

Vext Science, Inc.

(formerly Vapen MJ Ventures Corporation)

Condensed Interim Consolidated Financial Statements

June 30, 2020 and 2019

(Expressed in U.S. Dollars)

(Unaudited)

Vext Science, Inc.
(formerly Vapen MJ Ventures Corporation)

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VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in U.S. Dollars) (Unaudited)

	Notes	June 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		\$ 3,365,592	\$ 7,292,261
Accounts receivable	4	17,150,507	15,548,015
Inventory	5	309,866	-
Prepaid expenses, deposits, and other receivables	6	1,063,304	303,402
Notes receivable – current	7	302,284	1,130,587
Advances to joint ventures and operation	9	86,271	440,830
Investment in sublease – current	15	134,392	122,027
		<u>22,412,216</u>	<u>24,837,122</u>
Non-current assets			
Notes receivable	7	2,252,442	2,020,182
Investment	8	519,838	350,000
Property, plant and equipment	12	11,405,274	8,526,628
Investment in sublease – non-current	15	507,325	576,887
Investment in Joint Ventures and Operation	10	1,445,724	-
Right-of-use asset	15	273,126	287,890
Due from related parties	17	2,181,785	2,181,785
Intangible assets	23	7,936,000	-
Goodwill	23	461,752	-
		<u>49,225,644</u>	<u>38,780,494</u>
Total Assets		\$ 49,225,644	\$ 38,780,494
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables and accrued liabilities	13, 17	\$ 2,417,097	\$ 1,068,635
Due to Legacy Ventures Hawaii, LLC	8	57,479	203,000
Notes payable – current portion	14, 17	2,476,820	920,414
Lease liability – current portion	15	145,729	132,654
Income tax payable		45,728	45,728
		<u>5,142,853</u>	<u>2,370,431</u>
Total current liabilities		5,142,853	2,370,431
Long-term liabilities			
Notes payable – non-current portion	14, 17	5,735,019	98,894
Lease liability – non-current portion	15	783,091	858,504
Long term loan payable	16	5,342,138	5,280,467
Deferred tax liabilities		4,499,000	4,499,000
		<u>21,502,101</u>	<u>13,107,296</u>
Total liabilities		21,502,101	13,107,296
Shareholders' equity			
Subordinated and multiple voting shares	18	11,531,687	9,597,465
Reserves	18	1,283,113	733,781
Accumulated other comprehensive income		32,152	50,738
Retained earnings		14,876,591	15,291,214
		<u>27,723,543</u>	<u>25,673,198</u>
Total shareholders' equity		27,723,543	25,673,198
Total liabilities and shareholders' equity		\$ 49,225,644	\$ 38,780,494

Nature of operations and going concern (Note 1)

Approved on August 31, 2020 on behalf of the Board of Directors:

“Jason T. Nguyen”, Director

“Eric J. Offenberger”, Director

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

VEXT SCIENCE, INC.
(formerly Vapen MJ Ventures Corporation)
Condensed Interim Consolidated Statements of Operations and Comprehensive Income
(Expressed in U.S. Dollars) (Unaudited)

	Notes	For the Three Months Ended		For the Six Months Ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
REVENUES					
Management fees		\$1,100,000	\$ 1,200,000	\$1,700,000	\$ 2,400,000
Professional services		2,277,818	1,794,628	3,680,657	3,274,246
Product sales		3,035,185	3,268,566	5,040,270	6,497,454
Equipment leasing		200,861	193,581	221,613	545,003
Property leasing	15	122,859	240,000	190,281	480,000
		6,736,723	6,696,775	10,832,821	13,196,703
COST OF SALES					
Cost of goods sold		2,070,588	1,893,090	3,564,873	3,618,755
Salaries, wages, and contractors	17	1,722,377	1,515,906	2,882,648	2,919,476
Property and equipment leasing, utilities, and property taxes	15	31,082	20,268	54,718	41,182
Amortization	12	368,684	187,411	580,799	365,785
		(4,192,731)	(3,616,675)	(7,083,038)	(6,945,198)
Gross Profit		2,543,992	3,080,100	3,749,783	6,251,505
OPERATING EXPENSES					
Advertising and promotion		152,631	372,517	270,128	564,977
Amortization	12, 15	57,340	34,755	114,323	68,987
Bank charges and interest	15, 16	177,040	16,085	359,552	35,789
Consulting fees	17	49,896	57,842	330,487	82,050
Insurance		10,186	22,723	16,774	48,907
Office and general		222,975	210,632	1,019,630	275,229
Professional fees		103,081	253,238	367,247	425,700
Rent, property taxes, and utilities	15	8,148	48,531	35,217	70,307
Repairs and maintenance		167,672	162,702	187,624	244,462
Research and development		38,728	8,897	68,826	45,459
Share-based compensation	17	461,926	122,060	549,332	189,453
Salaries, wages, and commissions	17	200,000	113,484	530,590	234,155
Travel, training, and meals and entertainment		48,955	144,730	159,776	266,400
		(1,698,578)	(1,568,196)	(4,009,506)	(2,551,875)
Share of profit (loss) of Joint Ventures	10	(253,908)	-	(316,428)	-
Loss on asset disposal		-	-	(766)	-
Foreign exchange gain		(132,616)	-	(6,269)	-
Interest income		97,508	-	168,564	-
Net income (loss) before taxes		556,398	1,511,904	(414,622)	3,699,630
Income tax expense		-	(332,842)	-	(859,151)
Net income (loss) after taxes		\$ 556,397	\$ 1,179,062	\$ (414,622)	\$ 2,840,479
Unrealized gain on foreign exchange translation		(363,379)	26,619	(18,585)	31,743
Total comprehensive income (loss)		\$ 193,019	\$ 1,205,681	\$ (433,207)	\$ 2,872,222
Basic earnings (loss) per common shares		\$ 0.01	\$ 0.02	\$ (0.00)	\$ 0.04
Diluted earnings (loss) per common shares		\$ 0.01	\$ 0.02	\$ (0.00)	\$ 0.04
Weighted average number of common share outstanding - basic		89,811,678	77,493,635	84,363,326	75,783,648
Weighted average number of common share outstanding - diluted		89,811,678	77,493,635	84,363,326	75,783,648

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

VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Share Capital				Number of special warrants	Special warrants	Subscriptions receivable – special warrants	Subscriptions receivable – subordinated voting shares	Reserves: compensatory warrants	Reserves: stock options	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	Number of subordinated voting shares	Amount: subordinated voting shares	Number of multiple voting shares	Amount: multiple voting shares									
Balance at December 31, 2018	11,525,961	\$4,150,332	625,287	\$ 19	1,000,000	\$ -	\$ 183,250	\$ 50,000	\$ 89,628	\$ -	\$ 4,091	\$ 12,523,255	\$ 17,000,575
Payment of special warrants	-	-	-	-	-	183,250	(183,250)	-	-	-	-	-	-
Issuance of shares	-	50,000	-	-	-	-	-	(50,000)	-	-	-	-	-
Private placement	6,148,665	4,585,134	-	-	-	-	-	-	-	-	-	-	4,585,134
Conversion of special warrants	1,000,000	183,250	-	-	(1,000,000)	(183,250)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	-	-	189,453	-	-	189,453
Cumulative catch-up adjustment of recognition of right-of-use assets	-	-	-	-	-	-	-	-	-	-	-	(240,701)	(240,701)
Other comprehensive income for the Period	-	-	-	-	-	-	-	-	-	-	31,743	-	31,743
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	2,840,479	2,840,479
Balance at June 30, 2019	18,674,626	\$8,968,716	625,287	\$ 19	-	\$ -	\$ -	\$ -	\$ 89,628	\$ 189,453	\$ 35,834	\$ 15,123,033	\$ 24,406,883
Balance at December 31, 2019	21,834,626	\$ 9,597,446	625,287	\$ 19	-	\$ -	\$ -	\$ -	\$ 552,742	\$ 181,039	\$ 50,738	\$ 15,291,214	\$ 25,673,198
Conversion of multiple voting shares to subordinated voting shares	781,600	-	(7,816)	-	-	-	-	-	-	-	-	-	-
Shares issued to acquire RDF Management, LLC & Firebrand, LLC	-	-	67,000	1,934,222	-	-	-	-	-	-	-	-	1,934,222
Shares-based compensation	-	-	-	-	-	-	-	-	121,700	427,632	-	-	549,332
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	(18,586)	-	(18,586)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	(414,623)	(414,623)
Balance at June 30, 2020	22,616,226	\$ 9,597,446	684,471	\$ 1,934,241	-	\$ -	\$ -	\$ -	\$ 674,442	\$ 608,671	\$ 32,152	\$ 14,876,591	\$ 27,723,543

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

VEXT SCIENCE, INC
(formerly Vapen MJ Ventures Corporation)
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars) (Unaudited)

	Six months ended June 30, 2020	Six months ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (414,622)	\$ 2,840,479
Items not affecting cash:		
Amortization	709,886	434,772
Accretion and interest on leases and debt	393,115	29,933
Finance income on subleases	(43,939)	-
Deferred tax liabilities	-	775,560
Share-based compensation	549,332	189,453
Foreign exchange	(8,403)	31,743
Loss on asset disposal	766	-
Share of loss of Joint Ventures	316,428	-
Non-cash working capital item changes:		
Accounts receivable	(1,602,492)	(4,829,833)
Inventory	(309,866)	73,973
Prepaid expenses, deposits and other receivables	(757,402)	(1,245,454)
Payables and accrued liabilities	764,144	43,293
Income tax payable	-	(444,207)
Subscription receivable	-	183,250
Net cash (used in) provided by operating activities	<u>(403,053)</u>	<u>(1,917,038)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from Acquisition	2,744	-
Cash paid for Acquisition	(474,119)	-
Investment	(145,521)	-
Investment in Joint Ventures	(403,233)	-
Acquisition of property, plant and equipment	(2,053,534)	(589,591)
Net cash used in investing activities	<u>(3,073,663)</u>	<u>(589,591)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes receivable	596,043	-
Advances to joint ventures	(1,004,360)	-
Private placement	-	4,585,134
(Repayment) issuance of notes payable	(17,636)	(228,804)
Lease payments made	(125,136)	(77,700)
Sublease payments received	101,136	-
Subscription received	-	50,000
Net cash provided by financing activities	<u>(449,953)</u>	<u>4,328,630</u>
Net change in cash during the period	(3,926,669)	1,822,001
Cash, beginning of the period	7,292,261	3,393,567
Cash, end of the period	\$ 3,365,592	\$ 5,215,568
Cash paid for		
Interest	\$ 59,868	\$ 65,729
Taxes	\$ -	\$ 527,744
Non-cash investing and financing activities		
Shares issued in acquisition of RDF Management, LLC & Firebrand, LLC	\$ 1,934,222	\$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Vext Science, Inc. (formerly Vapen MJ Ventures Corporation) (the “Company”) provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical cannabis field. The head office and principal address of the Company is located at Suite 2250 – 1055 W. Hastings St., Vancouver, BC V6E 2E9 and the U.S. headquarters is at 4152 N. 39th Ave, Phoenix, Arizona 85019. On December 31, 2018, the Company changed its name from Fabula Exploration Inc. to Calyx Growth Corporation. On March 25, 2019, the Company changed its name from Calyx Growth Corporation to Vapen MJ Ventures Corporation. On November 12, 2019, the Company changed its name from Vapen MJ Ventures Corporation to Vext Science, Inc.

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent upon the Company’s ability to continue to earn adequate revenues from operations, and to raise adequate financing. The Company intends to finance its future requirements through continued operations.

As at June 30, 2020, the Company had working capital of \$17,269,364 and retained earnings of \$14,876,591. There is uncertainty as the likely effects of the novel coronavirus (“COVID-19”) outbreak which may, among other things, impact the Company’s operations and ability to raise further financing. Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

These condensed consolidated interim financial statements do not reflect any adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ using accounting policies consistent with the IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These interim financial statements follow the same accounting policies and methods of applications as the Company’s most recent audited annual consolidated financial statements. These interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Company’s December 31, 2019 audited annual consolidated financial statements.

b) Basis of Preparation

These interim financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss, and are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The interim financial statements, unless otherwise specified, are presented in United States (“U.S.”) dollars.

2. BASIS OF PRESENTATION (CONTINUED...)

c) Basis of Consolidation

The interim financial statements include consolidated accounts of the Company and its subsidiaries, including its economic interest in joint ventures. Subsidiaries are those entities that the Company controls. The Company controls an entity when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Entities of the Company are listed below.

Name	Jurisdiction	Ownership
Vext Science, Inc.	BC, Canada	100%
New Gen Holdings, Inc.	Wyoming, USA	100%
Step 1 Consulting, LLC	Arizona, USA	100%
New Gen Admin Services, LLC	Arizona, USA	100%
New Gen Agricultural Services, LLC	Arizona, USA	100%
New Gen Real Estate Services, LLC	Arizona, USA	100%
Hydroponics Solutions, LLC	Arizona, USA	100%
X-Tane, LLC	Arizona, USA	100%
Pure Touch Botanicals, LLC	Arizona, USA	100%
Vapen, LLC	Arizona, USA	100%
Vapen CBD, LLC	Arizona, USA	100%
RDF Management, LLC	Arizona, USA	100%
Firebrand, LLC	Arizona, USA	100%
Joint Ventures:		
Vapen Kentucky, LLC	Kentucky, USA	50%
Vapen-Oklahoma, LLC	Oklahoma, USA	25%
Vapen Mass, LLC	Massachusetts, USA	50%

d) Reclassification

Certain prior year amounts have been reclassified to conform with current year's presentation.

e) Approval of the Condensed Consolidated Interim Financial Statements

These interim financial statements for the six months ended June 30, 2020 and 2019 were approved and authorized for issue by the Board of Directors on August 31, 2020.

2. BASIS OF PRESENTATION (*CONTINUED...*)

e) Significant Accounting Judgements and Estimates

The preparation of the Company's condensed interim consolidated financial statements is in conformity with IFRS, which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported revenues and expenses during the reporting period.

Critical Judgements

The preparation of these interim financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as the determination of functional currency, and its classification of joint arrangements. The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. Management has determined that the functional currency of the parent is the Canadian dollar, while the functional currency of the subsidiaries has been determined to be the U.S. dollar.

Joint Arrangements

As at June 30, 2020, the Company holds a 50% interest in two separate joint arrangements and a 25% interest in a joint arrangement. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Company's joint arrangements are structured as a limited liability corporation and provide the Company and its partners (parties to the agreements) with rights to the net assets of the limited liability corporations under the arrangements. Therefore, these arrangements are classified as joint ventures.

Furthermore, the Company holds nil interest in a joint arrangement, but has equal joint control in a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement on a proportionate basis. Those parties are called joint operators. None of the parties involved have unilateral control of a joint operation. The Company accounts for its interest in joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. This assessment is to be performed on a continuous basis.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of these condensed consolidated interim financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

2. BASIS OF PRESENTATION (*CONTINUED...*)

Significant estimates made by management affecting these condensed consolidated interim financial statements include:

Allowance for Doubtful Accounts

The Company estimates the amount of accounts receivable that may not be collectable and will allow for a write down of such amounts. Management uses historical information on the recoverability of accounts receivable and also looks at specific account balances in determining the allowance.

Inventory Obsolescence

The Company estimates the amount of inventory on hand that may not be recoverable and will allow for a write down of such amounts.

Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful management of cannabis operations. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Useful Life of Property, Plant and Equipment

Property, plant and equipment are amortized over its estimated useful life. Estimated useful lives are determined based on current facts and past management experience and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

Share-Based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

2. BASIS OF PRESENTATION (CONTINUED...)

COVID-19

Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge about COVID-19 and additional actions which may be taken to contain it. Such developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow, and exposure to credit risk. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies and methods of application as the most recent audited annual consolidated financial statements of the Company. These condensed interim consolidated financial statements do not contain all of the information required for full annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Company's December 31, 2019 annual consolidated financial statements.

Standards newly adopted or issued but not effective

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consists of the following:

	June 30, 2020	December 31, 2019
Accounts receivable (Notes 17, 21)	\$ 16,899,731	\$ 15,374,508
Unbilled professional services	228,985	155,984
GST input tax credits	21,791	17,523
	\$ 17,150,507	\$ 15,548,015

5. INVENTORY

Inventory consists of carts used for CBD inhalers. There was a \$86,271 adjustment to X-Tane inventory during the year ended December 31, 2019, to write down the value of unsalable inventory.

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Notes to Condensed Interim Consolidated Financial Statements
June 30, 2020
(Expressed in U.S. Dollars) (Unaudited)

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

The Company's prepaid deposits and other receivables consist of the following:

	June 30, 2020	December 31, 2019
Vendor deposits	\$ 321,505	\$ 226,314
Prepaid expense	23,036	71,046
Advances Appalachian Pharm Processing, LLC ⁽¹⁾	653,147	5,392
Interest receivable	53,322	-
Employee advances	12,294	650
	\$ 1,063,304	\$ 303,402

- ⁽¹⁾ On March 30, 2020, the Company entered into a loan agreement with Appalachian Pharm Processing, LLC ("APP"), an Ohio limited liability company. The Company agreed to advance APP the aggregate principal sum of \$500,000 in two equal installments of \$250,000 each for the exclusive purpose of acquiring biomass for the manufacturing and production of cannabis products as well as associated expenses related to this. During the period ended June 30, 2020, the Company further loaned APP \$154,147 with the same terms as the loan agreement.

7. NOTE RECEIVABLE

As at June 30, 2020, the Company's notes receivables consist of the following:

	Current	Non-current	Total
Due from Herbal Wellness Centre Inc. ("HWC"), incurring interest at 10% per annum, on December 31, 2022 ^{(1) (2)}	\$ 93,434	\$ 2,252,442	\$ 2,345,876
Due from an arm's length party, accruing interest at 10% per annum, and due on demand	130,000	-	130,000
Due from Organica Patient Group, Inc. This amount is non-interest bearing, and due on demand (Note 23)	78,850	-	78,850
	\$ 302,284	\$ 2,252,442	\$ 2,554,726

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Notes to Condensed Interim Consolidated Financial Statements
June 30, 2020
(Expressed in U.S. Dollars) (Unaudited)

7. NOTE RECEIVABLE (CONTINUED...)

As at December 31, 2019, the Company's notes receivables consist of the following:

	Current	Non-current	Total
Due from Herbal Wellness Centre Inc. ("HWC"), incurring interest at 10% per annum, on December 31, 2022 ⁽¹⁾	\$ 913,775	\$ 2,020,182	\$ 2,933,957
Due from an arm's length party, accruing interest at 10% per annum, and due on demand	137,962	-	137,962
Due from Organica Patient Group, Inc. This amount is non-interest bearing, and due on demand (Note 23)	78,850	-	78,850
	\$ 1,130,587	\$ 2,020,182	\$ 3,150,769

⁽¹⁾ On December 31, 2019, the Company and HWC entered into a promissory note, whereby \$2,933,957 was re-classified from accounts receivable into an interest-bearing note. The note bears an interest rate of 10% per annum, beginning on January 1, 2020, and is payable as follows: \$913,775, as well as accrued interest due on or before December 31, 2020; \$1,000,779 as well as accrued interest due on or before December 31, 2021; and

⁽²⁾ As at June 30, 2020, \$232,259 was drawn by HWC from a line of credit secured promissory note (Note 11).

8. INVESTMENT

On August 2, 2019, the Company entered into Restricted Unit Grant Agreement with Legacy Ventures Hawaii, LLC ("Legacy"), whereby the Company subscribed for 350,000 units of Legacy for \$350,000. As at June 30, 2020, the Company had paid \$292,521, with the remaining \$57,478 still owing. As a result of this subscription, as at June 30, 2020, the Company had a 12.28% interest in Legacy.

In addition to the 350,000 units subscribed for above, the Company will be granted an additional 350,000 units for services to be provided by the Company to Legacy. 175,000 of these units will be issued in the fiscal year ending December 31, 2020, with the remaining 175,000 to be issued during the year ended December 31, 2021.

9. ADVANCES TO JOINT VENTURES AND OPERATION

At December 31, 2019 the Company held 50% membership interest in Vapen 501 Lab, LLC (“Vapen 501”).

During the period ended June 30, 2020, the Company became 50% member to Vapen Kentucky, LLC (“Vapen KY”), 25% member to Vapen Oklahoma, LLC (“Vapen OK”), and 50% voting rights to Happy Travels, LLC (“Happy Travels”). Refer to Note 10 for further details.

The Company advanced the following amounts to the above joint ventures and operation:

	June 30, 2020	December 31, 2019
Vapen 501	\$ 56,271	\$ 250,000
Vapen KY	-	5,250
Vapen OK	-	185,580
Happy Travels	30,000	-
	\$ 86,271	\$ 440,830

10. JOINT ARRANGEMENTS

Vapen Kentucky, LLC

On February 1, 2020, an operating agreement of Vapen Kentucky, LLC (“Vapen KY”) was signed for the purpose of being engaged in commercial hemp processing, manufacturing, extraction, and distribution activities. The Company holds 50% membership ownership of Vapen KY with Emerald Pointe Hemp, LLC (“EPH”) owning the other 50%. As at June 30, 2020, the Company loaned Vapen KY \$651,015 for working capital. The working capital loan is interest free.

Vapen-Oklahoma, LLC

On February 12, 2020, the Company entered into a joint venture term sheet with Texoma Processing and Extraction, LLC (“TPE”) regarding Vapen-Oklahoma, LLC (“Vapen OK”). The Company is a minority member of Vapen OK holding 25% membership ownership, whereas TPE is a majority member owning 75% membership ownership of Vapen-OK and both parties have equal voting rights. The terms of the initial joint venture will be five years, with automatic successive renewal terms of additional five-year periods each. As at June 30, 2020, the Company loaned Vapen OK \$707,904 for working capital. The working capital loan is interest free.

Vapen Mass, LLC

At December 31, 2019 the Company held 50% membership interest in Vapen Mass, LLC, with the remaining held by Caregiver Patient Connection, LLC. As at June 30, 2020, Vapen Mass was inactive and no investments were made in the joint venture.

Vapen 501 Lab, LLC

At December 31, 2019 the Company held 50% membership interest in and Vapen 501 Lab, LLC (“Vapen 501”), with the remaining 50% held by Tree of Life Seeds, Inc. On March 26, 2020, Vapen 501 joint venture was terminated.

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10. INVESTMENT IN JOINT VENTURES (CONTINUED...)

Happy Travels, LLC

On June 10, 2020, the Company entered into a joint operation agreement with Green Goblin, Inc. (“GG”) to operate Happy Travels, LLC (“Happy Travels”), which GG holds 100% membership interest. The Company and GG have equal voting rights. The terms of the initial joint venture will be three years, with automatic successive renewal terms of additional two-year period. As at June 30, 2020, invested \$169,838 in the joint operation.

As at June 30, 2020, the balance of investment in joint ventures and operation comprised of the followings:

	Vapen KY	Vapen OK	Happy Travels	Total
Balance as at December 31, 2019	\$ -	\$ -	\$ -	-
Contributions	877,887	714,427	169,838	1,762,152
Share of loss of the joint ventures during the period	(243,116)	(73,312)	-	(316,428)
Balance as at June 30, 2020	\$ 634,771	\$ 641,115	\$ 169,838	1,445,724

Summarized financial information for equity accounted investees for the period ended June 30, 2020, is as follows:

	Vapen KY	Vapen OK
Ownership %	50%	25%
Current assets	\$ 1,404,997	\$ 1,666,316
Non-current assets	13,810	81,807
Total assets	1,418,807	1,748,123
Total liabilities	1,907,621	2,107,713
Net assets	(488,814)	(359,590)
Revenue	21,000	122,280
Expenses	507,232	415,526
Net loss	486,232	293,246

11. LINE OF CREDIT

On January 1, 2020, the Company entered into a \$5,000,000 line of credit secured promissory note (“Promissory Note”) with Herbal Wellness Center, Inc. (“HWC”) whereby HWC promises to pay the Company the principal and 10% interest per annum. As at June 30, 2020, \$232,259 had been drawn from this line of credit by HWC (Note 7).

Upon closing of the Acquisition (Note 23), the Company entered into a \$3,000,000 line of credit secured promissory note (“Promissory Note”) with Organica Patient Group, Inc. (“Organica”) whereby Organica promises to pay the Company the principal and 10% interest per annum. As at the date of the financial statements, no money had been drawn from this line of credit by Organica.

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Leasehold improvements	Construction in progress	Automobile	Total
Cost							
Balance at December 31, 2018	\$ 340,779	\$ 1,211,196	\$ 1,451,177	\$ 2,300,453	\$ -	\$ 81,785	\$ 5,385,390
Disposals	-	-	-	-	-	(4,750)	(4,750)
Additions	-	112,173	4,385,598	445,550	294,446	21,711	5,259,478
Balance at December 31, 2019	\$ 340,779	\$ 1,323,369	\$ 5,836,775	\$ 2,746,003	\$ 294,446	\$ 98,746	\$ 10,640,118
Disposals	-	-	-	-	-	(13,150)	(13,150)
Additions	-	65,050	1,850,041	546,687	1,105,229	11,800	3,578,807
Balance at June 30, 2020	\$ 340,779	\$ 1,388,419	\$ 7,686,816	\$ 3,292,690	\$ 1,399,675	\$ 97,396	\$ 14,205,775
Accumulated Amortization							
Balance at December 31, 2018	\$ -	\$ 124,619	\$ 455,641	\$ 708,371	\$ -	\$ 15,114	\$ 1,303,745
Disposals	-	-	-	-	-	(1,583)	(1,583)
Amortization	-	82,835	314,581	394,906	-	19,006	811,328
Balance at December 31, 2019	\$ -	\$ 207,454	\$ 770,222	\$ 1,103,277	\$ -	\$ 32,537	\$ 2,113,490
Disposals	-	-	-	-	-	(3,884)	(3,884)
Amortization	-	43,065	389,476	247,262	-	11,092	690,895
Balance at June 30, 2020	\$ -	\$ 250,519	\$ 1,159,698	\$ 1,350,539	\$ -	\$ 39,745	\$ 2,800,501
Net Book Value							
December 31, 2019	\$ 340,779	\$ 1,115,915	\$ 5,066,553	\$ 1,642,726	\$ 294,446	\$ 66,209	\$ 8,526,628
June 30, 2020	\$ 340,779	\$ 1,137,900	\$ 6,527,118	\$ 1,942,151	\$ 1,399,675	\$ 57,651	\$ 11,405,274

Of the total amortization expense during the six months ended June 30, 2020 - \$580,799 (June 30, 2019 - \$324,177) was included in the cost of sales and \$99,559 (June 30, 2019 - \$55,907) was included in operating expense.

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13. PAYABLES AND ACCRUED LIABILITIES

The Company's payables and accrued liabilities consist of the following:

	June 30, 2020	December 31, 2019
Trade payables (Note 17)	\$ 486,137	\$ 322,089
Credit card payable	243,384	184,641
Interest payable	288,494	9,198
Sales tax payable	23,548	12,553
Payroll liabilities	685,866	8,920
Accrued liabilities (Note 17)	689,667	531,234
	\$ 2,417,096	\$ 1,068,635

14. NOTES PAYABLE

Current notes payable are made up of the following:

	June 30, 2020	December 31, 2019
Maturing on October 1, 2020 with an interest rate of 12% per annum	\$ 182,250	\$ 182,250
Maturing on January 5, 2021 with an interest rate of 15% per annum	175,000	175,000
Maturing on February 1, 2021 with an interest rate of 12% per annum	272,000	272,000
Maturing on March 1, 2021 with an interest rate of 12% per annum	280,000	280,000
Current portion of a loan, of which the total amount matures in December 2021 with an interest rate of 3.65% per annum	11,335	11,164
Current portion of promissory note from acquisition ⁽¹⁾	341,235	-
Current portion of liabilities settlement from acquisition ⁽²⁾	1,215,000	-
	\$ 2,476,820	\$ 920,414

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14. NOTES PAYABLE (CONTINUED...)

Non-current notes payable are made up of the following:

	June 30, 2020	December 31, 2019
Maturing in December 2021 with an interest rate of 3.65% per annum	\$ 5,876	\$ 11,578
Maturing on March 31, 2023 with an interest rate of 13% per annum, from related parties (Note 17)	10,448	21,594
Maturing in 2026, with an interest rate of 13% per annum, from related parties (Note 17)	64,763	65,722
Due no later than February 27, 2022, non-interest bearing (Note 17)	250,000	-
Promissory note from acquisition ⁽¹⁾	4,018,387	-
Liabilities settlement from acquisition ⁽²⁾	1,200,545	-
Other notes payable with no maturing date and nil interest	185,000	-
	\$ 5,735,019	\$ 98,894

⁽¹⁾ On April 6, 2020, the Company acquired 100% of membership interest and assets in RDF Management, LLC and Firebrand, LLC from HSD Holdings, LLC (“HSD”) (Note 23). In consideration for the acquisition, the Company issued a promissory note of \$4,473,741. The promissory note bears no interest for the first 18 months following the closing date (the “Interest Free Period”). The Company shall pay monthly payments of at least \$30,000 to HSD, which will be accredited towards the principal balance until the expiration of the Interest Free Period. In the event there is any remaining balance on the promissory note after the expiration of the Interest Free Period, such balance will begin accruing interest at a rate of ten percent (10%) per annum.

⁽²⁾ Furthermore, as part of the consideration, the Company will be settling and resolving certain existing liabilities, in RDF Management, LLC. A total of \$2,415,545 was allocated to settle such liabilities (Note 23 and 24).

15. LEASES

Leases on transition:

On January 1, 2019, the Company adopted IFRS 16, Leases. At this date, the Company had two building leases affected by the transition to IFRS 16, Leases. Of the two building leases held at January 1, 2019, one was being subleased by the Company. The second lease was subsequently subleased after transition, during the year ended December 31, 2019, and derecognized from the ROU assets.

The adjustments to record the cumulative effect of the initial application of the new accounting policy on January 1, 2019 are as follows:

- a) Set up of Right of use asset (“ROU”) and lease liability:

Right-of-use assets	\$	970,458
Accumulated depreciation		(272,145)
Lease liability		(800,031)
Adjustment to retained earnings	\$	(101,718)

- b) Adjustment to recognize the cumulative effect of the derecognition of the ROU for the property that was being subleased as of January 1, 2019:

Net Investment in sub-lease	\$	619,561
Right-of use asset derecognized		(766,881)
Accumulated depreciation derecognized		223,673
Adjustment to retained earnings	\$	76,353

The fair value of the lease liability was estimated using level 2 inputs on the date of the lease agreements using the Company’s incremental borrowing rate of 13% and a weighted average lease term of 8.31 years.

The two leases that were recognized as ROU assets on January 1, 2019 were subsequently subleased during the year and derecognized from the ROU assets.

During the period ended June 30, 2020, income of \$101,136 from subleasing was included in property leasing.

Right-of-use assets as at June 30, 2020:

As at June 30, 2020, the Company has three lease agreements for its leased premises, consisting of office and warehouse space. Of these three leases, two have terms expiring April 30, 2024, while the third expires September 30, 2029. The two leases ending April 30, 2024 are being subleased by the Company as at June 30, 2020.

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15. LEASES (CONTINUED...)

	ROU	
Cost		
As at December 31, 2019 and June 30, 2020	\$	295,272
Accumulated Depreciation		
As at December 31, 2019	\$	7,382
Amortization	\$	14,764
As at June 30, 2020	\$	22,145
Net book value		
December 31, 2019	\$	287,890
June 30, 2020	\$	273,126

Right-of-use assets as at June 30, 2020:

	Total ROU	
Total ROU at January 1, 2019	\$	970,458
Less accumulated amortization at January 1, 2019		(272,145)
Derecognition of subleased ROU at January 1, 2019		(766,881)
Derecognition of amortization of subleased ROU at January 1, 2019		223,673
Opening book value of ROU upon adoption of IFRS 16 on January 1, 2019		155,105
Additions		295,272
Amortization		(21,922)
Derecognition of ROU for the recognition of net investment in sublease		(140,565)
At December 31, 2019	\$	287,890
Amortization		(14,764)
Balance at June 30, 2020		273,126

The total amortization expense during the period ended June 30, 2020 was included in operating expense.

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15. LEASES (CONTINUED...)

Lease liability as at June 30, 2020:

The following table presents lease obligations for the Company as of June 30, 2020:

	Total lease liability
Opening balance as at January 1, 2019	\$ 800,031
Additions	295,272
Lease payments	(208,800)
Interest expense (included in cost of sales – property and equipment leasing)	98,353
Interest expense (included in bank charges and interest in operating expenses)	6,302
At December 31, 2019	\$ 991,158
Less: current portion	\$ (139,796)
Long-term lease liability	\$ 858,504
Opening balance as at December 31, 2019	991,158
Lease payments	(125,136)
Interest expense (included in cost of sales – property and equipment leasing)	44,118
Interest expense (included in bank charges and interest in operating expenses)	18,680
At June 30, 2020	928,820
Less: current portion	\$ (145,729)
Long-term lease liability	\$ 783,091

The following table discloses the undiscounted cash flow for lease obligations as of June 30, 2020:

Less than one year	\$ 258,016
One to five years	917,820
More than five years	194,606
Total undiscounted lease obligations	\$ 1,370,443

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15. LEASES (CONTINUED...)

The following table provides a summary of the lease expenses recognized in the statement of operations for the period ended June 30, 2020:

Interest expense (included in cost of sales – property and equipment leasing)	\$ 44,118
Interest expense (included in bank charges and interest in operating expenses)	\$ 18,680
Amortization (included in operating expenses)	\$ 14,764

Net investment in subleases as at June 30, 2020:

The Company has two sublease arrangements with its main customer for office and warehouse space. Both subleases expire on the same day the head lease expires, which is on April 30, 2024.

The following table presents sublease payments receivable for the Company for the six months ended June 30, 2020:

Opening balance as at January 31, 2019	\$ 619,561
Additions	178,694
Lease payments	(177,000)
Finance income (included in revenue from property leasing)	77,659
At December 31, 2019	\$ 698,914
Less: Current Portion	\$ (122,027)
Long-term Lease Liability	\$ 576,887
Opening balance as at December 31, 2019	\$ 698,914
Lease payments received	(101,136)
Finance income (included in revenue from property leasing)	43,939
June 30, 2020	\$ 641,718
Short-term net investment in sub-lease	\$ 134,392
Long-term term net investment in sub-lease	\$ 507,325

The following table discloses the undiscounted cash flow for lease payments receivable as of June 30, 2020:

	June 30, 2020
Less than one year	\$ 210,016
One to five years	610,068
Total undiscounted sublease payments receivable	\$ 820,084

The following table discloses the profit and loss on the sublease:

	June 30, 2020
Finance income (included in revenue from property leasing)	\$ 43,939
Interest expense (included in cost of sales – property and equipment leasing)	(18,680)
Income on sublease	\$ 25,259

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16. LOAN PAYABLE

On December 31, 2019, the Company completed a financing comprising of secured non-convertible debentures (the “Loan”) of \$5,500,000. The Loan is secured by a security interest in all of the Company’s assets. The Loan accrues interest at an annual rate of 10%, payable quarterly beginning July 1, 2020 and matures on December 31, 2021. The lenders also received warrants to purchase 980,210 subordinated voting shares of the Company at an exercise price of CAD\$1.00 (the “Loan Warrants”) as an incentive. The Loan Warrants can be exercised for two years after closing, subject to the Company’s right to accelerate the expiry of the Loan Warrants if the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange is greater than CAD\$3.35 for the any five 5 consecutive trading days.

The fair value of the Loan was determined to be \$5,496,728 using an annual effective interest rate of 10%. The fair value of the Loan Warrants was determined to be \$216,261 using the Black Scholes option pricing model and the following assumptions: Share Price: CAD\$0.70; Exercise Price: CAD\$1.00; Expected Life: 2 years; Annualized Volatility: 93.50%; Dividend yield: 0%; Discount Rate: 1.69%.

Gross proceeds received	\$	5,500,000
Less: Transaction costs		(216,261)
Less: Loan discount		(3,272)
December 31, 2019	\$	5,280,467
Accretion		51,488
Effect of change in exchange rate		10,183
June 30, 2020	\$	5,342,138

17. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the condensed consolidated interim financial statements not disclosed elsewhere in these interim financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company’s Board of Directors and corporate officers, including the Company’s Executive Chairman, Chief Executive Officer, Chief Operating Officer, and President and Chief Financial Officer.

Remuneration attributed to key management personnel for the three months ended June 30, 2020 and 2019 is summarized as follows:

	June 30, 2020	June 30, 2019
Share-based compensation (Note 18)	\$ 241,292	\$ 3,670
Salaries and wages included in cost of sales	171,186	189,171
Salaries, wages and commissions included in operating expenses	9,010	9,956
	\$ 421,488	\$ 202,797

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17. RELATED PARTY TRANSACTIONS (CONTINUED...)

Remuneration attributed to key management personnel for the six months ended June 30, 2020 and 2019 is summarized as follows:

	June 30, 2020	June 30, 2019
Share-based compensation (Note 18)	\$ 257,874	\$ 29,404
Salaries and wages included in cost of sales	390,631	334,038
Salaries, wages and commissions included in operating expenses	20,560	17,581
Former officer and director settlement included in operating expenses	500,000	-
	\$ 1,169,065	\$ 351,619

Other related parties

Other related parties include close family members of the Company's Executive Chairman and the former CFO, President, and Director and a company that is controlled by a Director.

Remuneration attributed to other related parties for the three months ended June 30, 2020 and 2019 is summarized as follows:

	June 30, 2020	June 30, 2019
Salaries and wages included cost of sales	\$ 5,280	\$ 37,644
Salaries, wages and commissions included in operating expenses	278	1,981
Consulting fees included in operating expenses	34,472	-
	\$ 40,030	\$ 39,625

Remuneration attributed to other related parties for the six months ended June 30, 2020 and 2019 is summarized as follows:

	June 30, 2020	June 30, 2019
Salaries and wages included cost of sales	\$ 47,299	\$ 70,207
Salaries, wages and commissions included in operating expenses	2,489	3,695
Consulting fees included in operating expenses	63,890	-
	\$ 113,678	\$ 73,902

Balances with related parties:

Due from related parties:

	June 30, 2020	December 31, 2019
Non-interest bearing, due on December 31, 2021 from the Executive Chairman	\$ 537,151	\$ 537,151
Non-interest bearing, due on December 31, 2022 from the Executive Chairman	316,251	316,251
Non-interest bearing, due on December 31, 2023 from the Executive Chairman	1,328,383	1,328,383
	\$ 2,181,785	\$ 2,181,785

17. RELATED PARTY TRANSACTIONS (CONTINUED...)

Due from other related parties:

	June 30, 2020	December 31, 2019
Non-interest bearing advances to joint ventures and operation (Note 9)	\$ 86,271	\$ 440,830

Due to related parties:

Amounts due to related parties as at June 30, 2020 and December 31, 2019 included the following:

- Included in payables and accrued liabilities as at June 30, 2020 is \$337,805 (2019 - \$334,011) owing to the Executive Chairman, companies controlled by him, and his close family members. Most of this amount is made up of accrued salary (Note 13).
- Included in payables and accrued liabilities as at June 30, 2020 is \$36,984 (2019 - \$nil) owing to a company controlled by a director and \$83,333 (2019 - \$nil) owing to the former CFO, President, Corporate Secretary, and Director of the Company (Note 13).
- Included in the long-term loans payable as at June 30, 2020 is \$75,210 (2019 - \$94,202) due to the Executive Chairman of the Company, his spouse, and a company controlled by him. These loans bear interest of 13% per annum, and are due between 2022 – 2026 (Note 14).
- Included in the long-term payables as at June 30, 2020 is \$250,000 (2019 - \$nil) due to the former CFO, President, Corporate Secretary, and Director of the Company. This obligation bears no interest and is due the earlier of any change of control of the Company, a debt or equity financing greater than \$10 million of the Company on or after February 7, 2020, or no later than February 27, 2022 (Note 14).

18. SHARE CAPITAL

(a) Share Capital

The Company is authorized to issue the following shares:

- Unlimited subordinated voting common shares (“Subordinated Voting Shares” or “Common Shares”) without par value; and
- Unlimited super voting shares with multiple voting rights, each convertible into 100 Subordinated Voting Shares.

Period ended June 30, 2020:

- On March 18, 2020, 4,885 super voting shares were converted into 488,500 subordinated voting common shares.
- On April 6, 2020, the Company completed the acquisition of RDF Management, LLC and Firebrand, LLC and issued 67,000 multiple voting shares as consideration shares (Note 23).
- On May 26, 2020, 2,931 multiple voting shares were converted to 293,100 subordinated voting shares.

18. SHARE CAPITAL (CONTINUED...)

Fiscal year ended December 31, 2019:

- The Company received \$50,000 for Subordinated Voting Shares that were issued during the year ended December 31, 2018.
- The Company received \$183,250 for special warrants from a private placement that closed on December 24, 2018. These special warrants were converted during the year, which resulted in the issuance of 1,000,000 Common shares and 500,000 warrants. The warrants were exercisable at CAD\$0.25 with an expiry date of December 24, 2019, and were exercised during the year ended December 31, 2019.
- On May 22, 2019, the Company closed a private placement of 6,148,665 Common Shares at a price of CAD\$1.00 per share for a total of \$4,585,134 (CAD\$6,148,665). The Company paid \$31,841 and issued 42,700 finder's warrants with an exercise price of CAD\$1.30 per share of a period of one year as finder's fees. The finder's warrants were valued at \$8,340 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 1.69%; dividend yield of 0%; expected volatility of 87.93% and expected life of one year.
- On October 8, 2019, the Company issued 150,000 Common Shares valued at CAD\$0.84 per share, for a total value of \$100,881 to settle debt valued at \$204,973 with arm's length creditors, resulting in the Company recognizing a \$104,092 gain on the statements of operations and comprehensive income.
- 3,000,000 warrants were exercised at CAD\$0.25 each for a total of \$568,030.

(b) Special warrants

- As of March 31, 2019, the Company has 1,000,000 special warrants outstanding. These warrants are convertible into 1,000,000 units, with each unit consisting of one (1) subordinated voting share and one-half of one (1/2) subordinated voting share purchase warrant. Each whole purchase warrant entitles the holder to purchase one (1) additional subordinated voting share from the Company at an exercise price of CAD\$0.25 per subordinated voting share for a period of one (1) year from issuance.
- On April 25, 2019, the Company converted 1,000,000 Special Warrants into 1,000,000 Subordinated Voting Shares and 500,000 share purchase warrants at an exercise price of CAD\$0.25 per Subordinated Voting Share, which were all exercised before the expiration on December 24, 2019.

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18. SHARE CAPITAL (CONTINUED...)

(c) Share purchase warrants

The following table reflects the continuity of warrants for the period ended June 30, 2020 and December 31, 2019:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2018	4,500,000	
Issued	1,522,910	CAD \$0.76
Expired	(2,000,000)	CAD \$1.00
Exercised	(3,000,000)	CAD \$0.25
Outstanding, December 31, 2019	1,022,910	CAD \$1.01
Expired	(42,700)	CAD \$1.30
Outstanding, June 30, 2020	980,210	CAD \$1.00

As at June 30, 2020 the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Weighted Average Remaining Life (Years)	Expiry Date
980,210	CAD\$1.00	1.50	December 31, 2021

(d) Stock options

The Company has adopted a Stock Option Plan (the “Plan”) pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding Common Shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the Common Shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the period ended June 30, 2020 is as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2019	1,043,000	CAD \$1.00
Granted	1,083,334	CAD \$0.75
Cancelled	(60,000)	CAD \$1.00
Outstanding, June 30, 2020	2,066,334	CAD \$0.87

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18. SHARE CAPITAL (CONTINUED...)

As at June 30, 2020 the Company had the following stock options outstanding:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Life (years)	Expiry Date
783,000	323,521	CAD\$1.00	8.52	January 3, 2029
200,000	66,668	CAD\$1.00	8.87	May 13, 2029
1,083,334	1,083,334	CAD\$0.75	9.87	May 12, 2030
2,066,334	1,473,523	CAD \$0.87	9.27	

During the year ended December 31, 2019, the Company granted 1,109,000 stock options with a weighted average fair value of CAD\$0.42 per option, of which \$181,039 was recorded as a share-based compensation during the year ended December 31, 2019 for options vested.

During the period ended June 30, 2020, the Company granted 1,083,334 stock options with a weighted average fair value of CAD\$0.75 per option, of which \$374,531 was recorded as a share-based compensation during the period ended June 30, 2020 for options vested.

The fair value of the options granted during the period was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2020	December 31, 2019
Expected volatility	123.09%	111.80%-112.91%
Expected option life (years)	10	10
Risk-free interest rate	0.55%	1.66%-1.92%
Expected dividend yield	0%	0%

(e) Special Advisory Warrants

On May 13, 2019, the Company granted 1,000,000 special advisory warrants (the “Advisory Warrants”) to consultants of the Company. The Advisory Warrants are exercisable at CAD\$1.00 and expire on December 31, 2024. The fair value of the special advisory warrants was calculated to be CAD\$0.82 per warrant. The Company recorded a share-based compensation expense of \$238,513 during the year ended December 31, 2019 for warrants vested. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the Advisory Warrants using the following assumptions: risk free interest rate of 1.54%; dividend yield of 0%; expected volatility of 111.51%; and expected life of 5.5 years.

(f) Escrow Securities

As at June 30, 2020, the Company had 1,103,321 Subordinated Voting Shares (2019 – 1,379,151), 375,172 multiple voting shares (2019 – 468,965), and 90,000 stock options (2019 – 150,000) held in escrow.

19. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to support the growth and development of its operations and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of equity.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

20. ECONOMIC DEPENDENCE

The Company had two main customers for the period ended June 30, 2020 which accounted for 90% of the Company's revenues, and 95% of the Company's accounts receivable as at June 30, 2020. As the majority of the Company's income is derived from the sale of services and products, its ability to continue operations is dependent upon the relationship with and the sustainability of the customer. Any significant disruption in the customer's business could result in a material adverse effect on the operations of the Company. The loss of this significant customer will adversely impact the operations of the Company.

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, current notes receivable, advances to joint ventures, deposits and other receivables, payables, accrued liabilities, and amount due to Legacy Ventures Hawaii, LLC, approximate carrying value, due to their short-term nature. The carrying amounts of the long-term notes receivable and amount due from related parties approximate fair value. The fair values of the investment in sublease, right of use asset, and lease liability have been recorded as discussed in Note 15. The long-term loan payable is recorded at fair value as discussed in Note 16. The Company's cash and investment in Legacy are measured at fair value under the fair value hierarchy based on Level 1 quoted prices in active markets for identical assets or liabilities.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, price risk, and currency risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its receivables. As at June 30, 2020, the Company was dependent on two major customers from its consulting business segment (Note 20). The majority (\$16,022,318) of the Company's accounts receivable are from these two customers.

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (*CONTINUED...*)

Credit risk (continued...)

The Company is of the opinion that it is not exposed to significant credit risk from this customer as at June 30, 2020 as it continues to collect accounts receivable routinely. The Company has no investments in asset-backed commercial paper.

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customer, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 18. As at June 30, 2020, the Company had cash, accounts receivable and short-term notes receivable of \$20,818,383 to settle its current liabilities of \$5,142,852. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not hold any financial instruments with variable interest rates, and as a result, is subject to insignificant interest rate risk.

b) Price risk

The Company is not exposed to significant price risk as it does not hold investments in publicly traded securities.

c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in U.S. dollars. As at June 30, 2020, the Company had CAD\$(372,008) net financial assets denominated in Canadian currencies. A 10% change in the foreign exchange rate between the U.S. dollar and the Canadian dollar would result in a change on approximately \$44,452 in other comprehensive income.

VEXT SCIENCE, INC.
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22. SEGMENT INFORMATION

The Company operates in the United States, and had two major segments of operations as at June 30, 2020 and December 31, 2019, being its management and advisory services to non-for-profit entities in the medical marijuana field, and its sale of various types of low-pressure liquid gas.

Segment information over these two operating segments is as follows:

As at June 30, 2020:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Assets	\$ 49,225,644	\$	-	\$	49,225,644
Liabilities	\$ 21,502,100	\$	-	\$	21,502,100

For the three months ended June 30, 2020:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Sales	\$ 6,736,723	\$	-	\$	6,736,723
Cost of Sales	(4,192,731)		-		(4,192,731)
Operating expenses	(2,023,969)		36,375		(1,987,594)
Net income (loss)	\$ 520,023	\$	36,375	\$	556,398

For the six months ended June 30, 2020:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Sales	\$ 10,832,821	\$	-	\$	10,832,821
Cost of Sales	(7,083,038)		-		(7,083,038)
Operating expenses	(4,200,781)		36,375		(4,164,406)
Net income (loss)	\$ (450,998)	\$	36,375	\$	(414,623)

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22. SEGMENT INFORMATION (CONTINUED...)

As at December 31, 2019:

	Services and products relating to the medical marijuana field	Liquid gas sales	Total
Assets	\$ 38,780,494	\$ -	\$ 38,780,494
Liabilities	\$ 13,070,921	\$ 36,375	\$ 13,107,296

For the three months ended June 30, 2019:

	Services and products relating to the medical marijuana field	Liquid gas sales	Total
Sales	\$ 6,644,571	\$ 52,204	\$ 6,696,775
Cost of Sales	(3,582,510)	(34,165)	(3,616,675)
Operating expenses	(1,340,764)	(200,813)	(1,541,577)
Income tax expense	(332,842)	-	(332,842)
Net income (loss)	\$ 1,388,455	\$ (182,774)	\$ 1,205,681

For the six months ended June 30, 2019:

	Services and products relating to the medical marijuana field	Liquid gas sales	Total
Sales	\$ 13,103,854	\$ 92,849	\$ 13,196,703
Cost of Sales	(6,851,397)	(93,801)	(6,945,198)
Operating expenses	(2,314,164)	(205,968)	(2,520,132)
Income tax expense	(859,151)	-	(859,151)
Net income (loss)	\$ 3,079,142	\$ (206,920)	\$ 2,872,222

23. ACQUISITION

On April 6, 2020, the Company acquired 100% membership interest of RDF Management, LLC (“RDF”) and Firebrand, LLC (“Firebrand”). RDF provides management services related to the administration, management and operation of the dispensary, cultivation facility, and kitchen facility on behalf of Organica Patient Group, Inc., an Arizona non-profit corporation (“Organica”) pursuant to a management services agreement (“MSA”). Firebrand owns, holds and controls certain intellectual property in relation to Organica’s operations.

The Company has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of

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23. ACQUISITION (CONTINUED...)

accounting whereby the assets acquired and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The closing date for the acquisition was April 6, 2020. Consideration of this acquisition is \$9,183,508 in common shares of the Company and cash, payable as follows:

	Face value	Present value	
	\$	\$	
Multiple voting shares	1,934,222	1,934,222	(a)
Promissory note	5,154,512	4,473,741	(b)
Cash	3,105,000	2,775,545	(c)
	<u>10,193,734</u>	<u>9,183,509</u>	

- (a) Share Consideration: The Company issued 67,000 multiple voting shares.
- (b) Promissory note: The Company issued a promissory note of \$5,154,512 (the "Promissory Note"). The Promissory note shall bear no interest for the first 18 months following the closing date. Commencing 30 days following the effective date of the Promissory Note, the Company shall pay monthly payments of at least \$30,000 towards the principal balance until the expiration of the interest free period. In the event there is any remaining balance on the note after the expiration of the interest free period, such balance will begin accruing interest at a rate of 10% per annum.
- (c) Cash consideration: An undertaking to assist RDF in settling and resolving certain existing liabilities, allocating a total maximum of \$3,105,000 in funds to settle such liabilities.

The allocation of the purchase price to the total fair value of net assets acquired is as follows:

	\$
Fair value of net assets acquired	
Cash	2,744
Accounts receivable	2,500
Property, plant and equipment	1,521,000
	<u>1,526,244</u>
Current liabilities	(555,488)
Long-term liabilities	(185,000)
Identifiable net assets acquired	<u>785,756</u>
Intangible assets	7,936,000
Goodwill	461,752
	<u>9,183,508</u>

The resulting goodwill represents the sales and growth potential of RDF and Firebrand in the cannabis industry and is not deductible for tax purposes.

23. ACQUISITION (CONTINUED...)

Since the acquisition date and up to June 30, 2020, the Company has received gross revenue of \$nil from RDF and Firebrand respectively due to the fact the MSA with Organica was transferred to New Gen Holdings, Inc., a wholly-owned subsidiary of the Company, and recorded a loss of approximately \$62,458, which was mainly from amortization of equipment, and \$nil from operations from RDF and Firebrand

respectively. Had the transaction occurred on January 1, 2020 the total revenue would have been \$871,366 and the loss from operations would have been approximately \$3,126,348.

As part of the business combination described above the Company acquired an intangible asset in the form of MSA. The Company will amortize the MSA on a straight-line basis over the next ten years. The company will amortize the other intangible assets on a straight-line basis over the next five years. The Company will amortize the amount on an annual basis.

24. CONTINGENCIES

As part of the acquisition of RDF and Firebrand (Note 23), the Company agreed to assist in settling and fund the following lawsuits that were against RDF:

- a) RDF was named as a defendant in a lawsuit in the Yavapai County Superior Court. The prosecutor alleged that he is an owner of RDF, and other entities. The Company and the prosecutor have agreed to resolve all claims and causes of action related to the lawsuit. During the period, \$425,000 have been included in payables in relation to the consolidated financial statements for the claim.
- b) RDF was named as a defendant in a lawsuit in Superior Court of Arizona, County of Pima for certain loan agreement and promissory note. During the period, the Company settled the claim for \$340,000 on behalf of RDF and the case was dismissed.