PUREK HOLDINGS CORP.

(FORMERLY AF1 CAPITAL CORP.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in United States Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
PureK Holdings Corp.

Opinion

We have audited the consolidated financial statements of PureK Holdings Corp. and subsidiaries (the "Company") which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of loss and comprehensiveloss, shareholders' deficiency and cash flows for the years then ended, and the related notes tothe consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the directions, supervision and performance of the group. We remain solely responsible for the audit opinion.

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

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

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

Marcum LLP

Marcum LLP

New York, NY
April 30, 2021

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PureK Holdings Corp.

(Formerly AF1 Capital Corp.)

Consolidated Statements of Financial Position

(Expressed in United States Dollars)

As at	Note(s)	December 31, 2020 $	December 31, 2019 $
ASSETS			
Current assets			
Cash		8,308,475	1,061,746
Accounts receivable	4	244,419	864,938
Other receivable		49,762	-
Prepaid expenses	5	1,872,948	367,155
Loan receivable	6	367,772	-
Inventory	7	833,937	1,274,943
		11,677,313	**3,568,782**
Non-current assets			
Restricted cash	12	325,000	-
Security deposits		10,050	10,050
Equipment		-	11,886
Right-of-use asset	8	78,338	127,815
		413,388	**149,751**
TOTAL ASSETS		**12,090,701**	**3,718,533**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	704,778	1,136,151
Deferred revenue		44,845	45,721
Current portion of lease obligation	10	50,855	42,347
Current portion of promissory note	11	3,687,501	-
		4,487,979	**1,224,219**
Long term liabilities			
Promissory note	11	2,952,951	-
Lease obligation	10	33,756	86,380
Loan payable	12	9,726,972	-
Convertible preferred shares	13	3,132,461	-
Derivative liability	13	5,469,209	-
		21,315,349	**86,380**
TOTAL LIABILITIES		**25,803,328**	**1,310,599**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	14	1,911,188	-
Reserves	14	145,022	-
Retained earnings (deficit)		(16,489,043)	1,206,375
Equity attributable to owners of the company		(14,432,833)	1,206,375
Non-controlling interest	14	720,206	1,201,559
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		**(13,712,627)**	**2,407,934**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**12,090,701**	**3,718,533**
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These consolidated financial statements were approved for issue on April 30, 2021 by the Board of Directors and signed on its behalf by:

/s/ Michael Galloro Director **/s/ Paul Norman Director**

PureK Holdings Corp.

(Formerly AF1 Capital Corp.)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in United States Dollars)

		For the years ended	
		December 31, 2020	December 31, 2019
	Note(s)	$	$
REVENUE		**13,768,320**	**25,307,553**
COST OF GOODS SOLD		**(4,798,760)**	**(8,492,500)**
GROSS MARGIN		**8,969,560**	**16,815,053**
OPERATING EXPENSES			
Bad debts recovery	4	-	(124,656)
Customer service support		227,198	501,734
Depreciation expense	8	49,477	4,123
General and administrative expenses		494,448	360,011
Impairment of equipment		11,886	-
Marketing expense		4,528,495	8,067,303
Professional fees		777,571	1,223,250
Salaries and wages		1,510,490	670,370
Sales tax expense		170	191,596
Travel and entertainment		16,736	146,200
		7,616,471	**11,039,931**
Income before other income (expenses)		**1,353,089**	**5,775,122**
Other income (expenses)			
Finance costs	15	(108,299)	(1,539)
Foreign exchange loss		(351)	-
Loss on remeasurement of derivative liability	13	(352,636)	-
Grant and other assistance	16	109,500	-
Interest income	6	17,772	864
Listing expenses	3	(2,956,454)	-
Others		(45,000)	-
		(3,335,468)	**(675)**
Income (loss) and comprehensive income (loss) for the year		**(1,982,379)**	**5,774,447**
Income (loss) and comprehensive income (loss) attributable to:			
Equity holders of the parent		(2,200,047)	2,892,998
Non-controlling interests		217,668	2,881,449
		(1,982,379)	**5,774,447**
Basic and diluted earnings (loss) per share for the year attributable to common shareholders ($ per common share)		**(0.09)**	**15.40**
Weighted average number of common shares outstanding		**21,016,875**	**375,000**

PureK Holdings Corp.
(Formerly AF1 Capital Corp.)
Consolidated Statements of Shareholders' Equity (Deficiency)
(Expressed in United States Dollars)

	Note(s)	Share capital: Number of shares	Share capital: Amount	Reserves	Retained earnings (accumulated deficit)	Total	Non-controlling interest	Total
Balance at December 31, 2018		**375,000**	**-**	**-**	**1,176,999**	**1,176,999**	**1,172,300**	**2,349,299**
Distribution to shareholders		-	-	-	(2,863,622)	**(2,863,622)**	(2,852,190)	**(5,715,812)**
Net income for the year		-	-	-	2,892,998	**2,892,998**	2,881,449	**5,774,447**
Balance at December 31, 2019		**375,000**	**-**	**-**	**1,206,375**	**1,206,375**	**1,201,559**	**2,407,934**
Shares issued for acquisition	3, 14	20,641,875	1,911,188	-	-	**1,911,188**	-	**1,911,188**
Fair value of warrants issued for acquisition	3, 14	-	-	52,933	-	**52,933**	-	**52,933**
Fair value of options issued for acquisition	3, 14	-	-	92,089	-	**92,089**	-	**92,089**
Initial recognition of convertible preferred shares	13	-	-	-	(3,083,427)	**(3,083,427)**	-	**(3,083,427)**
Initial recognition of derivative liability	13	-	-	-	(5,116,573)	**(5,116,573)**	-	**(5,116,573)**
Initial recognition of promissory note	11	-	-	-	(6,941,193)	**(6,941,193)**	-	**(6,941,193)**
Distribution to shareholders	14	-	-	-	(354,178)	**(354,178)**	(699,021)	**(1,053,199)**
Net loss for the year		-	-	-	(2,200,047)	**(2,200,047)**	217,668	**(1,982,379)**
Balance at December 31, 2020		**21,016,875**	**1,911,188**	**145,022**	**(16,489,043)**	**(14,432,833)**	**720,206**	**(13,712,627)**

PureK Holdings Corp.
(Formerly AF1 Capital Corp.)
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)

		For the years ended	
		December 31, 2020	December 31, 2019
	Note(s)	$	$
Cash flow provided from (used by)			
OPERATING ACTIVITIES			
Net income (loss) for the year		(1,982,379)	5,774,447
Adjustments for items not affecting cash			
Accretion of interest of loan payable	12	20,722	-
Accretion of interest of promissory notes	11	24,909	-
Accretion of interest of preferred shares	13	49,034	-
Depreciation	8	49,477	4,123
Grant and other assistance	16	(109,500)	-
Impairment of equipment		11,886	-
Interest income		(17,772)	-
Loss on remeasurement of derivative liability	13	352,636	-
Bad debts recovery	4	-	(124,656)
Impairment of inventory	7	-	166,296
Listing expenses	3	1,974,921	-
Change in non-cash working capital			
Accounts receivable, credit card processor, net		620,519	302,455
Other receivable		(49,762)	-
Prepaid expenses		(5,793)	3,378
Inventory		441,006	(949,077)
Accounts payable and accrued liabilities		(433,587)	583,179
Deferred revenue		(876)	(295,499)
Cash flow from operating activities		**945,441**	**5,464,646**
INVESTING ACTIVITIES			
Purchase of equipment		-	(10,050)
Loan receivable	6	(350,000)	-
Cash paid acquisition costs for No B.S. Skincare	1	(1,500,000)	-
Cash assumed on acquisition	3	83,503	-
Cash flow used investing activities		**(1,766,497)**	**(10,050)**
FINANCING ACTIVITIES			
Proceeds on loan payable, net of transaction costs	12	9,381,250	-
Proceeds from government loan	16	109,500	-
Lease payments	10	(44,116)	(3,211)
Distribution to shareholders	14	(1,053,199)	(5,715,812)
Repayment of promissory notes	11	(325,650)	-
Cash flow from (used in) financing activities		**8,067,785**	**(5,719,023)**
Increase (decrease) in cash		**7,246,729**	**(264,427)**
Cash, beginning of year		**1,061,746**	**1,326,173**
Cash, end of year		**8,308,475**	**1,061,746**

Supplemental cash flow information	17

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

PureK Holdings Corp. (formerly AF1 Capital Corp.) (the "Company" or "PureK") was incorporated by Certificate of Incorporation issued pursuant to the provisions of the British Columbia Business Corporations Act on March 19, 2018 and changed its name from AF1 Capital Corp. to PureK Holdings Corp. on December 8, 2020.

The Company is listed on the TSX Venture Exchange (the "Exchange") under the symbol "PKAN".

On April 29, 2021, the Company announced that it will change its name to "Simply Better Brands Corp." effective May 3, 2021. The Company's common shares will continue trading on the TSX Venture Exchange under the new symbol "SBBC" commencing at market open on May 3, 2021.

The Company is an international omni-channel platform with diversified assets in the emerging plant-based and holistic wellness consumer product categories. The Company focuses on innovation for the informed Millennial and Generation Z generations in the rapidly growing plant-based, natural, and clean ingredient space. The Company also focuses on expansion into high-growth consumer product categories including CBD products, plant-based food and beverage, and the global pet care and skin care industries. The head office and the registered address of the Company are 206-595 Howe Street Vancouver, British Columbia V6C 2T5.

Business combination

On November 20, 2020, the Company entered into a business combination agreement with Heavenly Rx Ltd. ("Heavenly"), Heavenly Rx, LLC ("Heavenly Subco"), Purekana, LLC ("PureKana"), Cody J. Alt and Jeff Yauck (the "PureKana Founders") to acquire 50.1% equity interest of PureKana, which was indirectly held by Heavenly (the "Transaction"), of the Company. The Transaction was completed on December 8, 2020.

See Note 3 for details.

Stock split

On February 22, 2021, the Company implemented a 3 for 1 forward split (the "Stock Split") of the Company's issued and outstanding common shares. The number of shares and relevant information including but not limited to the share price, number of warrants and options and exercise price per warrant and option presented in these financial statements for both years ended December 31, 2020 and 2019 had been retroactively adjusted accordingly.

Acquisition of No B.S. Life, LLC ("No B.S. Skincare")

On December 31, 2020, the Company and PureKana entered into a binding letter of intent (the "No B.S. LOI") with DTC Brands, LLC ("DTC") to acquire No B.S. Skincare, a clean-formula skincare and beauty company.

Under the terms of the No B.S. LOI, the Company and PureKana will acquire all of the issued and outstanding membership units of No B.S. Skincare, with 65% of the purchase price to be paid by the Company and 35% to be paid by PureKana, with resulting proportional ownership interests (the "Acquisition of No B.S.").

The Company will issue $4 million payable in unsecured convertible debentures, with 3.25% non-compounding interest, payable in cash or common shares of the Company at the discretion of the Company, with a maturity date of twenty-four months following the date of closing.

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (CONTINUED)

Acquisition of No B.S. Life, LLC ("No B.S. Skincare") (continued)

Under the terms of the convertible debentures, the noteholders have the option, on a monthly basis after the issuance of the convertible debentures, to convert any portion thereof (including accrued interest on such portion) into common shares of the Company, provided that the noteholders will not hold, at any time, in excess of 7% of the current issued and outstanding common shares of the Company. Any portion or all of the convertible debentures which have not been converted into common shares will be paid in cash at the maturity date. The conversion price of the convertible debentures is the higher of $10.00 in Canadian dollar ("CA$") and the volume weighted average price of the Company's shares determined based on the 15 trading days immediately preceding the date of notice of conversion (the "VWAP").

In addition, a cash payment of $500,000 will be made within 6 months of the date of closing. Current members of DTC will be eligible to receive earnout compensation of $1 million if No B.S. Skincare's revenues and earnings before interest, taxes, depreciation, and amortization ("EBITDA") equal or exceed $6 million and $360,000, respectively, in the fiscal year 2021, and/or $2.5 million if No B.S. Skincare's revenues and EBITDA exceed $8 million and $480,000, respectively, in the fiscal year 2022.

The Acquisition of No B.S. was completed on February 17, 2021 (the "Completion Date").

To complete the Transaction, the Company made a total cash consideration of $2,500,000, of which $1,500,000 was made during the year ended December 31, 2020, to No B.S. Skin.

Acquisition of Nirvana Group, LLC ("Nirvana")

On February 17, 2021, the Company entered into a definitive agreement ("the Nirvana Agreement") to acquire Nirvana (the "Acquisition of Nirvana"), a Florida-based company specializing in the development, manufacturing, and distribution of all-natural pet wellness products and which includes the BudaPets brand.

Under the terms of the Nirvana Agreement, the Company will acquire all of the issued and outstanding membership units of Nirvana. The Company will issue $1.5 million payable in unsecured convertible debentures, with 3.25% non-compounding interest per annum, with a maturity date that is twenty-four months following the date of closing. Current members of Nirvana will have the option, on a monthly basis, to convert any portion of the convertible debentures into common shares of the Company at a price equal to the higher of CA$3.50 or the VWAP. Any portion or all of the convertible debentures which have not been so converted into common shares will be payable in cash at the maturity date.

In addition, current members of Nirvana will be eligible to receive earnout compensation of $500,000, payable in common shares of the Company, if Nirvana's net revenue equals or exceeds $1 million for the 2021 fiscal year, and an additional $1 million payable in common shares of the Company if Nirvana's net revenue exceeds $2.5 million in the fiscal year 2022.

The Acquisition of Nirvana was completed on April 28, 2021.

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (CONTINUED)

Proposed acquisition.

- **TRU Brands Inc. ("Tru Brands")**

  On March 3, 2021, the Company entered into a binding term sheet (the "Tru Brands LOI") to acquire 100% of the issued and outstanding shares of Tru Brands by issuing the common shares of the Company with a total market value of $7,500,000 (the "Purchase Price"). Tru Brands is a health and wellness brand specializing in nutritious snacks for women.

  The Purchase Price is determined based on the share price of the Company equal to the ten-trading day volume weighed average trading price of the shares on the Exchange prior to the closing date of the transaction.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION

The consolidated financial statements of the Company for the year ended December 31, 2020 were approved by the Board of Directors on April 30, 2021.

Statement of compliance to International Financial Reporting Standards

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

The policies set out below were consistently applied to all periods presented unless otherwise noted below.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of preparation

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective on December 31, 2020.

Basis of consolidation

These consolidated financial statements comprise the accounts of the Company and the following subsidiaries of the Company:

- AF1 Merger LLC, a company incorporated under the laws of Delaware;
- Purekana LLC, a limited liability company existing under the laws of Delaware.

All subsidiaries have a reporting date of December 31.

- **Subsidiaries**

  A subsidiary is an entity over which the Company has power to govern the operating and financial policies in order to obtain benefits from its activities. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION

Basis of consolidation (continued)

- **Acquisitions and disposals**
  The results of businesses acquired during the reporting period are brought into the consolidated financial statements from the date the control is transferred; the results of businesses sold during the reporting period are included in the consolidated financial statements for the period up to the date the control is ceased.

  Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the carrying value of net assets attributable to the interest which has been sold. Where a disposal represents a separate major line of business or geographical area of operations, the net results attributable to the disposed entity are shown separately in the statement of loss and comprehensive loss.

Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

- **Coronavirus (COVID-19) pandemic**
  Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Company operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Company unfavorably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

- **Determination of functional currency**
  In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currencies of the Company and its subsidiaries are United States dollar ("$", "US$" or "US dollar") as this is the currency of the primary economic environment in which the Company operates.

- **Share-based payment transactions**
  The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

- **Revenue from contracts with customers involving sale of goods**
  When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Company is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Critical accounting judgements, estimates and assumptions

- **Determination of variable consideration**
  Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the Company where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- **Provision for impairment of inventories**
  The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

- **Fair value measurement hierarchy**
  The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

  Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
  Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
  Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

  The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

- **Income tax**
  The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

- **Recovery of deferred tax assets**
  Deferred tax assets are recognized for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Critical accounting judgements, estimates and assumptions

- **Lease term**
  The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Company's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

- **Incremental borrowing rate**
  Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

- **Grant and other assistance**
  Judgement is exercised in determining if there is reasonable assurance that the Company will meet the terms for forgiveness of the loan.

Significant accounting policies

- **Cash and cash equivalents**
  Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

- **Trade and other receivables**
  Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

  The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

  Other receivables are recognized at amortized cost, less any allowance for expected credit losses.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Inventories**

  Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value on a weighted average cost basis. Cost comprises of direct materials and delivery costs, direct labor, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

  Stock in transit is stated at the lower of cost and net realizable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

  Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

- **Derivative financial instruments**

  Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

- **Right-of-use assets**

  A right-of-use asset is recognized at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

  Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

  The Company has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

- **Intangible assets**

  Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognized at cost. Indefinite life intangible assets are not amortized and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortization and any impairment. The gains or losses recognized in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Intangible assets (continued)**

  Goodwill
  Goodwill arises on the acquisition of a business. Goodwill is not amortized. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

  Customer contracts
  Customer contracts acquired in a business combination are amortized on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

  Patents and trademarks
  Significant costs associated with patents and trademarks are deferred and amortized on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

- **Impairment of non-financial assets**
  Goodwill and other intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

  Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

  Refer to Note 22 for further disclosures.

- **Borrowings**
  Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method.

- **Lease liabilities**
  A lease liability is recognized at the commencement date of a lease. The lease liability is initially recognized at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Lease liabilities (continued)**
  Lease liabilities are measured at amortized cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index, or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

- **Earnings (loss) per share**
  Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

- **Share based payments**
  The Company operates an employee stock option plan. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payments reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

- **Financial instruments**

  Financial assets

  - Classification and measurement
    The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

    The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

    Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Financial instruments (continue)**

Financial assets at FVTOCI – Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost – Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

- Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

- Derecognition of financial assets

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Financial liabilities

- Classification and measurement

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) – This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities – This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Refer to Note 22 for further disclosures.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Foreign currency translation**

Foreign currency transactions
Foreign currency transactions are translated into US dollar using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into US dollar using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into US dollar using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognized in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognized in profit or loss when the foreign operation or net investment is disposed of.

- **Revenue recognition**
The Company recognizes revenue as follows:

Revenue from contracts with customers
Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognized as a refund liability.

Sale of goods
Revenue from the sale of goods is recognized at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Significant accounting policies (continued)

- **Taxation**

  Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

  Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

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

- **Government Assistance**

  The Company received government assistance in the form of forgivable loans from the Paycheck Protection Program (PPP) administered by the United States Small Business Administration and authorized by the Keeping American Workers Employed and Paid Act. Pursuant to IAS 20 Accounting for Government Grants and Disclosure, a forgivable loan from government is treated as a government grant when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan. If the benefit of a government loan at below market rate is treated as a government grant and measured in accordance with IFRS 9 Financial Instruments: the benefit of below-market rate is measured as the difference between the initial carrying value of the loan and the proceeds received. The difference will be accredited to the loan liability over the term of the loan and offset to other income on the statement of income (loss) and comprehensive income (loss).

New Accounting Standards and Interpretations not yet mandatory or early adopted

There were no new or amended IFRS pronouncements effective January 1, 2020 that impacted these consolidated financial statements.

3. REVERSE ACQUISITION

On December 8, 2020, the Company completed by the Transaction with Heavenly, Heavenly Subco, PureKana, and the PureKana Founders to acquire 50.1% equity interest of PureKana, which was indirectly held by Heavenly.

In connection with the Transaction:

- the Company amended its articles and notice of articles to create a series of convertible preferred shares (the "Series 1 Preferred Shares");
- the Company implemented the share consolidation of one post-consolidation common share for forty pre-consolidation common shares;
- the Company merged with a subsidiary of Heavenly which holds the 50.1% equity interest in PureKana and the former Heavenly security holders received 12,000,000 post-consolidation common shares of the Company in exchange for membership units of PureKana;
- the Company assumed the Heavenly's obligation to pay the PureKana Founders $22,500,000 via issuance of 8,454,375 post-consolidation common shares;
- the Company issued 187,500 post-consolidation common shares with a fair value of $637,063 as the finder's fees;
- the Company issued 22,500 agent's warrants with a fair value of $52,933. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to January 29, 2021 (note 14);
- the Company issued 37,500 post-consolidation options with a fair value of $92,089 to replace the outstanding options previously issued by PureK. Each option entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to December 11, 2021 (note 14); and
- the Company incurred transaction costs of $981,533.

The Transaction is accounted for in accordance with guidance provided IFRS 2, "Share-Based Payment" and IFRS 3, "Business Combinations". As PureK did not qualify as a business according to the definition in IFRS 3, this Transaction does not constitute a business combination; rather it is treated as an issuance of shares by PureKana for the net assets of PureK and the PureK's listing status.

The Company has accounted for this Transaction as a reverse acquisition in accordance with IFRS 2, as upon the completion of the Transaction, the members of PureKana acquired control of PureK by virtue of senior management and the board directors of PureK being drawn predominantly from PureKana, whom will have the authority and responsibility for planning, directing, and controlling the activities of PureK.

As a share-based payment transaction, the Company measures the goods or services received at the more reliable measure of the fair value of the goods and services received, or the fair value of the equity instruments granted. Management has determined that the fair value of the equity instruments granted was the more reliable measure, which resulted in a total consideration of $1,274,125.

(Expressed in United States Dollars)

3. REVERSE ACQUISITION (CONTINUED)

The total consideration of $1,274,125 and the transaction costs of $1,763,618 have been allocated as follows:

	$
Cash	83,503
Accounts payable and accrued liabilities	(2,214)
	81,289
Listing expense	**2,956,454**
Purchase price	**3,037,743**

	$
Fair value of PureK common shares	1,274,125
Fair value of common shares issued as finder's fees	637,063
Warrants issued for transaction costs (note 14)	52,933
Replacement options issued for PureK's option holders (note 14)	92,089
Cash paid for transaction costs	981,533
	3,037,743

4. ACCOUNTS RECEIVABLE

	December 31, 2020 $	December 31, 2019 $
Accounts receivable	244,419	1,193,266
Less: Allowance for doubtful accounts	-	(328,328)
	244,419	**864,938**

	Total $	Neither past due nor impaired $	< 90 days $	91 - 180 days $	>180 days $
December 31, 2020	**244,419**	244,419	-	-	-
December 31, 2019	**864,938**	864,938	-	-	-

As at December 31, 2020 and 2019, the majority of the accounts receivable was comprised of amounts from credit card processors for sales made to online customers and invoices for sales made to retail offline customers. The payments from credit card processors will be remitted to the Company within two business days. The balances as of December 31, 2020 and 2019 were remitted to the Company subsequent to December 31, 2020 and 2019, respectively.

(Expressed in United States Dollars)

4. ACCOUNTS RECEIVABLE (CONTINUED)

In February 2019, the Company changed the credit card payment processors which provided lower processing fees and better access to additional credit cards. As a result of the change, the former credit card payment processor (the "Former Processor") ceased to remit payments due to the Company on both outstanding receivables and the amounts in the reserve fund. Pursuant to the agreement, the Former Processor had the right to withhold the payments due to the Company for up to six months (the "Holding Period"); however, an amount of $1,078,328 had not been remitted by the Former Processor to the Company within the Holding Period. In February 2020, the Company and the Former Processor reached an agreement to settle the amount owed to the Company by $750,000 which was received during the year ended December 31, 2020. As a result of the settlement, the Company recognized a recovery of $124,656 during the year ended December 31, 2019 to offset the impairment of receivable recognized during the year ended December 31, 2018 with an amount of $452,984.

5. PREPAID EXPENSES

	December 31, 2020	December 31, 2019
	$	$
Vendor deposits	372,948	367,155
Deposit paid to No B.S. Life, LLC for acquisition (note 1)	1,500,000	-
	1,872,948	**367,155**

6. LOAN RECEIVABLE

	$
Initial recognition	350,000
Interest	17,772
As at December 31, 2020	**367,772**

On October 13, 2020, PureKana entered into a loan agreement (the "Promissory Note") with an amount of $350,000 with Tru Brands. The Promissory Note matures on June 30, 2021.

The Promissory Notes bear 12% interest per annum compounded annually (the "PN Interest Rate") and an origination fee of $10,000 which is due on the maturity date. The interest payment due on the maturity date is the greater of:

i) $10,000 or
ii) the amount determined by the PN Interest Rate.

The Promissory Note is secured with all of the assets of Tru Brands.

During the year ended December 31, 2020, the Company recognized interest income of $17,772 related to the Promissory Note (2019 – $nil).

As of December 31, 2020, the carrying value of the Promissory Notes was $367,772 (2019 – $nil).

(Expressed in United States Dollars)

7. INVENTORY

Inventories are comprised substantially of packaged finished goods ready for sale. Cost of goods sold is comprised of the cost of inventory sold and any adjustments to reduce the inventory to net realizable value.

During the year ended December 31, 2019, the Company recorded a write-down of inventory of $166,296. The write-down of inventory was due to management's assessment of the net realizable value of current inventory balances. The write-down has been included in cost of goods sold.

8. RIGHT-OF-USE ASSET

	Cost	Accumulated depreciation	Carrying value
As at December 31, 2018	**-**	**-**	**-**
Additions	131,938	(4,123)	127,815
As at December 31, 2019	**131,938**	**(4,123)**	**127,815**
Additions	-	(49,477)	(49,477)
As at December 31, 2020	**131,938**	**(53,600)**	**78,338**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
	$	$
Accounts payable	374,852	733,129
Sales tax payable	317,072	332,777
Direct deposit payable and credit card	12,854	70,245
	704,778	**1,136,151**

(Expressed in United States Dollars)

10. LEASE OBLIGATION

As at December 31, 2020, future minimum lease payments for the Company's under finance lease are as follows:

	$
As at December 31, 2018	-
Initial recognition	131,938
Add: Finance costs	1,539
Less: Payments	(4,750)
As at December 31, 2019	**128,727**
Add: Finance costs	13,634
Less: Payments	(57,750)
As at December 31, 2020	**84,611**
Current	50,855
Long-term	33,756
As at December 31, 2020	**84,611**
Minimum lease payments for each fiscal year:	
2021	59,550
2022	35,350
	94,900
Amount representing interest	
2021	(8,695)
2022	(1,594)
	(10,289)
	84,611

11. PROMISSORY NOTE

	$
At the date of acquisition (Note 3)	6,941,193
Finance costs	24,909
Payments	(325,650)
As at December 31, 2020	**6,640,452**
Current	3,687,501
Long-term	2,952,951
As at December 31, 2020	**6,640,452**

In connection with the Transaction, the Company assumed the secured debts with a principal amount of $6,934,298 (the "Promissory Notes") which were issued to the PureKana Founders on December 4, 2020. As the date of the Transaction, the aggregate principal amount plus accrued interest of $6,941,193 was charged directly to retained earnings.

(Expressed in United States Dollars)

11. PROMISSORY NOTE (CONTINUED)

The Promissory Notes bear interest at 6% per annum and compounded annually. The Company is required to repay the Promissory Notes as follows:

- $4,000,000 plus outstanding interest on December 31, 2021; and
- remaining balances including outstanding interest on March 11, 2022.

During the year ended December 31, 2020, an interest expense of $24,909 was recorded as finance costs with a corresponding increase in the carrying value of the liability.

During the year ended December 31, 2020, the Company partially repaid the Promissory Notes with $325,650.

As at December 31, 2020, the carrying value of the Promissory Notes is $6,640,452 (2019 – $nil) of which $3,687,501 (2019 – $nil) was classified as current liability.

12. LOAN PAYABLE

	$
Initial recognition	
Gross amount	10,000,000
Less: Transaction costs	(293,750)
	9,706,250
Finance costs	20,722
As at December 31, 2020	**9,726,972**

On December 11, 2020 (the “Funding Date”), the Company through its subsidiary PureKana entered into a loan agreement (the “Loan”) with an amount of $10,000,000 (the “Loan Amount”). The Loan is secured with all of the assets of the Company and guaranteed by the members of the Company. The Loan matures on December 11, 2025 (the “Maturity Date”).

From and after the Funding Date until and including the Maturity Date, the Loan bears an interest rate of US$ 3-month LIBOR, determined as of the Funding Date and as will adjust at each calendar quarter thereafter, plus 3.00% (the “FF Interest Rate”).

Pursuant to the Loan, the Company is required to set aside $325,000 as interest reserve.

From the Funding Date to December 11, 2021, interest on the outstanding Loan Amount will be capitalized to the Loan Amount (the “Capitalized Interest”). Subsequently, any outstanding interest will be payable on the fifth day of each calendar quarter commencing January 5, 2022, and on the Maturity Date.

The Loan Amount and Capitalized Interest should be paid as follows:

- On December 11, 2023 – 15% of the Financing Amount and the Capitalized Interest
- On December 11, 2024 – 15% of the Financing Amount and the Capitalized Interest
- On December 11, 2024 – the remaining Financing Amount and the Capitalized Interest

12. LOAN PAYABLE (CONTINUED)

The Loan contains financial covenants stating that the debt service coverage ratio (the "Debt Service Coverage Ratio") of the Company at the end of each calendar year from December 31, 2020 to the Maturity Date should not be less than 1.20. As of December 31, 2020, the Company is in compliance with these financial covenants.

Pursuant to the Loan, the Debt Service Coverage Ratio is defined as the quotient of PureKana's adjusted earnings before interest, taxes, depreciation, and amortization (the "Adjusted EBITDA") for each reporting period divided by a ten-year amortization of the Loan which is the sum of the interest expense for the reporting period and the scheduled principal payments made with respect to the Loan Amount for the reporting period. The Adjusted EBITDA is defined as the unadjusted EBITDA adjusted for any non-recurring, one-time, or irregular items.

In connection with the Loan, the Company incurred transaction costs of $293,750, of which a transaction fee of $100,000 and $100,000 origination fee was paid to the lender according to the Loan. These transaction costs were recorded as a reduction of the carrying value of the loan payable. These transaction costs are being amortized over the Maturity Date of the Loan.

During the year ended December 31, 2020, the Company recognized $20,722 as finance costs.

13. CONVERTIBLE PREFERRED SHARES

In connection with the Transaction the Company assumed the secured debts in the aggregate principal amount plus accrued interest of $15,134,298 payable to the PureKana Founders and repaid $8,200,000 (the "Redemption Value") of the outstanding aggregate principal amount and interest accrued thereon through the issuance of an aggregate of 1,025,000 Series 1 Preferred Shares with a redemption amount of U$8.00 (the "Redemption Amount") to the PureKana Founders.

The holders of the Series 1 Preferred Shares (the "PS Holders") are entitled to receive a preferential cumulative cash dividend at the rate of 6% per annum.

The PS Holders may convert the Series 1 Preferred Shares to the common shares of the Company for a period of five years from the date of issuance at the highest price of:

i) The discounted market price which is determined based on the closing price of the common shares of the Company on the Exchange on the last trading day immediately before the conversion date, less the maximum discount permitted under the rules of the Exchange; or
ii) CA$2.80.

The PS Holders are not entitled to exercise the conversion right in respect of the Series 1 Preferred Shares unless:

i) the total common shares of the Company, including the common shares issued upon the conversion of the Series 1 Preferred Shares, held by the PS Holders is less than 9.9% of the issued and outstanding common shares of the Company, and
ii) the conversion would not constitute a change of control, which is defined in the policies of the Exchange, of the Company.

13. CONVERTIBLE PREFERRED SHARES (CONTINUED)

The Company has the right, exercisable at any time after five years from the date of issuance of the Series 1 Preferred Shares to redeem the outstanding the Series 1 Preferred Shares plus any accrued and unpaid dividends on the Series 1 Preferred Shares payable in cash or the issuance the common shares of the Company based on the market price on the Exchange.

The Company determined that it had an obligation to the PS Holders, that met the definition of derivative liability, such that the number of common shares of the Company issued upon the conversion would depend on the market price of the common shares of the Company and the foreign exchange rate between US$ and CA$ at the date of conversion. As a derivative liability, this long-term liability should be re-measured at each reporting period.

For accounting purposes, the Company calculated the fair value of the derivate liability at the date of issuance using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.38%, an expected life of 5 years, an expected volatility of 100% and an expected dividend yield of 6%, which totaled $5,116,573 and recorded these values as a derivate liability. The remaining balance of $3,083,427 was recorded as convertible preferred shares. The carrying value of the convertible preferred share is being accreted to the Redemption Value of the convertible preferred share over the five years by the effective interest rate method.

As the date of the Transaction, the fair value of the derivative liability ($5,116,573) and the convertible preferred shares $3,083,427 was charged directly to retained earnings.

In respect of the convertible preferred shares, during the year ended December 31, 2020, the Company recognized $49,034 as finance costs.

As of December 31, 2020, the Company remeasured the fair value of the derivative liability using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.33%, an expected life of 4.9 years, an expected volatility of 100% and an expected dividend yield of 6%, which totaled $5,469,209. The change in the fair value ($352,636) of the derivative liability was recognized as a loss on remeasurement of derivative liability in the statements of loss and comprehensive loss during the year ended December 31, 2020.

As of December 31, 2020, the carrying value of the convertible preferred shares and the fair value of derivative liability was $3,132,461 (2019 – $nil) and $5,469,209 (2019 – $nil), respectively.

(Expressed in United States Dollars)

14. SHARE CAPITAL

Authorized share capital

Unlimited number of series 1 preferred shares without par value.
Unlimited number of common shares without par value.

Escrow shares

On December 11, 2020, the Company entered into an escrow agreement, whereby common shares will be held in escrow and are scheduled for release as follows:

- December 11, 2020: 5,535,469 common shares (released)
- June 11, 2021: 5,160,469 common shares
- December 11, 2021: 5,160,469 common shares
- June 11, 2022: 5,160,468 common shares

During the year ended December 31, 2020, 5,535,469 common shares were released from escrow.

As of December 31, 2020, there were 15,481,406 common shares held in escrow.

Issued share capital

As at December 31, 2020, the Company had 21,016,875 common shares (2019 – 375,000) common shares issued and outstanding.

On December 8, 2020, the completed the reverse acquisition of PureK as explained in Note 3.

Warrants

The changes in warrants during December 31, 2020 and 2019, are as follows:

	December 31, 2020		December 31, 2019	
	Number outstanding	Weighted average exercise price (CA$)	Number outstanding	Weighted average exercise price (CA$)
Balance, beginning of year	-	-	-	-
Issued	22,500	1.33	-	-
Balance, end of year	**22,500**	**1.33**	**-**	**-**

On December 8, 2020, in connection with the Transaction, the Company issued 22,500 agent's warrants. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to January 29, 2021.

The Company estimated the grant date fair value of finders' warrants, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.25%, an expected life of 1.5 months, an expected volatility of 100% and an expected dividend yield of 0%, which totaled $52,933, and recorded this value in reserve.

(Expressed in United States Dollars)

14. SHARE CAPITAL (CONTINUED)

Warrants (continued)

The following summarizes information about warrants outstanding at December 31, 2020:

Expiry date	Exercise price (CA$)	Warrants outstanding	Estimated grant date fair value ($)	Weighted average remaining contractual life (in years)
January 29, 2021	1.33	22,500	52,933	0.08

Subsequent to December 31, 2020, 22,500 warrants were exercised for cash proceeds of $30,000.

Stock options

The Company has a Stock Option Plan (the "Plan") applicable to directors, officers, and consultants, under which the total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, an option's maximum term is five years from the grant date. Under the stock option plan, the Board has the option of determining vesting periods.

The changes in stock options during the years ended December 31, 2020 are as follows:

	December 31, 2020		December 31, 2019	
	Number outstanding	Weighted average exercise price (CA$)	Number outstanding	Weighted average exercise price (CA$)
Balance, beginning of year	-	-	-	-
Granted	37,500	1.33	-	-
Balance, end of year	**37,500**	**1.33**	**-**	**-**

On December 8, 2020, in connection with the Transaction, the Company issued 37,500 options to replace the outstanding options previously issued by PureK. Each option entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to December 11, 2021.

The Company estimated the grant date fair value of the stock options, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.25%, an expected life of 1 year, an expected volatility of 100% and an expected dividend yield of 0%, which totaled $92,089, and recorded this value in reserve.

The following summarizes information about stock options outstanding and exercisable at December 31, 2020:

Expiry date	Exercise price (CA$)	Options outstanding	Options exercisable	Estimated grant date fair value ($)	Weighted average remaining contractual life (in years)
December 11, 2021	1.33	37,500	37,500	92,089	0.95

(Expressed in United States Dollars)

14. SHARE CAPITAL (CONTINUED)

Equity incentive plan

On January 19, 2021, the Board approved a Restricted Share Unit ("RSU") Plan and Deferred Share Unit (the "DSU") Plan (collectively the "Incentive Plan") for the purpose of providing a share-related mechanism to attract, retain and motivate qualified directors, employees and consultants of the Company and its subsidiaries.

The Incentive Plan is administered by the Board of Directors, which sets the terms of incentive awards under the Incentive Plan. The maximum number of common shares available for issue under the Incentive Plan is 2,101,686 common shares of the Company.

Grants of RSUs and DSUs vest as to on-third on each of the first, second and third anniversaries of the date of grant, unless otherwise set by the Board or plan administrator.

- **RSU**

  The Incentive Plan permits the Company to either redeem RSUs for cash, issue common shares of the Company from treasury, or purchase common shares of the Company on the open market, to satisfy all or any portion of a vested RSU award.

  Subsequent to December 31, 2020, the Company granted 390,000 RSUs to a consultant of the Company, which will vest upon the Incentive Plan receiving disinterested shareholder approval.

- **DSU**

  The Incentive Plan permits the Company to either redeem DSUs for cash or issue common shares of the Company from treasury, to satisfy all or any portion of a vested DSU award.

Distribution to shareholders

During the year ended December 31, 2020, PureKana made a cash distribution of $1,053,199 (2019 – $5,715,812) to its members.

Non-controlling interest

The following schedule shows the effects of the changes in non-controlling interest regarding the non-redeemable 49.9% ownership owned by the PureKana Founders during the year ended December 31, 2020 and 2019:

	$
Balance as of December 31, 2018	1,172,300
Distribution	(2,852,190)
Share of income	2,881,449
Balance as of December 31, 2019	**1,201,559**
Distribution	(699,021)
Share of income	217,668
Balance as of December 31, 2020	**720,206**

(Expressed in United States Dollars)

15. FINANCE COSTS

		December 31, 2020	December 31, 2019
	Note(s)	**$**	**$**
Accretion of interest of lease obligation	10	13,634	1,539
Accretion of interest of promissory notes	11	24,909	-
Accretion of interest of loan payable	12	20,722	-
Accretion of interest of preferred shares	13	49,034	-
		108,299	**1,539**

16. GRANT AND OTHER ASSISTANCE

On March 27, 2020, Congress passed, and the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security Act, which is commonly known as the CARES Act which provides a stimulus package to certain businesses and individuals affected by the novel COVID-19 emergency.

On June 17, 2020, PureKana received an unsecured loan in the amount of $109,500 (the "PPP Loan") pursuant to the Paycheck Protection Program (PPP) administered by the United States Small Business Administration and authorized by the Keeping American Workers Employed and Paid Act, which is part of the CARES Act. Section 1106 of the Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the Paycheck Protection Program.

The PPP Loan bears 1% interest per annum. The Company may repay the PPP Loan anytime or before June 17, 2022.

The proceeds from the PPP Loan may only be used to fund the payroll, group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020 (collectively the "Qualifying Expenses"). Pursuant to the terms of the PPP Loan, the entire or certain PPA Loan may be forgiven if the PPA Loan is used for the Qualifying Expenses as described under the CARES Act.

The Company received an approval of the loan forgiveness subsequent to December 31, 2020; as a result, the Company recognized the PPA Loan as a grant and other assistance during the year ended December 31, 2020.

(Expressed in United States Dollars)

17. SUPPLEMENTAL CASH FLOW INFORMATION

		For the years ended	
		December 31, 2020	December 31, 2019
	Note(s)	$	$
Reclassification of the current portion of lease obligation		8,508	-
Shares issued for acquisition	3	1,274,125	-
Shares issued for finders' fees	3	637,063	-
Fair value of options issued for acquisition	3, 14	92,089	-
Fair value of warrants issued for acquisition	3, 14	52,933	-
Initial recognition of convertible preferred shares	13	3,083,427	-
Initial recognition of derivative liability	13	5,116,573	-
Initial recognition of promissory note	11	6,941,193	-
Cash paid during the year for interest		-	-
Cash paid during the year for income taxes		-	-

18. RELATED PARTIES

Key management personnel include those persons having the authority and responsibility of planning, directing, and executing the activities of the Company. The Company has determined that its key management personnel consist of the Company's officers and directors.

Key management compensation, including benefits, for the year ended December 31, 2020 was $448,009 (December 31, 2019 – $nil).

19. CONTINGENCIES

Litigation

In the normal course of business, the Company may be involved in legal proceedings, claims, and assessments arising from the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. After consulting legal counsel, the Company does not believe any adverse judgments will have a material effect on the operations of the Company.

20. SEGMENTED INFORMATION

The Company operates in one reportable segment being the sale of hemp-based cannabidiol ("CBD") related products with sales principally generated from the United States. All of the Company's non-current assets are located in United States.

During the years ended December 31, 2020 and 2019, seven vendors represented more than 75% of the Company's inventory purchases.

During the years ended December 31, 2020 and 2019, there were no significant customers which made up more than 10% of sales.

(Expressed in United States Dollars)

21. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain adequate levels of funding in order to safeguard the Company's ability to continue as a going concern, fund its planned activities and commitments and retain financial flexibility to respond to unforeseen future events and circumstances. The Company manages and makes adjustments to its capital structure based on the level of funds on hand and anticipated future expenditures. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the year ended December 31, 2020 and 2019. The Company is subject to externally imposed capital requirements in connection with its loan payable, as detailed in Note 12. The Company is in compliance with these capital requirements.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The fair values of financial assets and liabilities, together with their carrying amounts, are presented by class in the following table:

	December 31, 2020	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	8,308,475	-	8,308,475	-
Accounts receivable	244,419	-	244,419	-
Other receivable	49,762	-	49,762	-
Loan receivable	367,772	-	367,772	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	704,778	-	704,778	-
Current portion of lease obligation	50,855	-	50,855	-
Current portion of promissory note	3,687,501	-	3,687,501	-
Convertible preferred shares	3,132,461	-	3,132,461	-
Derivative liability	5,469,209	5,469,209	-	-
Promissory note	2,952,951	-	2,952,951	-
Lease obligation	33,756	-	33,756	-
Loan payable	9,726,972	-	9,726,972	-

(Expressed in United States Dollars)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value (continued)

	December 31, 2019	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	1,061,746	-	1,061,746	-
Accounts receivable	864,938	-	864,938	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	1,136,151	-	1,136,151	-
Current portion of lease obligation	42,347	-	42,347	-
Lease obligation	86,380	-	86,380	-

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3 – Unobservable (supported by little or no market activity) prices.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets and liabilities at fair value through profit or loss as of December 31, 2020 are shown below.

		Estimated fair value		
	December 31, 2020	Level 1 $	Level 2 $	Level 3 $
Derivative liability	(5,469,209)	-	-	(5,469,209)

The financial instrument recorded at fair value on the statement of financial position is derivative liability which is measured using Level 3 of the fair value hierarchy. Level 3 inputs for other derivative liability include the use of the Black-Scholes option pricing model. Estimates are made regarding (i) the discount rate used, (ii) the expected life of the instruments, (iii) the volatility of the Company's common shares price which are driven by historical information and the expected dividend yield. Refer to Note 13 for further disclosures.

As of December 31, 2020, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as Level 1 and Level 2 in the fair value hierarchy above.

As of December 31, 2019, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as Level 1, Level 2 and 3 in the fair value hierarchy above.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of being affected by these risks. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. When material, these risks are also reviewed and monitored by the Board of Directors.

Market risk

- Foreign currency risk

  The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US$. The Company has not entered into any foreign currency contracts to mitigate this risk. The risk is measured using sensitivity analysis and cash flow forecasting.

  As of December 31, 2020, the majority of the Company's monetary assets and liabilities are denominated in US$; as a result, management believes the currency risk is minimal.

  The Company's derivative liability may expose to the currency risk as the Company's share is trading in CA$. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10% appreciation or depreciation of the US$ against CA$ would provide insignificant impacts on the fair value of the derivative liability.

- Price risk

  The Company's derivative liability may expose to the price risk as the share price of the Company is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10% increase (decrease) in the share price of the Company as of December 31, 2020, the fair value of the derivative liability will be decreased (increased) by appropriately $497,000 ($607,000).

- Interest rate risk

  The Company's interest rate risk principally arises from fluctuations in the US$ LIBOR rate as it relates to the Company's loan payable. A 1% change in the US$ LIBOR rate would result in approximately a $100,000 impact on the Company's profit or loss for the year ended December 31, 2020. The Company has not entered into any interest rate swaps to mitigate this risk.

  The Company's derivative liability may expose to the interest as the risk-free interest rate is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 1% increase (decrease) in the risk-free interest rate, the fair value of the derivative liability will be increased (decreased) by appropriately $50,000.

(Expressed in United States Dollars)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Credit risk

Credit risk is the risk of loss associated with a customer's or counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable United States financial institutions, from which management believes the risk of loss is remote. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has, and intends, to adhere strictly to the state statutes and regulations in its operations.

The Company believes that the credit risk of accounts receivable is limited as the accounts receivable as of December 31, 2020 are current and collected subsequent to the year ended December 31, 2020.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due. As of December 31, 2020, the Company had cash of $8,308,475 to meet short-term business requirements. As of December 31, 2020, the Company had current liabilities of $4,487,979. The Company believes that the liquidity risk is low as the Company has sufficient working capital to support the operation in the next twelve months.

23. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2020	December 31, 2019
	$	$
Loss for the year	(1,982,379)	5,774,447
Expected income tax (recovery)	(535,000)	$1,559,000
Change in statutory, foreign tax, foreign exchange rates and other	8,000	-
Permanent differences	586,000	-
Pass-through to other partners of PureKana LLC	(207,000)	(1,559,000)
Change in unrecognized deductible temporary differences	148,000	-
	-	-

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada/British Columbia.

(Expressed in United States Dollars)

23. INCOME TAXES (CONTINUED)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2020 $	December 31, 2019 $
Deferred Tax Assets (liabilities)		
Accrual to cash	(29,000)	-
Losses available for future period	29,000	-
Net deferred tax assets	-	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2020 $	Expiry Range	December 31, 2019 $	Expiry Range
Temporary Differences				
Share issue costs	29,000	2041 – 2043	-	N/A
Other	3,000	No expiry date	-	N/A
Convertible preferred shares	402,000	No expiry date	-	N/A
Non-capital losses available for future periods	131,000		-	N/A
Canada	43,000	2040	-	N/A
USA	88,000	No expiry date	-	N/A

Tax attributes are subject to review, and potential adjustment, by tax authorities.