foreign currency translation reserve	**(2,910,947)**	(2,116,796)
Total shareholders' equity	**73,236,292**	66,750,215
Total liabilities and shareholders' equity	**$111,288,752**	$107,610,657

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Prepared in Canadian dollars)

For the three months ended March 31,	2021	2020
Revenue		
Product and licensing revenue (Note 26 & 32)	**$9,665,932**	$3,889,453
Rental income (Note 15)	**-**	379,934
Interest and other income	**257,122**	420,898
Total revenue	**9,923,054**	4,690,285
Cost of goods sold (Note 8 & Note 31)	**6,224,454**	1,836,034
Gross profit before fair value adjustment of biological assets	**3,698,600**	2,854,251
Realized fair value amounts included in inventory sold	**(26,373)**	-
Unrealized loss on changes in fair value of biological assets (Note 9)	**11,218**	-
Gross profit	**3,713,755**	2,854,251
Expenses		
Share based payments (Note 29 & 32)	**3,647,825**	2,409,580
Salaries and wages (Note 32)	**2,222,256**	2,297,470
Depreciation and amortization (Note 15, 16, 17 & 31)	**1,912,497**	1,581,324
Consulting and subcontractors (Note 32)	**305,959**	689,774
Insurance	**774,117**	764,971
General and administrative (Note 31)	**738,752**	580,014
Professional fees	**495,480**	727,458
Advertising and marketing	**223,202**	498,637
Expected credit losses (Note 6, 11 & 14)	**2,076**	1,232,829
Total expenses	**10,322,164**	10,782,057
Loss from operations	**(6,608,409)**	(7,927,806)
Financing cost and fair value adjustment (Note 30)	**1,322,083**	(27,791,946)
Share of loss on investment (Note 13)	**-**	1,098,406
Unrealized exchange loss (gain)	**247,535**	(4,371,219)
Loss (gain) on sale of capital and intangible assets	**607**	(380,563)
Income (loss) before income taxes	**(8,178,634)**	23,517,516
Current taxes	**102,673**	-
Net income (loss) for the period	**(8,281,307)**	23,517,516
Other comprehensive loss for the period		
Items that may be reclassed to profit or loss		
Currency translation adjustment	**(794,151)**	(376,809)
Total comprehensive income (loss) for the period	**$(9,075,458)**	$23,140,707
Net income (loss) per common and restricted voting share		
Basic	**$(0.02)**	$0.08
Diluted	**$(0.02)**	$0.07
Weighted average number of common and restricted voting shares outstanding		
Basic	**472,489,227**	283,060,076
Diluted	**472,489,227**	297,488,411

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Prepared in Canadian dollars)

	Common share capital	Restricted voting share capital	Share capital to be issued	Warrants	Contributed surplus	Foreign currency translation	Deficit	Total
Balance as at December 31, 2019	**$219,119,332**	**$26,800,983**	**$1,053,120**	**$15,736,929**	**$11,710,326**	**$(1,586,006)**	**$(232,184,194)**	**$40,650,490**
Net income (loss) for the period	-	-	-	-	-	-	23,517,516	23,517,516
Exchange differences on translation of foreign operations	-	-	-	-	-	(376,809)	-	(376,809)
Stock based compensation expense	-	-	-	-	650,084	-	-	650,084
Restricted share unit compensation	-	-	-	-	627,016	-	-	627,016
Transfer from shares to be issued to restricted voting share capital	-	1,053,120	(1,053,120)	-	-	-	-	-
Issued pursuant to services	-	-	1,132,480	-	-	-	-	1,132,480
Balance as at March 31, 2020	**219,119,332**	**27,854,103**	**1,132,480**	**15,736,929**	**12,987,426**	**(1,962,815)**	**(208,666,678)**	**66,200,777**
Balance as at December 31, 2020	**235,552,213**	**33,603,783**	**18,068,262**	**15,590,961**	**12,297,317**	**(2,116,796)**	**(246,245,525)**	**66,750,215**
Net income (loss) for the period	-	-	-	-	-	-	(8,281,307)	(8,281,307)
Exchange differences on translation of foreign operations	-	-	-	-	-	(794,151)	-	(794,151)
Stock based compensation expense	-	-	-	-	1,233,655	-	-	1,233,655
Restricted share unit compensation	-	-	-	-	590,088	-	-	590,088
Issued pursuant to services	-	-	1,006,000	-	-	-	-	1,006,000
Issued pursuant to consulting agreements	634,450	1,021,520	(1,021,520)	-	-	-	-	634,450
Issued pursuant to private placement	11,858,493	-	-	-	-	-	-	11,858,493
Issued pursuant to conversion of RSUs	709,570	-	-	-	(955,000)	-	-	(245,430)
Shares to be issued to employees	-	-	144,087	-	-	-	-	144,087
Options exercised	2,333,215	-	-	-	(1,993,023)	-	-	340,192
Warrants expired	-	-	-	(8,396,189)	8,396,189	-	-	-
Balance as at March 31, 2021	**$251,087,941**	**$34,625,303**	**$18,196,829**	**$7,194,772**	**$19,569,226**	**$(2,910,947)**	**$(254,526,832)**	**$73,236,292**

SLANG Worldwide Inc.
Consolidated Statements of Cash Flows
(Prepared in Canadian dollars)

As at March 31,	2021	2020
Cash flows used in operating activities		
Net income (loss) for the period	**$(8,281,307)**	$23,517,516
Items not affecting cash		
Share based payments (Note 29 & Note 32)	**3,647,825**	2,409,580
Depreciation and amortization (Note 15, 16 & 17)	**1,912,497**	1,608,947
Fair value adjustment on derivative liability (Note 28)	**953,046**	(2,733,164)
Interest not received in cash (Note 11)	**(209,355)**	(346,839)
Inventory write-off (Note 8)	**203,043**	-
Depreciation - cost of sales (Note 31)	**228,248**	-
Unrealized exchange loss (gain)	**136,896**	(4,371,219)
Amortization of deferred revenue (Note 26)	**(159,131)**	(169,049)
Accretion expense (Note 30)	**113,573**	181,311
Unrealized loss on changes in fair value of biological assets (Note 9)	**11,218**	-
Expected credit loss (Note 6, 11 & 14)	**2,076**	1,232,829
Loss (gain) on sale of capital and intangible assets	**607**	(380,563)
Fair value adjustment on option asset and liability (Note 20)	**-**	(25,336,838)
Share of loss on investment (Note 13)	**-**	1,098,406
	(1,440,764)	(3,289,083)
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	**(2,908,170)**	(1,734,025)
Accounts receivable	**(1,066,039)**	395,361
Inventory	**(507,165)**	(61,999)
Prepaid and other deposits	**383,251**	(611,675)
Other receivables	**(49,100)**	(248,332)
Contract liability	**(200,791)**	(176,861)
Biological assets	**(93,893)**	-
	(5,882,671)	(5,726,614)
Cash flows from (used in) financing activities		
Net proceeds pursuant to issuance of common shares	**11,858,493**	-
Proceeds pursuant to stock option exercises	**340,192**	-
Repayment of notes payable	**(255,800)**	(124,487)
Net advances to due from related parties	**(69,045)**	(107,795)
Lease payments	**(84,373)**	-
	11,789,467	(232,282)
Cash flows from (used in) investing activities		
Net advances to due to related parties	**(203,740)**	(1,157,219)
Advances (repayments) of notes receivable	**182,195**	(1,623,589)
Purchase of property, plant and equipment	**(77,003)**	(17,637)
Proceeds on disposal of property, plant and equipment	**3,165**	-
Sale of marketable securities	**-**	3,966,027
	(95,383)	1,167,582
Net increase (decrease) in cash and funds held in trust	**5,811,413**	(4,791,314)
Exchange rate changes on foreign currency cash balances	**(20,307)**	253,147
Cash and funds in trust, beginning of period	**$6,608,578**	$8,935,360
Cash and funds held in trust, end of period	**$12,399,684**	$4,397,193
Cash, end of period	**$12,399,684**	$3,695,693
Funds held in trust, end of period	**$-**	$701,500

Supplemental cash flow information		
Income taxes paid	**$102,673**	$-
Interest paid	**$233,275**	$18,849

1. Nature of operations

Slang Worldwide Inc. formerly known as Fire Cannabis Inc., (the "Company") was incorporated on May 29, 2017 under the laws of Canada Business Corporations Act. On November 26, 2018, the Company filed articles of amendment to change its name to SLANG Worldwide Inc.

The Company's head office and principal address is located at 50 Carroll Street, Toronto, Ontario, M4M 3G3. The Company's registered and records office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 1A2. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol SLNG and is quoted on the OTC Markets ("OTCMKTS") under the symbol SLGWF. The Company is also quoted on the Frankfurt Stock Exchange under the trading symbol 84S.

The Company invests and operates in the cannabis industry through a portfolio of entities which provide cannabis products, brands, and services to the global market. The Company invests in entities that have a consumer centric product portfolio with brands that have widespread distribution.

The interim condensed consolidated financial statements were approved by the Company's Board of Directors on May 26, 2021.

2. Basis of presentation

a) Statement of compliance

The Company's interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim financial reporting". These interim condensed consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). The same accounting policies are applied in these unaudited interim condensed consolidated financial statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020.

b) Basis of measurement

The Company's interim condensed consolidated financial statements have been prepared on a historical cost basis except for biological asset and certain financial instruments which are measured at fair value.

(Prepared in Canadian dollars)

2. Basis of presentation, continued

c) Basis of consolidation

The interim condensed consolidated financial statements for the three months ended March 31, 2021 comprise of the financial results of the Company and its subsidiaries, which are the entities over which the Company has control. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are fully consolidated from the date that control commences and de-consolidated from the date control ceases. The interim condensed consolidated financial statements of the Company include:

Name	Ownership percentage
Slang Colorado RE, Inc. (previously, The Purple Organization, Inc.)	100%
National Concessions Group, Inc. ("NCG")	100%
Cultivate Brands Corp. ("Cultivate")	100%
Peoria Partners, LLC (dba, Slang Colorado Distribution) ("SCD")	100%
Slang Oregon, Inc.	100%
LBA CBD, LLC ("CBD")	100%
CHC Laboratories, Inc. ("CHC")	100%
Hydra Oregon, LLC (dba, Lunchbox Distribution) ("LBD")	100%
Slang Colorado Cultivation, Inc. ("SCC")	100%
Allied Concessions Group, Inc. ("ACG")	100%
Slang Colorado Manufacturing, Inc.	100%
Slang NonPT Holdco, Inc. (previously, Slang Worldwide US Inc.)	100%
Slang PT Holdco, Inc.	100%
Slang Colorado, Inc.	100%

The non-operational dormant entities include Slang Colorado Manufacturing Inc., Slang NonPT Holdco Inc., Slang PT Holdco Inc., and Slang Colorado, Inc.

The functional currency of the Company and Cultivate is the Canadian Dollar which is also the presentation currency of the interim condensed consolidated financial statements. The functional currency of Slang Colorado RE, Inc., NCG, SCD, Slang Oregon, Inc., CBD, CHC, LBD, SCC, and ACG, Slang Colorado Manufacturing, Inc., Slang NonPT Holdco, Inc., Slang PT Holdco, Inc., and Slang Colorado, Inc. is the US dollar.

d) COVID-19 estimation uncertainty

In March 2020, there was a global outbreak of COVID-19 which has a significant impact on businesses through the restrictions put in place by the Canadian and American authorities regarding travel, business operations and isolation/quarantine orders. These restrictions did not materially disrupt the Company's operations during 2020 and 2021 as the sale of cannabis products have been recognized as essential services across Canada and the United States.

2. Basis of presentation, continued

Management has been closely monitoring the impact of COVID-19 and has implemented various measures to reduce the spread of the virus including enhanced cleaning protocols and implementing social distancing measures. As at March 31, 2021, the Company has not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the extent of the impact the COVID-19 outbreak will have on the Company’s business, financial position, and operating results in the future. Additionally, it is possible that estimates in the Company's interim condensed consolidated financial statements will change in the near term as a result of COVID-19 and the effect of any such estimates could be material, which could result in, among other things, impairment of long-lived assets. An impairment test was performed as of December 31, 2020 for the Company's goodwill (Note 18). An impairment test was not performed for the Company’s intangible assets as there were no indicators of impairment. Management is closely monitoring the impact of the pandemic on all aspects of its business.

3. Significant accounting judgements and estimation uncertainties

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation were the same as those described in the last audited consolidated financial statements.

4. Business combinations

The Company has determined that these acquisitions are business combinations under IFRS 3, Business Combinations. They are accounted for by applying the acquisition method, whereby the assets acquired, and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these interim condensed consolidated financial statements from the date of the acquisition. Any goodwill recognized is attributed based on Cash Generating Units (“CGUs”).

(Prepared in Canadian dollars)

4. Business combinations, continued

2020 Acquisitions

ACG Acquisition

ACG is engaged in the business of manufacturing edible and consumable products in the medical and recreational cannabis industry in Colorado. On December 31, 2020, upon execution of a merger agreement to purchase 100% of the equity interest, the Company gained control over the operations of ACG and has consolidated the results in line with IFRS 10 – Consolidated Financial Statements.

The following tables summarize the purchase price allocation for the ACG acquisition:

Fair value of consideration transferred	
Common shares to be issued	$8,256,386
Restricted voting shares to be issued	8,790,356
Settlement of pre-existing relationship	12,887,828
Total consideration transferred	$29,934,570
Recognized amounts of identifiable net assets	
Cash	$47,566
Accounts receivable	14,413
Prepaid expenses	607,704
Inventory	1,761,358
Notes receivable	370,152
Property and equipment	1,572,393
Right-of-use assets	289,936
Intangibles - customer relationships	5,605,872
Intangibles - licenses	933,040
Accounts payable and accrued liabilities	(2,266,341)
Contract liability	(176,722)
Due to related parties	(311,482)
Lease liabilities	(309,633)
Notes payable	(1,730,655)
Deferred tax liability	(1,656,669)
Total identifiable net assets	$4,750,932
Goodwill on acquisition	**$25,183,638**

As consideration for the ACG equity interests, the Company will issue 25,801,948 common shares at $0.32 per share (based on quoted market price) and 38,702,922 restricted voting shares which were estimated at $0.227 per share on the date of acquisition using an option pricing model. A discount of 29% was applied to the restricted voting shares due to voting restrictions placed on these shares. These shares were recorded as shares to be issued on acquisition date.

4. Business combinations, continued

The following pre-existing relationships were effectively settled on the acquisition date at fair value:

ACG Option

Prior to the acquisition, the Company held an option to purchase 92.5% of ACG (Note 20). Upon acquisition, this option was deemed to be at-the-money and was exercised by the Company.

Due from related parties

The Company held related party receivables due from ACG as of the acquisition date. The Company had previously recognized an expected credit loss on these receivables, resulting in a reversal of an expected credit loss of $2,896,006 during year ended December 31, 2020. The related party receivables were effectively settled at their fair value of $8,278,602.

Accounts receivable and accounts payable

The Company held trade receivable and trade payable balances with ACG, with a net amount owing by ACG that was settled at its fair value of $4,609,226, as of the acquisition date.

Identifiable intangible assets

The identifiable customer relationship and license have been valued using an income and cost approach, respectively. Specifically, the customer relationship was valued using the discounted cash flow method. All methods applied a 19.2% discount rate.

Customer relationships and licenses are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 8 and 10 years, respectively.

Goodwill

Goodwill of $25,183,638 is primarily related to growth expectations, particularly driven by strengthening the Company's manufacturing and distribution business in Colorado. Goodwill recognized will not be deductible for income tax purposes.

Acquisition costs amounted to $172,058 for the year ended December 31, 2020 and are included in professional fees on the consolidated statement of loss and comprehensive loss.

(Prepared in Canadian dollars)

4. Business combinations, continued

Pleasant Valley Ranch Acquisition

Pleasant Valley Ranch was a company licensed to cultivate retail marijuana in Carbondale, Colorado. On December 22, 2020, the Company acquired 100% of the issued and outstanding equity interests of Pleasant Valley Ranch by way of merger with a dormant wholly owned subsidiary of the Company. The dormant subsidiary was the surviving entity in the merger and was renamed to Slang Colorado Cultivation, Inc. ("SCC").

The following tables summarize the purchase price allocation for the Pleasant Valley Ranch acquisition:

Fair value of consideration transferred	
Cash paid	$32,552
Restricted voting shares issued	115,363
Settlement of pre-existing relationship	5,661,779
Total consideration transferred	$5,809,694
Recognized amounts of identifiable net assets	
Cash	$4,732
Inventory	330,306
Biological assets	64,962
Property and equipment	14,525
Intangibles - licenses	1,348,337
Accounts payable and accrued liabilities	(96,820)
Contract liability	(109,718)
Deferred tax liability	(324,200)
Total identifiable net assets	$1,232,124
Goodwill on acquisition	**$4,577,570**

As consideration for the Pleasant Valley Ranch equity interests, the Company issued 500,000 restricted voting shares which were estimated at $0.231 per share on the date of acquisition using an option pricing model. A discount of 29% was applied to the restricted voting shares due to voting restrictions placed on these shares.

The following pre-existing relationship were effectively settled on the acquisition date at fair value:

Accounts receivable

The Company held trade receivable balances with Pleasant Valley Ranch that were effectively settled at a fair value of $1,792,877 on the date of acquisition.

Notes receivables

The Company had previous notes due from Pleasant Valley Ranch, which were effectively settled at their fair value of $3,868,902 on the date of acquisition (Note 11).

4. Business combinations, continued

Identifiable intangible assets

The identifiable licenses have been valued using an income approach, specifically, using a discounted cash flow method. A discount of 30.6% was applied to this method. Licenses were estimated to have a useful life of 10 years.

Goodwill

The goodwill on acquisition of Pleasant Valley Ranch relates to the mechanics of the purchase equation based on principles of IFRS 3 and implied an internal rate of return ("IRR") of 12.65% on the transaction. However, management determined that a more appropriate IRR from a third-party market participant's perspective would be 30.6%. The estimated IRR of 30.6% was appropriately applied to the valuation models underlying fair values of identifiable intangible assets as the discount rate. Under IFRS 3, the purchase consideration is valued by reference to the Company's share price at the acquisition date. Accordingly, the Company determined that the most appropriate manner of reflecting the difference between the discount rates was to record a goodwill impairment of $4,122,056 in profit or loss.

Acquisition costs amounted to $50,129 for the year ended December 31, 2020 and are included in professional fees on the consolidated statement of loss and comprehensive loss.

(Prepared in Canadian dollars)

4. Business combinations, continued

Lunchbox Acquisition

On October 1, 2020, the Company acquired 100% of the outstanding membership interests of LBA Global Corporation ("LBA") by way of a reverse triangular merger, resulting in a newly formed merger subsidiary, which was renamed to Slang Oregon Inc. Slang Oregon Inc. owns 100% of the issued and outstanding membership interests of CHC, LBD, and CBD (collectively, the "Acquired Companies"). The Acquired Companies are engaged in the business of developing and manufacturing edible and consumable products in the recreational and medical cannabis and CBD industry in Oregon.

The following tables summarize the purchase price allocation for the Lunchbox acquisition:

Fair value of consideration transferred	
Restricted voting shares issued	$2,340,158
Settlement of pre-existing relationship	2,206,098
Total consideration transferred	$4,546,256
Recognized amounts of identifiable net assets	
Cash	$54,520
Accounts receivable	511,335
Prepaid expenses	50,564
Inventory	553,645
Property and equipment	703,968
Right-of-use assets	216,895
Intangibles - brand	2,949,348
Intangibles - distributor and customer relationships	167,543
Intangibles - licenses	10,136
Accounts payable and accrued liabilities	(1,755,537)
Lease liabilities	(241,467)
Deferred tax liability	(657,242)
Total identifiable net assets	$2,563,708
Goodwill on acquisition	**$1,982,548**

As consideration for the LBA membership interests, the Company issued 23,531,117 restricted voting shares which were estimated at $0.10 per share on the date of acquisition using an option pricing model. A discount of 29% was applied to the restricted voting shares due to voting restrictions placed on these shares.

The following pre-existing relationship was effectively settled on the acquisition date at fair value:

Convertible loan

The Company had a previous convertible loan from LBA, which was effectively settled at its fair value of $2,206,098 on the date of acquisition.

(Prepared in Canadian dollars)

4. Business combinations, continued

Identifiable intangible assets

The identifiable brands, and customer and distributor relationships have been valued using an income approach. Specifically, the Squibs and Tangos brands were valued using the multi-period excess earnings method, while the Lunchbox Alchemy brand was valued using the relief from royalty method. The customer and distributor relationships were valued using a discounted cash flow method. Furthermore, the identifiable licenses have been valued using a cost approach. All methods applied a 30.6% discount rate.

Customer and distributor relationships and brands are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 5 years. Licenses were estimated to have a useful life of 10 years.

Goodwill

Goodwill of $1,982,548 is primarily related to growth expectations, particularly driven by integrated manufacturing and distribution capabilities. Goodwill recognized will not be deductible for income tax purposes.

Acquisition costs amounted to $85,712 for the year ended December 31, 2020 and are included in professional fees on the consolidated statement of loss and comprehensive loss.

Peoria Partners LLC ("Peoria") Acquisition

Peoria is a licensed cannabis producer and distributor of the Company's District Edibles brand in the state of Colorado. On September 1, 2020, the Company acquired 100% of the outstanding membership interests of Peoria and renamed the entity to Slang Colorado Distribution, Inc. ("SCD").

The following tables summarize the purchase price allocation for the Peoria acquisition:

Fair value of consideration transferred	
Cash paid	$312,055
Fair value of identifiable net assets	
Cash	$31,822
Accounts receivable	470,623
Inventory	214,030
Intangibles - license	195,630
Accounts payable	(203,104)
Total identifiable net assets	709,001
Gain on bargain purchase	**$396,946**

As consideration for the Peoria membership interests, the Company paid $312,055 in cash on September 1, 2020.

(Prepared in Canadian dollars)

4. Business combinations, continued

Identifiable intangible assets

The retail marijuana infused product manufacturing license has been valued using a relief from royalty valuation method using a 25% discount rate and 2.5% royalty rate. The license is being amortized over an estimated useful life of 10 years.

Gain on bargain purchase

The accounting for the acquisition of Peoria generated a gain of $396,946 as the fair value of the net assets was in excess of the aggregate consideration of $312,055 because the purchase consideration was finalized prior to the acquisition date.

5. Asset acquisitions

Cultivate Brands Corp.

On May 1, 2020, the Company completed the acquisition of the assets of Cultivate Brands Corp ("Cultivate"). Under IFRS 3, Business Combinations, it was determined that the acquisition did not qualify as a business combination, and therefore, it was accounted for as an asset acquisition. The acquisition was completed by way of a three-cornered amalgamation pursuant to which 1241306 B.C. Ltd., a newly incorporated subsidiary of the Company, amalgamated with Cultivate to form a newly amalgamated company which operates under the name "Cultivate Brands Corp." as a wholly owned subsidiary of the Company. In exchange for all the issued and outstanding shares of Cultivate, the Company issued 28,294,237 common shares at an estimated value of $0.212 per share and paid cash of $337,418.

The following table summarizes the Cultivate asset acquisition:

Consideration transferred	
Common shares	$6,010,773
Cash payable	337,418
Transaction costs	132,992
	$6,481,183
Net assets acquired	
Cash	$3,995,377
Other receivables	22,328
Inventory	61,021
Prepaid & deposits	1,486,281
Notes receivable	479,584
Investments at fair value	500,000
Machinery & equipment	22,084
Accounts payable & accrued liabilities	(85,492)
	$6,481,183

(Prepared in Canadian dollars)

6. Accounts receivable

Accounts receivable consist of the following:

	March 31, 2021	December 31, 2020
Accounts receivable	**$9,958,629**	$9,094,624
Expected credit losses	**(6,412,595)**	(6,500,469)
	$3,546,034	$2,594,155

Expected credit losses decreased by $87,874, which is attributable to a net decrease in expected credit losses of $7,768 and translation of foreign operations recorded in other comprehensive income of $80,106.

7. Other receivables

Other receivables consist of the following:

	March 31, 2021	December 31, 2020
Indirect tax receivable	**$405,316**	$368,544
Other receivables	**180,023**	169,092
	$585,339	$537,636

8. Inventory

The following comprise inventory:

Category	March 31, 2021	December 31, 2020
Finished goods - cannabis	**$923,064**	$629,895
Finished goods - non-cannabis	**1,950,391**	2,260,668
Raw materials - cannabis	**1,539,954**	1,156,455
Raw materials - non-cannabis	**657,117**	794,104
Work-in-progress	**130,118**	26,200
Reserve for obsolete inventory	**(294,834)**	(284,363)
	$4,905,810	$4,582,959

The Company classifies slow-moving inventory, not expected to be consumed or realized in cash in its normal operating cycle, as a non-current asset. As of March 31, 2021, no slow-moving inventory was recognized. Inventory is periodically reviewed for potential obsolescence, and the Company writes down inventory based on its assessment of market conditions. Inventory is net of a reserve for obsolete inventory of $294,834 (2020 - $284,363), of which the increase of $10,471 (2020 – $34,155) was recorded in the interim condensed consolidated statement of income (loss) and comprehensive income (loss) in the three months ended March 31, 2021.

During the three months ended March 31, 2021, the total inventory expensed through cost of goods sold was $4,395,136 (2020 - $1,551,750).

(Prepared in Canadian dollars)

9. Biological assets

The Company's biological assets consist of 1,027 (2020 – 3,167 cannabis plants and clones) cannabis clones as at March 31, 2021. The reconciliation of biological assets is as follows:

	March 31, 2021	December 31, 2020
Opening balance	**$84,421**	$-
Additions on Pleasant Valley Ranch acquisition	**-**	64,962
Increase (decrease) in fair value due to biological transformation	**(11,218)**	29,973
Capitalized costs	**93,893**	11,780
Transferred to inventories upon harvest	**(35,138)**	(21,299)
Write-off	**(118,478)**	-
Currency translation	**(565)**	(995)
Ending balance	**$12,915**	$84,421

The fair value measurements for biological assets have been categorized as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail recreational or medical cannabis market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from the flowering stage to the point of harvest and assumes that the value of clones is nominal.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

The biological assets as of March 31, 2021 consist of only cannabis clones; therefore, no biological asset transformation has occurred. As such, the costs of the biological assets are used as a proxy for fair value since biological transformation has not taken place. As the cost has been used as a proxy for the fair value, a sensitivity analysis was not performed.

(Prepared in Canadian dollars)

10. Prepaid and other deposits

	March 31, 2021	December 31, 2020
Prepaid expenses	$2,749,802	$3,203,392
Equipment deposit	1,351,392	1,351,392
	$4,101,194	$4,554,784

Prepaid Expenses

As at March 31, 2021, prepaid expenses constitute deposits on future purchases of inventory and deposits for goods and services, primarily related to insurance and software subscriptions, that have yet to be received as of period end.

Equipment Deposit

Prior to the acquisition of Cultivate by the Company, Cultivate had made certain deposits towards the purchase of specialized equipment to be utilized for extraction and product formulation. This equipment deposit has been classified as a long-term asset.

11. Notes receivable

A summary of the Company's loans and notes receivable is as follows:

	March 31, 2021	December 31, 2020
NSH, net of allowance	$4,688,182	$4,580,926
Euflora	184,615	370,152
	4,872,797	4,951,078
Less: current portion	(4,872,797)	(370,152)
	$-	$4,580,926

On March 21, 2019, the Company entered into a promissory note with NS Holdings, LLC ("NSH"), a related entity, in the amount of US$3,206,188 (CAD - $4,285,267), which is secured by substantially all of the assets of NSH, bears interest at 12% per annum and is due in full in February 2022. NSH has common management with the Company and is a related party because management has the ability to direct the activities of the entities. Further advances of US$1,957,072 (CAD – 2,601,669) and US$336,740 (CAD – $458,232) were made by the Company in 2019 and 2020, respectively, under the same terms of the original note. During the three months ended March 31, 2021, interest accrued and included in the principal amounted to $209,355 (2020 - $210,405). An unrealized foreign exchange loss of $102,099 (2020 – gain of $658,164), was recognized in the three months ended March 31, 2021. Previously, on December 31, 2019, the Company estimated an expected credit loss of $3,547,439. The loan remains outstanding at the date of these interim condensed consolidated financial statements.

11. Notes receivable, continued

Prior to the acquisition of ACG, ACG entered into a promissory note agreement with Euflora, Inc. ("Euflora") in the amount of USD$434,678, which is unsecured, bears interest at 8% per annum with monthly principal and interest payments of USD$49,591. In the event that payment is not received as scheduled, interest accruing on the unpaid balance increases to 18%. The loan matures on June 1, 2021. Immediately prior to the acquisition of ACG, the carrying value of the principal and interest due was US$290,725 (CAD - $370,152). During the three months ended March 31, 2021, principal repayments of US$143,914 (CAD - $182,195) were made, and a loss of $3,342 was recorded on the translation of foreign operations in other comprehensive income.

On November 8, 2017 the Company loaned $750,000 ("Original Promissory Note") to Pine River Consulting Ltd. (controlled by the Company's former CEO) ("Pine River"). The loan was pursuant to a credit facility in the amount of $1,000,000. Pine River and the Company subsequently amended and restated the Original Promissory Note on July 30, 2018, and again on October 15, 2018. The maturity date of the loan was extended to November 8, 2020 at 15% interest for up to $1,500,000. During the year ended December 31, 2019 the Company advanced an additional $26,497 to Pine River. Ten percent of the quarterly interest shall be payable by Pine River to the Company and the remaining five percent of the quarterly interest payment shall be added to the principal amount. On April 1, 2020, by way of a Novation Agreement, the promissory note from Pine River Consulting Ltd. ("PRC") was transferred to Pleasant Valley Ranch ("PVR"). Immediately prior to the acquisition of PVR, the carrying value of the principal and interest due was $2,034,577 (2019 – $1,798,113). This note was settled as a pre-existing relationship at its fair value on the acquisition of PVR (Note 4).

On October 23, 2019, the Company entered into a promissory note with Pleasant Valley Ranch in the amount of US$165,659 (CAD - $215,158), which is unsecured, bears interest at 15% per annum and was due in full on December 31, 2020. Immediately prior to the acquisition of PVR, the carrying value of the principal and interest due was $213,833. This note was settled as a pre-existing relationship at its fair value on the acquisition of PVR (Note 4).

On February 26, 2020, the Company entered into a promissory note with Pleasant Valley Ranch in the amount of US$1,300,000 (CAD - $1,734,330), which is unsecured, bears interest at 15% per annum with monthly principal and interest payments of US$30,927. The loan matures on February 1, 2025. In 2020, principal repayments of US$44,583 (CAD - $57,548) were made. Immediately prior to the acquisition of PVR, the carrying value of the principal and interest due was US$1,255,417 (CAD - $1,620,492). This note was settled as a pre-existing relationship at its fair value on the acquisition of PVR (Note 4).

Prior to the acquisition of Cultivate, Cultivate loaned a principal amount of $1,000,000 to two third party individuals. The loan matured in October 2018, bearing interest at 5% per annum, and was unsecured. Cultivate had recognized an impairment loss on the loan, bringing the outstanding value to $Nil on acquisition date.

Prior to the acquisition of Cultivate, Cultivate held a secured promissory note from Attis Extracts LLC, bearing interest at 9% per annum, and maturing April 20, 2020. Subsequent to acquisition date, the Company received full payment in the amount of US$340,953 (CAD - $479,584).

(Prepared in Canadian dollars)

12. Investments, at fair value

Investments held at fair value is comprised of:

	March 31, 2021	December 31, 2020
Graffiti Games Ltd. - Convertible loan (a)	**$500,000**	$500,000
10663522 Canada Inc. (b)	**33,333**	33,333
NS Holdings Inc. ("NSH") (c)	**-**	-
Duby Inc. (d)	**-**	-
Bak Festivals Inc. (dba Grupo Flor Inc.) (e)	**-**	-
Greenleaf Grove LLC ("Greenleaf") (f)	**-**	-
	533,333	533,333
Less: current portion	**(500,000)**	(500,000)
	$33,333	$33,333

a) Graffiti Games – Convertible Loan

Prior to the acquisition of Cultivate, Cultivate had loaned $500,000 to Graffiti Games Ltd., an unrelated third party. The loan is guaranteed by a shareholder of Graffiti Games Ltd., and carries interest at 10% per annum. On April 30, 2020, Graffiti Games and Cultivate amended the original convertible loan to extend the maturity date to April 30, 2021. Interest accrued and receivable during the three months ended March 31, 2021 amounted to $12,329. The loan is convertible at the Company's option, and it is measured at fair value through profit or loss. The Company has estimated no changes to the fair value of the investment during the three months ended March 31, 2021. A 1% change in the discount rate would not result in a significant change in the value of the convertible loan.

b) 10663522 Canada Inc.

On May 31, 2018, the Company acquired 1,111,111 shares of 10663522 Canada Inc., a private company; therefore, no quoted market prices are available for its shares. The Company has estimated no changes to the fair value of the investment during the three months ended March 31, 2021 (2020 - $Nil).

c) NSH Warrants

As at March 31, 2021 and December 31, 2020, the Company held warrants which entitle the Company to acquire 339,930 shares of NSH at an exercise price of US$0.001 per share until March 20, 2028. Had the warrants been exercised before or on March 31, 2021 and December 31, 2020, the Company would have owned 7.5% outstanding common shares of NSH. The warrants were re-valued on March 31, 2021, and there was no change to the fair value of the investment during the three months ended March 31, 2021 (2020 - $Nil). The fair value of the warrants was estimated using the Monte Carlo Simulation approach and a 1% change in any key input would not result in a significant change in the value of the warrants.

12. Investments, at fair value, continued

d) Duby Inc.

Prior to the acquisition of NCG by the Company, NCG had invested a total of $180,000 in a private company, Duby Inc. ("Duby"), representing a 2.6% ownership interest. Duby provides a network for people to gain and share knowledge around their cannabis experiences. NCG invested in Duby for a strategic marketing purpose. Duby is a private company; therefore, no quoted market prices are available for its shares. The Company has estimated no changes to the fair value of the investment during the three months ended March 31, 2021 (2020 - $Nil).

e) Bak Festivals Inc. (dba Grupo Flor Inc.)

Prior to the acquisition of Cultivate, Cultivate had invested US $500,000 in 174,529 Series A Preferred Stock of Grupo Flor Inc., a private company; therefore, no quoted market prices are available for its shares. Prior to the acquisition of Cultivate, Cultivate had recognized an impairment loss on the investment, bringing the net investment value to $Nil. The Company has estimated no change in the value of the investment during the three months ended March 31, 2021.

f) Greenleaf

Prior to the acquisition of Cultivate, Cultivate had entered into a Limited Liability Company Agreement (the "Operating Agreement") for Greenleaf with Graffiti Games Ltd., Mega Cat Studios LLC, and Double Barrel LLC. Cultivate had provided an initial contribution of US$75,000, representing 15% of the fully diluted and capitalized ownership interest in Greenleaf. Prior to the acquisition of Cultivate, Cultivate had recognized an impairment loss on the investment, bringing the net investment value to $Nil. The Company estimated no change in the value of the investment during the three months ended March 31, 2021.

The Operating Agreement has a cash-call clause, which requires members to contribute additional capital to Greenleaf from time-to-time relative to their respective membership interests (Note 33).

13. Investment in associate

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. ("Agripharm"), a licensed producer located in Creemore, Ontario, for the use of intellectual property ("IP"), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at $19,200,000 (USD - $15,083,520). As such, the consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period (Note 26). For the three months ended March 31, 2021, the Company recognized an equity loss of $Nil (2020 - $1,098,406) in the interim condensed consolidated statement of income (loss) and comprehensive income (loss).

(Prepared in Canadian dollars)

13. Investment in associate, continued

The investment in Agripharm can be summarized as follows:

	March 31, 2021	December 31, 2020
Opening balance	**$-**	$2,027,142
Share of loss	**-**	(2,022,854)
Downstream elimination	**-**	(570)
Foreign exchange loss	**-**	(70,065)
Currency translation	**-**	66,347
Closing balance	**$-**	$-

The amount of unrecognized losses is $511,534 as of March 31, 2021.

14. Due from related parties

The Company's wholly owned subsidiary, NCG, routinely conducts business with GNT Oregon LLC ("GNT"). GNT and CalVape have common management with the Company and are considered to be related parties because management has the ability to direct the activities of the entities. GNT operates labs that manufacture branded cannabis products to be sold to dispensaries.

Balances due from related parties are unsecured, non-interest bearing, have no specific repayment terms and consist of the following:

	March 31, 2021	December 31, 2020
CalVape	**$5,337,821**	$5,446,035
GNT	**1,603,443**	1,480,315
Expected credit losses	**(6,458,894)**	(6,595,580)
	$482,370	$330,770

Expected credit losses decreased by $136,686 for the three months ended March 31, 2021 due to an increase in expected credit losses of $8,091 (2020 – $1,232,829) and a decrease of $144,777 (2020 – increase of $557,900) due to the translation of foreign operations recorded in other comprehensive income.

15. Investment properties

At March 31, 2021 and December 31, 2020, investment properties were $Nil. The Company's investment properties held during 2020 in Denver and Carbondale Colorado, USA, were transferred to property, plant, and equipment at net book value on the acquisitions of SCD and SCC (Note 4).

(Prepared in Canadian dollars)

16. Property, plant and equipment

	Office equipment	Equipment & machinery	Computer equipment and fixtures	Leasehold improvements	Vehicles	Building & improvements	Land	Total
Cost								
Balance, December 31, 2020	$185,856	$2,147,498	$46,487	$1,039,132	$50,079	$3,028,249	$1,973,460	$8,470,761
Additions	20,960	137,751	3,856	6,330	-	-	-	168,897
Disposals	-	(9,157)	-	-	-	-	-	(9,157)
Currency translation	(2,433)	(27,229)	(599)	(12,856)	(618)	(37,342)	(24,334)	(105,411)
Balance, March 31, 2021	**$204,383**	**$2,248,863**	**$49,744**	**$1,032,606**	**$49,461**	**$2,990,907**	**$1,949,126**	**$8,525,090**
Accumulated depreciation								
Balance, December 31, 2020	$54,598	$545,606	$29,698	$9,174	$23,433	$280,684	$-	$943,193
Depreciation expense	12,180	230,728	3,160	30,262	3,529	32,080	-	311,939
Disposals	-	(5,385)	-	-	-	-	-	(5,385)
Currency translation	(755)	(8,240)	(387)	(316)	(313)	(3,677)	-	(13,688)
Balance, March 31, 2021	**$66,023**	**$762,709**	**$32,471**	**$39,120**	**$26,649**	**$309,087**	**$-**	**$1,236,059**
Net book value, March 31, 2021	**$138,360**	**$1,486,154**	**$17,273**	**$993,486**	**$22,812**	**$2,681,820**	**$1,949,126**	**$7,289,031**
Net book value, December 31, 2020	$131,258	$1,601,892	$16,789	$1,029,958	$26,646	$2,747,565	$1,973,460	$7,527,568

(Prepared in Canadian dollars)

17. Intangible assets

	Proprietary technology & know how	Brands	Distributor and customer relationships	Licenses	Total
Cost					
Balance, December 31, 2020	$10,426,956	$44,916,967	$11,320,233	$2,463,648	$69,127,804
Currency translation	(128,576)	(553,877)	(139,591)	(30,380)	(852,424)
Balance, March 31, 2021	**$10,298,380**	**$44,363,090**	**$11,180,642**	**$2,433,268**	**$68,275,380**
Accumulated amortization					
Balance, December 31, 2020	$5,966,464	$14,327,289	$4,633,645	$9,825	$24,937,223
Amortization expense	361,493	998,716	257,618	61,243	1,679,070
Currency translation	(76,000)	(183,377)	(58,868)	(532)	(318,777)
Balance, March 31, 2021	**$6,251,957**	**$15,142,628**	**$4,832,395**	**$70,536**	**$26,297,516**
Net book value, March 31, 2021	**$4,046,423**	**$29,220,462**	**$6,348,247**	**$2,362,732**	**$41,977,864**
Net book value, December 31, 2020	$4,460,492	$30,589,678	$6,686,588	$2,453,823	$44,190,581

(Prepared in Canadian dollars)

18. Goodwill

The Company's goodwill balance is summarized as follows:

	CBD CGU grouping	CHC CGU grouping	ACG CGU grouping	SCC CGU grouping	Total
Balance, December 31, 2020	$1,586,944	$305,340	$25,183,638	$449,254	$27,525,176
Currency translation	(19,569)	(3,765)	(310,543)	(5,540)	(339,417)
Balance, March 31, 2021	**$1,567,375**	**$301,575**	**$24,873,095**	**$443,714**	**$27,185,759**

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired. As of March 31, 2021, there were no events or changes in circumstances that indicate goodwill is impaired.

19. Right-of-use assets

Right of use assets are comprised of the Company's leased premises and offices and are depreciated on a straight-line basis over each respective lease term. The associated lease liability is outlined in Note 25. The Company's right-of-use assets are as follows:

	March 31, 2021	December 31, 2020
Opening balance	**$3,489,462**	$-
Additions	**-**	3,365,055
Additions from business combinations (Note 4)	**-**	506,831
Depreciation	**(149,737)**	(296,576)
Currency translation	**(42,024)**	(85,848)
Closing balance	**$3,297,701**	$3,489,462

20. Options to acquire ACG and NSH

As part of the acquisition of NCG, the Company acquired an option to acquire 92.5% of the outstanding equity interests of ACG and NSH. Under the terms of the option agreements, the Company can choose to acquire either or both ACG and NSH ("call options"), in exchange for the issuance of an additional 33 million and 49.5 million of the Company's shares, respectively. These call options expire 36 months after closing of the NCG acquisition. During a 120-day period, commencing on the 13th month after closing of the NCG acquisition, the shareholders of ACG and NSH also had the right to sell 92.5% of the outstanding equity ("put rights") of ACG or NSH, to the Company, on the same terms as the call options. In May 2020, the ACG and NSH put option rights expired without being exercised by the shareholders in accordance with the terms of the option agreements.

(Prepared in Canadian dollars)

20. Options to acquire ACG and NSH, continued

On February 26, 2020, the Company delivered notice of its intent to exercise its option to acquire ACG pursuant to the option purchase agreement between SLANG, ACG and the shareholders of ACG. On December 31, 2020, the Company obtained control of ACG (Note 4). On December 31, 2020, a Merger Agreement between ACG, SLANG, Slang Colorado Manufacturing Inc., and Shareholder Representative Services LLC was signed which outlined a purchase price of 25,801,948 common shares and 38,702,922 restricted shares. This effectively modified the existing call option immediately prior to the acquisition of ACG and the option was determined to be at-the-money. A fair value of $Nil was attributed to the option on acquisition (Note 4). A fair value gain on the ACG options of $11,228,181 was recognized for the three months ended March 31, 2020.

The call option related to the NSH option was remeasured at fair value on December 31, 2020. The revaluation at December 31, 2020 resulted in an option asset of $Nil. The NSH option was re-valued on March 31, 2021, and there was no change to the fair value during the three months ended March 31, 2021 (2020 – gain of $14,108,657). The fair value of the NSH option was estimated using an option pricing methodology based on the Monte Carlo Simulation approach using the following assumptions:

	March 31, 2021	December 31, 2020
Company's share price	**$0.43**	$0.32
Stock price volatility		
NSH	**158%**	158%
Slang Worldwide Inc.	**90%**	103%
Risk-free rate	**0.23%**	0.20%
Expected life of the option asset/liability	**0.81 years**	1.06 years

An increase (decrease) in the Company’s stock price by 10% would not result in a significant change in the fair value of the option.

21. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2021	December 31, 2020
Accounts payable	**$2,936,833**	$4,510,890
Accrued liabilities	**2,526,949**	3,049,911
Government remittances	**634,029**	1,278,313
	$6,097,811	$8,839,114

22. Contract liability

At March 31, 2021, the contract liability is a result of one contract with a customer whereby the Company has an obligation to transfer goods to the customer for which consideration has been received. At March 31, 2021, there remains a performance obligation related to the recognition of revenue.

(Prepared in Canadian dollars)

23. Loan payable

The loan payable represents a balance owing to Green House Holdings North America Inc. ("GHNA"), a company partially owned by one of the Company's directors. The loan is non-interest bearing and matured on July 31, 2019, at which time the loan was extended to July 9, 2021 with the same terms and conditions. The Company's loan payable is as follows:

	March 31, 2021	December 31, 2020
Opening balance	**$2,275,954**	$1,966,262
Accretion expense	**86,945**	368,467
Foreign exchange gain	**(29,468)**	(58,775)
Closing balance	**$2,333,431**	$2,275,954

24. Notes payable

On November 18, 2016, prior to acquisition of NCG by the Company, NCG entered into a promissory note agreement with a third party for a total principal amount of US$1,750,000. The note is secured, bears interest at 15% per annum and has a term of 60 months, with repayments made on a monthly basis.

All assets of NCG have been pledged as security for the above note. During the three months ended March 31, 2021, the Company paid interest of $17,984 (2020 - $39,116).

Prior to acquisition of NCG by the Company, NCG acquired the assets from the owner-operator SC-GH Holdings, LLC, ("SC-GH") the Colorado trade name "The Magic Buzz" from Inspired Specialty Products, LLC and the related registered trademark from an individual. The trade name and trademark are associated with the preparation, manufacture, assembly and creation of non-THC infused drinks, drink formulas, and recipes to be sold to producers and thereafter infused with THC.

As part of the purchase price, NCG provided a note payable to SC-GH for US$319,000 maturing January 1, 2020, with an option to extend the note for an additional year at a penalty cost of US$5,000. Payments on the note are to be made monthly and are variable based on the total revenue made by the Company on the sales made associated with the trademark acquired. In February 2020, the Company sold the Magic Buzz trademark which resulted in the termination of the note payable with no further payments being required. The sale of the Magic Buzz trademark resulted in a gain on sale of $363,525 recorded in the interim condensed consolidated statement of income (loss) and comprehensive income (loss).

On June 30, 2017, prior to the acquisition of ACG by the Company, ACG entered into a promissory note agreement with a third party for a total principal amount of US$1,700,000. The note is secured, bears interest at 12% per annum from issuance to June 30, 2020 and 15% per annum from July 1, 2020 to maturity. The maturity date of the note is June 30, 2022. All assets of ACG have been pledged as security. During the three months ended March 31, 2021, the Company paid interest of $28,157.

(Prepared in Canadian dollars)

24. Notes payable, continued

On March 27, 2019, prior to the acquisition of ACG by the Company, ACG entered into a promissory note agreement with NS Holdings Inc. for a total principal amount of US$734,931. The note is unsecured, bears interest at 15% per annum and has a term of 60 months with repayments made on a monthly basis. If there shall be any default in the making of any payment or performance of the terms, then the entire principal amount together with all accrued interest, at the election of NS Holdings Inc., shall bear interest at 18% per annum. The maturity date of the note is April 1, 2024. During the three months ended March 31, 2021, interest expense of $25,496 was recorded in the interim condensed consolidated statement of income (loss) and comprehensive income (loss).

The following transactions occurred on the notes for the three months ended March 31, 2021 and year ended December 31, 2020:

	March 31, 2021	December 31, 2020
Opening balance	**$2,252,442**	$1,385,297
Notes issued or assumed (Note 4)	**-**	1,730,655
Repayment	**(255,800)**	(525,702)
Currency translation	**(26,058)**	6,241
Termination on sale of Magic Buzz trademark	**-**	(344,049)
Closing balance	**1,970,584**	2,252,442
Less: current portion	**(1,357,678)**	(1,444,305)
Long-term portion	**$612,906**	$808,137

Estimated principal repayments are as follows:

Less than one year	**$1,357,678**
2022	**350,609**
2023	**240,583**
2024	**21,714**
	$1,970,584

25. Lease liabilities

The lease liabilities associated with the right-of-use assets (Note 19) for the Company's leases are summarized below:

	March 31, 2021	December 31, 2020
Opening balance	**$3,795,829**	$-
Additions	**-**	3,333,934
Additions from business combinations (Note 4)	**-**	551,100
Lease payments for the year	**(254,754)**	(408,842)
Accretion expense for the year	**170,381**	419,764
Currency translation	**(46,240)**	(100,127)
Closing balance	**$3,665,216**	$3,795,829

(Prepared in Canadian dollars)

25. Lease liabilities, continued

Current and long-term portions of the lease liabilities and the contractual undiscounted maturity analysis at March 31, 2021 are as follows:

Current	$320,479
Long-term	$3,344,737
Maturity Analysis - Undiscounted Cash Flows	
Less than one year	$956,641
One year	$937,935
Two years	$956,144
Three years	$949,998
Four years	$716,049
Five years and beyond	$1,963,919
Total	$6,480,686

26. Deferred revenue

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. (Agripharm), a licensed producer located in Creemore, Ontario, for the use of intellectual property (“IP”), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at $19,200,000 (US - $15,083,520). As such, the fair value of consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period.

Deferred revenue can be summarized as follows:

	March 31, 2021	December 31, 2020
Opening balance	**$17,230,559**	$18,230,026
Recognized as license revenue	**(159,132)**	(674,485)
Currency translation	**(211,404)**	(324,982)
Closing balance	**16,860,023**	17,230,559
Less: current portion	**(632,251)**	(640,145)
Long-term portion	**$16,227,772**	$16,590,414

(Prepared in Canadian dollars)

27. Due to related parties

Balances due to related parties consist of the following:

	March 31, 2021	December 31, 2020
NS Holdings Inc.	**$3,440,668**	$3,483,707
Other	**62,540**	132,284
	$3,503,208	$3,615,991

NS Holdings Inc. has common management with the Company and is considered to be a related party because management has the ability to direct the activities of the entities. All balances are non-interest bearing and have no specified terms of repayment.

28. Derivative liability

Purple Note 1

On April 30, 2018, the Company issued a 4-year, 4% unsecured convertible promissory note to The Purple Co. (controlled by the Company's former CEO – Note 32) in the amount of US$1,843,031 (CAD $2,364,849) (the "Purple Note 1") to exchange an existing loan to Purple Organization, Inc. The Company has the right to prepay all or a portion of the amount due under the Purple Note 1 any time. The Purple Co. has the right to convert the principal amount outstanding under the Purple Note 1 into common shares of the Company, at a conversion price of CAD$0.20 per share, on thirty (30) days' written notice.

The conversion option represents an embedded derivative which meets the definition of a financial liability as the note and the common shares are denominated in different currencies.

Accordingly, the embedded derivative was bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

The Company estimated the fair value of the derivative liability as $2,135,184 and $3,088,231 on December 31, 2020 and March 31, 2021, respectively. The amortized cost of the host contract at March 31, 2021 is $44,696 (2020 - nominal). The loan is accreted using an effective interest rate of 428.94%. The fair value adjustment to the derivative liability for the three months ended March 31, 2021 resulted in a fair value loss of $953,046 (2020 - gain of $2,733,164) recorded in financing cost and fair value adjustment in the interim condensed consolidated statement of income (loss) and comprehensive income (loss) (Note 30).

(Prepared in Canadian dollars)

28. Derivative liability, continued

Interest and accretion expense on the convertible note for the three months ended March 31, 2021 of $23,473 and $26,628 (2020 - $24,352 and $Nil), respectively, was recorded in the interim condensed consolidated statement of income (loss) and comprehensive income (loss) (Note 30). The fair value of the derivative liability as at March 31, 2021 and 2020 was estimated using Black-Scholes valuation model based on the following assumptions:

	March 31, 2021	December 31, 2020
Share price	**$0.43**	$0.32
Stock price volatility	**103%**	100%
Expected life of the derivative liability	**1.08 years**	1.33 years
Risk free rate	**0.22%**	0.25%

Inter-relationship between key unobservable inputs and fair value measurement as at March 31, 2021:

- If the share price was lower (higher) by 10%, the fair value would decrease (increase) by $435,077 ($443,580).
- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by $96,522 ($98,572).

29. Share capital

Authorized

Unlimited number of Class A preferred shares

Unlimited number of common shares

Unlimited number of restricted voting shares

There are no outstanding Class A preferred shares as at March 31, 2021 and December 31, 2020.

Each restricted voting share may be converted to one common share, without payment of additional consideration if the following conditions are met: (a) conversion is not during a restricted period as determined by the Board; (b) following the date that is the three-year anniversary of the date of issuance of such restricted voting shares; and (c) with the consent of the Board.

(Prepared in Canadian dollars)

29. Share capital, continued

Common share continuity

	Number of shares	Share capital
Balance, December 31, 2019	257,729,502	$219,119,332
Issued pursuant to business combinations and asset acquisitions	28,294,237	6,010,773
Shares issued to employees	3,153,838	520,383
Issued pursuant to conversion of RSUs	2,982,529	3,582,494
Issued pursuant to conversion of Purple Note 2	4,359,481	1,289,544
Issued pursuant to private placement	18,518,517	4,980,791
Options exercised	100,000	48,896
Balance, December 31, 2020	**315,138,104**	**$235,552,213**
Issued pursuant to conversion of RSUs	1,847,383	709,570
Issued pursuant to private placement	31,206,561	11,858,493
Issued pursuant to consulting agreements	1,153,546	634,450
Options exercised	2,434,610	2,333,215
Balance, March 31, 2021	**351,780,204**	**$251,087,941**

Restricted share continuity

	Number of shares	Share capital
Balance, December 31, 2019	23,916,128	$26,800,983
Issued pursuant to consulting agreements	20,161,622	4,347,279
Issued pursuant to business combinations and asset acquisitions	24,031,117	2,455,521
Balance, December 31, 2020	**68,108,867**	**33,603,783**
Issued pursuant to consulting agreements	2,960,926	1,021,520
Balance, March 31, 2021	**71,069,793**	**$34,625,303**

2021

On January 20, 2021, the Company issued 2,960,926 restricted voting shares under a consulting agreement with a third party. The shares had been recorded as shares to be issued totalling $1,021,520 at December 31, 2020. An equal amount was recorded as share based payments in the consolidated statement of loss and comprehensive loss for the year-ended December 31, 2020.

On February 8, 2021, pursuant to the closing of a non-brokered private placement offering of common shares, the Company issued 31,206,561 common shares at a price of $0.38 per share. The Company raised gross proceeds of $11,858,493 in connection with the offering.

29. Share capital, continued

Under a brand services agreement, Merida Capital Partners III QP LP ("Merida"), an unrelated third party, is entitled to share-based compensation with a maximum aggregate value of $2,000,000 U.S. in Company common shares based upon achievement of specific performance conditions. On February 10, 2021, the Company issued 1,153,546 common shares to Merida at $0.55 for the completion of a performance condition under the agreement.

2020

On February 5, 2020, the Company issued 2,340,266 restricted voting shares under a consulting agreement with a third party. The shares had been recorded as shares to be issued totaling $1,053,120 at December 31, 2019. An equal amount was recorded as share based payments in the consolidated statement of loss and comprehensive loss for the year-ended December 31, 2019.

On April 15, 2020, July 23, 2020, and October 16, 2020, the Company issued 4,458,582, 5,339,316, and 8,023,458 restricted voting shares under the same consulting agreement, respectively. $3,294,159 was recorded as share based payments in the interim condensed consolidated statement of income (loss) and comprehensive income (loss).

On December 1, 2020, the Company issued 4,359,481 common shares in connection with the conversion of Purple Note 2 as outlined in Note 30. The conversion of Purple Note 2 was recognized in share capital at its carrying amount of $1,289.544.

On December 2, 2020, pursuant to the closing of a private placement offering of common shares, the Company issued 18,518,517 common shares at a price of $0.27 per share. The Company raised gross proceeds of $5,000,000 and incurred issue costs of $19,209 in connection with the offering.

Shares issued for business combinations and asset acquisitions

On May 1, 2020, the Company issued 28,294,237 common shares at a fair value of $0.212 per share in connection with its Cultivate asset acquisition outlined in Note 5.

On October 2, 2020, the Company issued 23,531,117 restricted voting shares at a fair value of $0.10 per share in connection with its acquisition of LBA outlined in Note 4.

On December 22, 2020, the Company issued 500,000 restricted voting shares at a fair value of $0.23 per share in connection with its acquisition of Pleasant Valley Ranch outlined in Note 4.

On December 31, 2020, the Company recorded shares to be issued for 25,801,948 common shares which were estimated at $0.32 per share (based on quoted market price) and 38,702,922 restricted voting shares which were estimated at $0.227 per share as consideration for the ACG acquisition (Note 4). As at March 31, 2021, these shares remain in shares to be issued as the closing of this acquisition is subject to final regulatory approval.

(Prepared in Canadian dollars)

29. Share capital, continued

Share-based payments

On July 9, 2020, the Company issued 3,153,838 common shares to employees at a value of $520,383 to settle a bonus award for the services received for the year-ended December 31, 2019. The bonus award was accrued in fiscal year 2019.

On March 31, 2021, the Company accrued a bonus award of common shares to be issued to employees at a value of $144,087 for the services received for the three months ended March 31, 2021.

During 2017, the shareholders of the Company approved the stock option plan (the Plan). Stock options granted under the Plan (options) are equity settled, are non-transferable and will be exercisable for a period not to exceed ten years. Stock options vest evenly over the related service period between one to four years. Under the Plan the maximum number of shares of the Company that are reserved pursuant to the Plan is limited to 10% of all issued and outstanding common shares of the Company at any given time.

The following provides a summary of the status of the Plan as at March 31, 2021:

	Options	**Weighted average exercise price**
Balance outstanding, December 31, 2019	11,349,416	$1.11
Forfeited	(3,421,800)	1.32
Modified	(6,219,416)	1.19
Granted	12,814,662	0.15
Exercised	(100,000)	0.15
Balance outstanding, December 31, 2020	14,422,862	0.20
Forfeited	(30,000)	0.15
Granted	4,431,720	0.50
Exercised	(2,434,610)	0.14
Balance outstanding, March 31, 2021	**16,389,972**	**$0.29**

(Prepared in Canadian dollars)

29. Share capital, continued

Grant date	Expiry date	Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable
Nov 2, 2017	Nov 2, 2027	$0.05	1,000,000	0.40	875,000
Jul 6, 2018	Jul 6, 2023	$0.75	400,000	0.06	387,500
Jul 16, 2018	Jul 16, 2023	$0.75	100,000	0.01	100,000
Jan 28, 2019	Jan 28, 2024	$1.50	300,000	0.05	300,000
Nov 26, 2019	Nov 26, 2024	$0.49	400,000	0.09	100,000
Jul 7, 2020	Jul 7, 2022	$0.22	500,000	0.04	375,000
Aug 14, 2020	Jun 30, 2021	$0.15	100,000	0.00	100,000
Aug 14, 2020	Jul 6, 2023	$0.15	675,000	0.09	362,500
Aug 14, 2020	Jan 28, 2024	$0.15	2,163,528	0.37	1,113,014
Aug 14, 2020	Nov 26, 2024	$0.15	700,000	0.16	325,000
Aug 14, 2020	Aug 14, 2025	$0.15	1,460,000	0.39	-
Aug 14, 2020	Jan 22, 2029	$0.15	332,944	0.16	332,944
Aug 14, 2020	Aug 14, 2030	$0.15	3,136,780	1.79	1,829,788
Oct 1, 2020	Oct 1, 2025	$0.13	590,000	0.16	-
Oct 1, 2020	Jun 30, 2021	$0.13	100,000	0.00	100,000
Feb 2, 2021	Aug 2, 2023	$0.51	4,051,720	0.58	4,051,720
Mar 8, 2021	Mar 8, 2026	$0.46	380,000	0.11	-
			16,389,972	4.48	10,352,466

Of the options granted during the year ended December 31, 2020, 6,219,416 were modifications of stock options granted in prior years.

The options granted on November 2, 2017 vest over 4 years annually. In the three months ended March 31, 2021, 250,000 options were exercised at a price of $0.05. The options granted in July 2018 vest over the period between 1 and 4 years.

The fair value of each of the 2018 options was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: risk free interest rate: 1.57%; stock price: $0.56; volatility: 102%; Dividend yield: 0%; and expected life: four years.

In July 2020, the Company modified 675,000 options to reduce the exercise price to $0.15. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.29%; stock price: $0.15; volatility: 99%; Dividend yield: 0%; and expected life: 3 years. The incremental fair value of $32,665 will be recognized as an expense over the period from the modification date to the end of the vesting period. For the three months ended March 31, 2021, 150,000 options were exercised at a price of $0.15.

29. Share capital, continued

In July 2020, the Company modified an additional 785,000 options to reduce the exercise price to $0.15, to accelerate the vesting to modification date, and to amend the expiry date to February 14, 2021. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.28%; stock price: $0.15; volatility: 116%; Dividend yield: 0%; and expected life: 0.61 years. The incremental fair value of $37,889 was recognized as an expense on modification date as the options were fully vested. For the three months ended March 31, 2021, 335,000 options were exercised at a price of $0.15.

On January 22, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 3,332,360 options were granted which will vest over a period between 1 and 2 years. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%, stock price: $1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the three months ended March 31, 2021, no options were forfeited. In July 2020, the Company modified 332,944 options to reduce the exercise price to $0.15. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.51%; stock price: $0.15; volatility: 99%; Dividend yield: 0%; and expected life: 8.55 years. The incremental fair value of $11,575 was recognized as an expense on modification date as the options were fully vested.

In July 2020, the Company modified an additional 332,944 options to reduce the exercise price to $0.15 and to amend the expiry date to February 14, 2021. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.28%; stock price: $0.15; volatility: 116%; Dividend yield: 0%; and expected life: 0.61 years. The incremental fair value of $17,269 was recognized as an expense on modification date as the options were fully vested. All options were exercised at a price of $0.15 in the three months ended March 31, 2021.

On January 28, 2019 the Company approved the grant of options to various employees, advisors and contractors. 3,923,528 options were granted which will vest over a 4-year period and 700,000 options were granted which vest on a monthly basis over 1 year. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%; stock price: $1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the year ended December 31, 2020, 120,000 options were forfeited. Further, in July 2020, the Company modified 3,293,528 of these options in two tranches. In the first tranche, the Company modified 2,193,528 options to reduce the exercise price to $0.15. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.29%; stock price: $0.15; volatility: 99%; Dividend yield: 0%; and expected life: 3.56 years. The incremental fair value of $137,736 will be recognized as an expense over the period from modification date to the end of the vesting period. For the period ended March 31, 2021, 30,000 options were forfeited related to the first tranche. In the second tranche, the Company modified an additional 1,100,000 options to reduce the exercise price to $0.15, accelerate the vesting to modification date, and to amend the expiry date to February 14, 2021. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.28%; stock price: $0.15; volatility: 116%; Dividend yield: 0%; and expected life: 0.61 years. The incremental fair value of $57,053 was recognized as an expense on modification date as the options were fully vested. All options related to the second tranche were exercised at a price of $0.15 in the three months ended March 31, 2021.

29. Share capital, continued

On June 3, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 220,000 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.42%; stock price: $1.93; volatility: 97%; Dividend yield: 0%; and expected life: four years. During the three months ended March 31, 2021, no options were forfeited and no options from this grant remain outstanding.

On November 26, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 1,207,500 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.58%; stock price: $0.44; volatility: 100%; Dividend yield: 0%; and expected life: four years. During the three months ended March 31, 2021, no options were forfeited. Further, in July 2020, the Company modified 800,000 of these options in two tranches. In the first tranche, the Company modified 700,000 options to reduce the exercise price to $0.15. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.35%; stock price: $0.15; volatility: 99%; Dividend yield: 0%; and expected life: 4.39 years. The incremental fair value of $20,635 will be recognized as an expense over the period from modification date to the end of the vesting period. In the second tranche, the Company modified an additional 100,000 options to reduce the exercise price to $0.15, accelerate the vesting to modification date, and to amend the expiry date to February 14, 2021. The fair value of the modified options was determined using the same models and principles described previously, with the following model inputs: risk free interest rate: 0.28%; stock price: $0.15; volatility: 116%; Dividend yield: 0%; and expected life: 0.61 years. The incremental fair value of $4,221 was recognized as an expense on modification date as the options were fully vested. All options related to the second tranche were exercised at a price of $0.15 in the year ended December 31, 2020.

On July 7, 2020 the Company approved the grant of 500,000 options to a consultant, which will vest quarterly over a 12-month period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.28%; stock price: $0.15; volatility: 99%; Dividend yield: 0%; and expected life: two years. All options remain outstanding as of March 31, 2021.

On August 14, 2020 the Company approved the grant of 266,666 options to a director of the Company, which vested immediately. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.30%; stock price: $0.15; volatility: 122%; Dividend yield: 0%; and expected life: 0.50 years. All options were exercised at a price of $0.15 in the three months ended March 31, 2021.

On August 14, 2020 the Company approved the grant of options to various employees, advisors and contractors. A total of 1,560,000 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.42%; stock price: $0.15; volatility: 97%; Dividend yield: 0%; and expected life: 5 years. All options remain outstanding as of March 31, 2021.

29. Share capital, continued

On August 14, 2020 the Company approved the grant of options to various employees, advisors and contractors. A total of 3,578,580 options were granted which will vest monthly over a 12-month period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.61%; stock price: $0.15; volatility: 97%; Dividend yield: 0%; and expected life: 10 years. During the three months ended March 31, 2021, no options were forfeited.

On October 1, 2020 the Company approved the grant of options to various employees, advisors and contractors. A total of 590,000 options were granted which will vest over a 4-year period and 100,000 options were granted which vested immediately. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.35%; stock price: $0.14; volatility: 96%; Dividend yield: 0%; and expected life: 5 years. All options remain outstanding as of March 31, 2021.

On February 2, 2021, under a brand services agreement, Merida was granted 4,051,720 stock options, vesting immediately, with an exercise price of $0.505, expiring 30 months after the grant date. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.16%; stock price: $0.46; volatility: 94%; Dividend yield: 0%; and expected life: 2.5 years. All options remain outstanding as of March 31, 2021.

On March 8, 2021 the Company approved the grant of options to various employees, advisors and contractors. A total of 380,000 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 0.92%; stock price: $0.46; volatility: 95%; Dividend yield: 0%; and expected life: 5 years. All options remain outstanding as of March 31, 2021.

Compensation expense related to stock options is recognized over the years in which entitlement to the compensation vests. During the three months ended March 31, 2021, the Company recorded $1,223,655 in share-based payments in its interim condensed consolidated statement of income (loss) and comprehensive income (loss) (2020 - $650,084).

The expected volatility is based on the historical volatility of the Company and comparable companies, which may not necessarily be the actual outcome.

Restricted share units

On January 15, 2019, the Board approved the Company's restricted share unit plan (the RSU Plan). RSUs granted under the RSU Plan are equity settled and non-transferable. The maximum number of shares of the Company that are reserved pursuant to the RSU Plan is limited to 20,000,000 shares, provided that the aggregate number of shares available for issuance under this RSU Plan together with all other share compensation arrangements may not exceed 10% of all issued and outstanding common shares at any given time.

29. Share capital, continued

On January 22, 2019 and November 26, 2019, the Company provided key management personnel with Restricted Share Units ("RSU") to vest in equal annual amounts over a two-year period and contingent on continued employment at the Company. There was a total of 6,050,000 RSUs issued. During the year ended December 31, 2020, 4,175,000 of the RSUs vested. This resulted in the issuance of 2,982,529 common shares issued at a value of $3,582,494 during the year ended December 31, 2020, and the issuance of 500,000 common shares at a value of $220,000 during the three months ended March 31, 2021. An additional 625,000 of the RSUs vested during the three months ended March 31, 2021, resulting in the issuance of 485,518 common shares issued at a value of $477,233.

On August 31, 2020, the Company provided key management personnel with 2,250,000 RSUs to vest in equal annual amounts over a two-year period and contingent on continued employment at the Company. In addition, 3,750,000 RSUs were issued to those same personnel to vest equally in 5 tranches with a vesting schedule based entirely on the attainment of both operational milestones (performance conditions) and market conditions.

As of December 31, 2020, 1/5 of the RSUs vested upon achievement of a performance milestone whereby the Company finalized the acquisitions of i) Pleasant Valley Ranch LLC and ii) LBA Global LLC. This resulted in the issuance of 391,629 common shares issued in January 2021 at a value of $Nil.

As of March 31, 2021, an additional 1/5 of the RSUs vested upon achievement of a performance milestone whereby the Company was able to i) maintain an average market capitalization in excess of $80,000,000 over a period of thirty (30) trading days and, ii) maintain an average share price that is at least 50% higher than the share price on the award date over a period of thirty (30) trading days. This resulted in the issuance of 470,236 common shares issued at a value of $12,337.

On August 31, 2020, the Company issued 1,800,000 RSUs to a consultant of the Company. The RSUs vest over a period of one-year from grant date.

On December 31, 2020, the Company provided key management personnel with 4,111,679 RSUs to vest one-year from grant date, contingent on continued employment at the Company.

On March 8, 2021, the Company provided employees with 250,000 RSUs to vest in equal amounts over a two-year period, contingent on continued employment at the Company.

During the three months ended March 31, 2021, the Company recorded a share-based payments expense of $590,088 for the RSUs in its interim condensed consolidated statement of income (loss) and comprehensive income (loss) (2020 - $627,016), based on the vesting period and fair values ranging from $0.13 to $1.50 per share. Fair values are determined by the Company's share price on the RSU grant date.

(Prepared in Canadian dollars)

29. Share capital, continued

Agents' options and compensation warrants

Warrant continuity

	Number of warrants	Total
Outstanding - December 31, 2019	60,289,548	$15,736,929
Warrants expired	(270,461)	(145,968)
Outstanding - December 31, 2020	**60,019,087**	**15,590,961**
Warrants expired	(25,178,879)	(8,396,189)
Outstanding - March 31, 2021	**34,840,208**	**$7,194,772**

During the year ended December 31, 2018, the Company issued 3,275,000 units of share purchase warrants to XIB Consulting Inc. in exchange of services. The warrants can be exercised at a price of $0.75 per share until the date on the later of (i) September 30, 2020; or (ii) the date that is 24 months from the date of a Liquidity Event. During the three months ended March 31, 2021, the warrants were expired unexercised.

On September 26, 2018, pursuant to the terms of an agency agreement as between the Company and the Agents ("Agency Agreement"), the Company issued 1,465,448 broker warrants and 974,467 corporate finance warrants (together "Compensation Options"). Each compensation option will entitle the holder to acquire one unit at the subscription price of $1.50 for the period of 24 months from the listing date as defined in the Agency Agreement. Each compensation option will be comprised of one common share ("compensation share") and one half of one common share purchase warrant (each whole common share purchase warrant, a "compensation warrant"). Each compensation warrant entitles the holder to acquire one common share ("compensation warrant share") at an exercise price of $2.25 per warrant for the period of 24 months following the listing date. During the three months ended March 31, 2021, 2,430,721 compensation options and 4,597 compensation warrants expired unexercised. No compensation options or compensation warrants remain outstanding at March 31, 2021.

On January 29, 2019, pursuant to an advisory services agreement, PowerOne Management & Advisory Services Limited agreed to provide corporate and financial advisory services to the Company in exchange for 439,985 compensation options with the same terms as those issued under the September 26, 2018 Agency Agreement, above. During the three months ended March 31, 2021, these compensation options expired unexercised.

On September 26, 2018, Subscription Receipts were sold at a price of $1.50 per Subscription Receipt. Each receipt entitles the holder to receive one unit of the Company upon satisfaction of the escrow requirements. Each Subscription Receipt entitles the holder thereof to receive, upon satisfaction or waiver of the escrow release conditions prior to the escrow release deadline and without payment of additional consideration or further action, one unit (the "Unit") of the Company.

29. Share capital, continued

Each Unit is comprised of one common share in the capital of the Company (a "Underlying Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share of the Company (each, a "Warrant Share") at an exercise price of $2.25 for a period of twenty-four (24) months from the date the common shares of the Company are listed for trading on the Canadian Securities Exchange. The warrants will be subject to an accelerated expiry in the event that the closing price of the common shares of the Company is above $3.50 for ten (10) consecutive trading days. In April 2019, 100,000 warrants were exercised for proceeds totaling $225,000.

On September 26, 2018, the Company closed the Subscription Receipt Offering and issued 43,998,590 Subscription Receipts for total gross proceeds to the Company of approximately $65,997,885 (net $63,929,156 after agents' fees paid in cash and net $59,041,705 after closing costs and agents' fees paid in cash and compensation options and to be paid in cash).

Each Subscription Receipt was automatically converted, without payment of any additional consideration and without any further action by the holder and subject to adjustment, for one Common Share and one-half of one Warrant on the satisfaction of the following escrow release conditions (the "Escrow Release Conditions"):

- (i) the Company obtaining a receipt for the prospectus from the securities' regulatory authorities in each of the Qualifying Provinces;
- (ii) the satisfaction or waiver of all conditions' precedent to completion of:
  - i. the NCG Acquisition; and
  - ii. the NWT Acquisition, other than the closing of such transactions, each of which closing will be completed forthwith upon release of the Escrowed Funds and in each case in accordance with the definitive agreement governing such transactions, to the satisfaction of the Lead Agent;
- (iii) the receipt of all required shareholder and regulatory approvals in connection with the Liquidity Event, including, without limitation, the conditional approval of the CSE for the listing of the Company's Common Shares and the relevant listing documents having been accepted for filing with the CSE; and
- (iv) the Company and the Lead Agent having delivered a joint notice and direction to Odyssey, confirming that the conditions set forth in (i) to (iii) above have been met or waived.

The Escrow Release Conditions were satisfied on January 29, 2019 and the Subscription Receipts were converted into Underlying Shares and Underlying Warrants. During the three months ended March 31, 2021, these warrants expired unexercised.

(Prepared in Canadian dollars)

30. Financing cost and fair value adjustment

The Company's financing cost and fair value adjustment for the three months ended March 31, 2021 and 2020 was as follows:

	2021	2020
Fair value adjustment on derivative liabilities (Note 28)	**$953,046**	$(2,733,164)
Accretion on lease liabilities (Note 25)	**170,381**	88,947
Accretion expense (Note 23 & 28)	**113,573**	92,364
Interest on convertible notes (Note 28)	**23,473**	24,352
Other interest expense	**88,566**	18,686
Foreign currency exchange loss (gain)	**(26,956)**	53,707
Fair value adjustment on option asset and liability (Note 20)	**-**	(25,336,838)
	$1,322,083	$(27,791,946)

31. Expenses by nature

Expenses are presented on the face of the interim condensed consolidated statement of income (loss) and comprehensive income (loss) using a classification based on the functions "Cost of goods sold", "Advertising and marketing", and "General and administrative". The Company also presents other material operating expenses separately as they were deemed to be items of dissimilar function. Included within cost of goods sold for the three months ended March 31, 2021 were direct production staff costs amounting to $804,706 (2020 - $4,208) and depreciation and amortization charges amounting to $228,248 (2020 - $27,623).

The Company's general and administrative expenses for the three months ended March 31, 2021 & 2020 were as follows:

	2021	2020
Office and general	**$472,882**	$1,051,104
Software and subscriptions	**177,480**	204,394
Rent and variable lease payments	**77,412**	66,481
Product development	**10,978**	23,006
	$738,752	$1,344,985

The comparative figures have been presented in these interim condensed consolidated financial statements to conform to the current period accounting presentation. This resulted in insurance expense being presented separate from general and administrative expenses.

(Prepared in Canadian dollars)

32. Related party transactions

The Company routinely conducts business with GNT, and prior to the acquisition of ACG, the Company routinely conducted business with ACG. GNT and ACG have common management with the Company and are considered to be related parties because management has the ability to direct the activities of the entities. GNT and ACG operate labs that manufacture branded cannabis products to be sold to dispensaries in the state of Oregon and Colorado, respectively. NCG provides all packaging and marketing materials for their operations.

The Company's product and licensing revenue from GNT (2020 – ACG and GNT) for the three months ended March 31, 2021 and 2020 were as follows:

	2021	2020
GNT	**$281,161**	$347,746
ACG	**-**	1,224,364
	$281,161	$1,572,110

Additionally, the Company made purchases of inventory from GNT amounting to $629,449.

GNT accounted for approximately 3% of the Company's revenue respectively for the three months ended March 31, 2021 (2020 – ACG – 26%; GNT – 7%).

As of March 31, 2021, the Company held accounts receivable balances (net of provision) with GNT for sale of merchandise of approximately $902,389. This balance was included in accounts receivable.

In addition to the transactions listed above, below is a summary of the significant related party relationships of the Company summarized elsewhere in the interim condensed consolidated financial statements:

NSH, a company under common management, with transactions discussed in Notes 11, 12, 24, and 27.

GNT, a company under common management, with transactions discussed in Note 14.

The Purple Company, a company controlled by the Company's former CEO, with transactions discussed in Notes 28.

Key Management Compensation

Key management compensation includes the Company's directors and members of the executive team. Key management compensation for the three months ended March 31, 2021 and 2020 is detailed below.

Type of expense	**2021**	2020
Management compensation and directors' expense	**$319,462**	$618,803
Restricted share unit compensation expense	**584,653**	585,879
Stock-based compensation expense	**144,004**	391,613
	$1,048,119	$1,596,295

32. Related party transactions, continued

Management compensation and directors' expense are included in salaries and wages and consulting and subcontractors expense, and restricted share unit and stock-based compensation expense are included in share-based payments in the interim condensed consolidated statement of income (loss) and comprehensive income (loss).

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33. Commitments

On July 9, 2018, the Company entered into a rights agreement with GHNA (a company partially owned by the Company’s former CEO), pursuant to which the Company has the right to license certain intellectual property of GHNA for use in certain territories. The Company and GHNA agreed on a future revenue share model based on a 60/40 split in favor of the Company, but subject to adjustment based on market conditions and potential opportunity for a particular territory. In consideration of the grant of rights, the Company entered a loan with GHNA for US$2,000,000 (CAD $2,728,400) and issued 10,000,000 common shares at estimated price of $0.56 per share. Terms of the cash due is non-interest bearing and due July 9, 2021, repayable at any time (Note 23).

On July 11, 2018, the Company entered into a letter of intent with Agripharm, a company with a common management team as the Company, pursuant to which the Company agreed to license certain intellectual property to Agripharm. Refer to Note 26.

The Greenleaf Operating Agreement has a cash-call clause, which requires members to contribute additional capital to Greenleaf from time-to-time relative to their respective membership interests (Note 12f). Management estimates that no significant cash-call will be required within the next 12 months.

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34. Segmented information

Operating Segment

The Company operates under one operating segment being the cultivation, production and sale of branded cannabis products.

Geographical Information

The Company operates in two geographical locations: Canada and the USA. The following tables present the Company's revenues for the three months ended March 31, 2021 and 2020, and non-current assets by location on March 31, 2021 and December 31, 2020.

(Prepared in Canadian dollars)

34. Segmented information, continued

	2021	2020
Revenue		
Canada	**$222,295**	$387,616
USA	**9,700,759**	4,302,669
	$9,923,054	$4,690,285

Non-current assets	**March 31, 2021**	December 31, 2020
Canada	**$28,579,818**	$33,500,163
USA	**53,037,632**	55,529,045
	$81,617,450	$89,029,208

35. Financial instruments and capital management

Fair value

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

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

The table below summarizes the assets and liabilities that are included at their fair values in the Company's interim condensed consolidated statement of financial position as at March 31, 2021 and December 31, 2020. These assets and liabilities have been categorized into hierarchical levels, according to the reliability of the inputs used in determining fair value measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices
Represents unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – significant other observable inputs
Includes directly or indirectly observable inputs, other than quoted prices for identical instruments exchanged in active markets.

Level 3 – significant unobservable inputs
Includes inputs that are not based on observable market data.

35. Financial instruments and capital management, continued

			As at March 31, 2021	
	Level 1	Level 2	Level 3	**Total**
Cash	$12,399,684	$-	$-	**$12,399,684**
Investments	-	-	533,333	**533,333**
Option asset	-	-	-	**-**
Derivative liability	-	-	(3,088,231)	**(3,088,231)**
	$12,399,684	$-	$(2,554,898)	**$9,844,786**

			As at December 31, 2020	
	Level 1	Level 2	Level 3	**Total**
Cash	$6,476,873	$-	$-	**$6,476,873**
Funds held in trust	131,705	-	-	**131,705**
Investments	-	-	533,333	**533,333**
Option asset	-	-	-	**-**
Derivative liability	-	-	(2,135,184)	**(2,135,184)**
	$6,608,578	$-	$(1,601,851)	**$5,006,727**

Foreign currency risk

The operating results and financial position of the Company are reported in CAD. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks. The Company holds cash in US dollars. The Company's main risk is associated with fluctuations in the US dollar. Assets and liabilities are translated based on the foreign currency translation policy described in Note 3. As at March 31, 2021 and December 31, 2020, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. The Company has estimated that the effect of a 10% increase or decrease in the US dollar against the Company's functional currency (CAD) on the financial assets and liabilities, as at March 31, 2021, including cash, investments, notes receivable, accounts payable and loan payable would result in an increase or decrease of approximately $1,319,000 (2020 - $1,006,000) in the net loss for the three months ended March 31, 2021.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk exposure is minimal because interest rates on notes receivable, notes payable, loan payable and amounts due to and from related parties are fixed.

(Prepared in Canadian dollars)

35. Financial instruments and capital management, continued

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company typically settles its financial obligations in cash. The ability to settle obligations in cash is dependent on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at March 31, 2021, the Company had a cash balance of $12,399,684 (2020 - $6,476,873) and current liabilities of $14,734,119 (2020 - $17,842,729). All of the Company's current liabilities are expected to be settled within the next 12 months.

In addition to the commitments outlined in Note 33, the Company has the following estimated future contractual payment obligations, excluding interest payments, as of March 31, 2021:

	< 1 year	1 to 2 years	3 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	$6,097,812	$-	$-	$-	$6,097,812
Loan payable	$2,515,000		$-	$-	$2,515,000
Notes payable	$1,357,678	$350,609	$262,298	$-	$1,970,585
Lease liabilities	$956,641	$937,935	$2,622,191	$1,963,919	$6,480,686
Due to related parties	$3,503,208	$-	$-	$-	$3,503,208
Convertible debenture	$-	$2,317,611	$-	$-	$2,317,611

Credit risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, accounts receivable, other receivables and notes receivable. The carrying amounts for these financial assets represent their maximum credit exposure to the Company. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As of March 31, 2021, the overdue accounts receivable balance, net of provision, is $2,002,873 (2020 - $1,400,914). The Company believes that the balance is collectable and that no additional allowance is required.

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

35. Financial instruments and capital management, continued

Management of capital

The Company's objective of managing capital, comprising shareholders' equity of $73,236,292, is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. With approval from the board of directors, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and the Company's strategy with respect to capital risk management has not changed since the year ended December 31, 2020.

36. Subsequent events

The Company performed a review of events subsequent to the balance sheet date through the date the interim condensed consolidated financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.