

# TARGET GROUP INC.

## FORM 10-Q (Quarterly Report)

Filed 05/07/21 for the Period Ending 03/31/21

Telephone	905-541-3833
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Industry	Internet Services
Sector	Technology
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-55066

**TARGET GROUP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**46-3621499**

(I.R.S. Employer  
Identification No.)

**20 Hempstead Drive**

**Hamilton, Ontario, Canada**

(Address of principal executive officers)

**L8W 2E7**

(Zip Code)

**+1 905-541-3833**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered under Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Act:

Common Stock, Par Value \$0.0001

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "small reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

**Title of each class**

N/A

**Trading symbol**

N/A

**Name of each exchange on which registered**

N/A

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal

quarter was \$9,857,349 as of June 30, 2020.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 7, 2021, the registrant had 573,452,193 shares of Common Stock issued and outstanding.

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**PART I – FINANCIAL INFORMATION**

**ITEM 1. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.**

**TARGET GROUP INC.**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**TARGET GROUP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

		March 31, 2021 \$	December 31, 2020 \$
		(unaudited)	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		395,257	172,597
Restricted cash		9,144	9,032
Accounts receivable, no allowance		2,068	2,068
Inventory	Note 3	99,000	99,000
Prepaid asset		47,329	46,775
Sales tax recoverable, net of allowance	Note 4	90,494	75,462
Receivable from joint venture	Note 6	279,165	271,184
Other receivable	Note 8	3,976	78,540
<b>Total current assets</b>		<b>926,433</b>	<b>754,658</b>
<b>Long term assets</b>			
Fixed assets	Note 5	8,012,166	7,793,997
Investment in joint venture	Note 6	1,144,537	721,156
Goodwill	Note 7	3,712,112	3,666,364
Operating lease right-of-use assets	Note 9	97,784	100,548
<b>Total long term assets</b>		<b>12,966,599</b>	<b>12,282,065</b>
<b>Total assets</b>		<b>13,893,032</b>	<b>13,036,723</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank overdraft		32,124	1,562
Accounts payable and accrued liabilities		2,129,180	1,809,120
Deferred revenue	Note 1	27,500	42,719
Settlement payable - Current portion	Note 1	90,000	90,000
Payable to related parties, net	Note 8	3,238,257	2,831,635
Operating lease liability - Current portion	Note 9	88,465	83,196
Convertible promissory notes, net	Note 10	480	3,128
Derivative liability	Note 10	27,217	12,068
<b>Total current liabilities</b>		<b>5,633,223</b>	<b>4,873,428</b>
<b>Long term liabilities</b>			
Settlement payable - Non-current portion	Note 1	—	10,000
Payable to related parties, net - Non-current portion	Note 8	6,883,280	7,103,325
Operating lease liability - Non-current portion	Note 9	1,618,542	1,622,366
Warrant liability	Note 11	5,025,161	2,948,024
<b>Total long term liabilities</b>		<b>13,526,983</b>	<b>11,683,715</b>
<b>Total liabilities</b>		<b>19,160,206</b>	<b>16,557,143</b>
Contingencies and commitments	Note 13	—	—
<b>Stockholders' equity (deficiency)</b>			
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized; 1,000,000 shares issued and outstanding as at March 31, 2021 and December 31, 2020	Note 11	100	100
Common stock, \$0.0001 par value, 850,000,000 shares authorized, 573,452,193 common shares outstanding as at March 31, 2021 573,277,094 common shares outstanding as at December 31, 2020	Note 11	57,345	57,328
Shares to be issued	Note 11	1,097,458	192,121
Additional paid-in capital		23,943,555	23,940,696
Accumulated deficit		(29,226,803)	(26,536,495)
Accumulated comprehensive loss		(1,138,829)	(1,174,969)
<b>Total stockholders' equity</b>		<b>(5,267,174)</b>	<b>(3,521,219)</b>
<b>Total liabilities and stockholders' equity</b>		<b>13,893,032</b>	<b>13,035,924</b>

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



**TARGET GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(UNAUDITED)**

	For the three months ended March 31, 2021 \$	For the three months ended March 31, 2020 \$
<b>REVENUE</b>	—	30,000
<b>COST OF GOOD SOLD</b>	—	(25,000)
<b>Gross profit</b>	—	5,000
<b>OPERATING EXPENSES</b>		
Advisory and consultancy fee	1,906	44,269
Management services fee	77,943	83,239
Salaries and wages	4,669	138,780
Legal and professional fees	46,424	124,000
Rent and utilities	—	29,520
Advertising and promotion	—	299
Amortization and depreciation expense	241,795	21,989
Operating lease expense	Note 9 (13,045)	84,575
Office and general	Note 6 (18,274)	58,858
<b>Total operating expenses</b>	<u>341,418</u>	<u>585,529</u>
<b>OTHER EXPENSES (INCOME)</b>		
Change in fair value of derivative and warrant liability	2,091,334	(3,455,325)
Gain on settlement	(15,219)	—
Interest and bank charges	220,997	36,249
Exchange loss	27,380	18,699
Accretion expense	—	12,200
Other income	(4,567)	—
Allowance for sales tax recoverable	4,414	2,624
Share of losses from joint venture	Note 6 11,300	—
Debt issuance cost	Note 8 13,251	—
<b>Total other expenses</b>	<u>2,348,890</u>	<u>(3,385,553)</u>
<b>Net loss before income taxes</b>	<u>(2,690,308)</u>	<u>2,805,024</u>
Income taxes	—	—
<b>Net loss</b>	<u>(2,690,308)</u>	<u>2,805,024</u>
Foreign currency translation adjustment	36,140	(1,039,520)
<b>Comprehensive loss</b>	<u>(2,654,168)</u>	<u>1,765,504</u>
Loss per share - basic and diluted	(0.005)	0.005
Weighted average shares - basic and diluted	<u>573,279,061</u>	<u>566,012,635</u>

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



**TARGET GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020**

	Preferred stock		Common stock		Shares to be issued		Stock subscription receivable	Additional paid-in capital	Accumulated deficit	Accumulated comprehensive loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
<b>As at December 31, 2020</b>	1,000,000	100	573,277,094	57,328	1,811,175	192,121	—	23,940,696	(26,536,495)	(1,174,969)	(3,521,219)
Shares issued on conversion of convertible promissory notes [Note 11]	—	—	175,099	17	—	—	—	2,631	—	—	2,648
Shares issued as consideration for consideration of the intellectual property rights [Note 11]	—	—	—	—	15,624	504	—	—	—	—	504
Shares issued on conversion of convertible promissory notes [Note 10 and 11]	—	—	—	—	38,183,326	904,833	—	—	—	—	904,833
Change due to extinguishment of derivative liability on debt conversion	—	—	—	—	—	—	—	228	—	—	228
Net loss	—	—	—	—	—	—	—	—	(2,690,308)	—	(2,690,308)
Foreign currency translation	—	—	—	—	—	—	—	—	—	36,140	36,140
<b>As at March 31, 2021</b>	1,000,000	100	573,452,193	57,345	40,010,125	1,097,458	—	23,943,555	(29,226,803)	(1,138,829)	(5,267,174)
	Preferred stock		Common stock		Shares to be issued		Stock subscription receivable	Additional paid-in capital	Accumulated deficit	Accumulated comprehensive loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
<b>As at December 31, 2019 (Reported)</b>	1,000,000	100	571,145,968	57,113	4,006,832	611,621	(220,000)	29,846,004	(19,462,624)	(897,077)	9,935,137
Reclassification of warrant liability [Note 14]	—	—	—	—	—	—	—	(6,146,116)	—	—	(6,146,116)
<b>As at December 31, 2019 (Restated)</b>	1,000,000	100	571,145,968	57,113	4,006,832	611,621	(220,000)	23,699,888	(19,462,624)	(897,077)	3,789,021
Cancellation of shares [Note 11]	—	—	(11,000,000)	(1,098)	—	—	220,000	(218,902)	—	—	—
Shares issued as consideration for consideration of the intellectual property rights [Note 11]	—	—	—	—	15,624	193	—	—	—	—	193
Shares to issue as consideration for intangible assets [Note 11]	—	—	—	—	3,500,000	260,050	—	—	—	—	260,050
Net loss	—	—	—	—	—	—	—	—	2,805,024	—	2,805,024
Foreign currency translation	—	—	—	—	—	—	—	—	—	(1,039,520)	(1,039,520)
<b>As at March 31, 2020</b>	1,000,000	100	560,145,968	56,015	7,522,456	871,864	—	23,480,986	(16,657,600)	(1,936,597)	5,814,768

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

**TARGET GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	For the three months ended March 31, 2021 \$	For the three months ended March 31, 2020 \$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(2,690,308)	2,805,024
<b>Adjustment for non-cash items</b>		
Change in fair value of derivative and warrant liability	2,091,334	(3,455,325)
Accretion expense	—	12,200
Shares and warrants issued/to be issued for services	1,906	193
Allowance for sales tax recoverable	4,414	2,624
Amortization and depreciation expense	241,795	21,989
Operating lease expense	68,058	84,575
Investment loss from joint venture	11,300	—
Debt issuance cost	13,251	—
<b>Changes in operating assets and liabilities:</b>		
Change in inventory	—	25,000
Change in prepaid asset	—	(25,334)
Change in sales tax recoverable	(18,411)	(10,504)
Change in other receivable	75,041	—
Change in accounts payable and accrued liabilities	380,059	(249,696)
Change in operating lease liability, net	(83,769)	(80,719)
<b>Net cash provided by (used in) operating activities</b>	<b>79,451</b>	<b>(869,973)</b>
<b>INVESTING ACTIVITIES</b>		
Amount invested on fixed assets	(362,665)	—
Investment in joint venture	(422,920)	—
<b>Net cash used in investing activities</b>	<b>(785,585)</b>	<b>—</b>
<b>FINANCING ACTIVITIES</b>		
Utilization of bank overdraft facility	30,344	40,847
Proceeds from loans from related parties	—	670,044
Proceeds from private placements	904,833	—
Payment for settlement payable	(10,000)	—
<b>Net cash provided by financing activities</b>	<b>925,177</b>	<b>710,891</b>
<b>Net increase (decrease) in cash and restricted cash during the period</b>	<b>219,043</b>	<b>(159,082)</b>
Effect of foreign currency translation	3,729	183,270
Cash and restricted cash, beginning of period	181,629	10,487
<b>Cash and restricted cash, end of period</b>	<b>404,401</b>	<b>34,675</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Shares issued on conversion of debt	2,648	—
Shares issued as consideration for services	504	193
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Cash paid for interest	—	—
Cash paid for taxes	—	—

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

**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**1. Organization, Nature of Business, Going Concern and Management Plans**

**Organization and Nature of Business**

Target Group Inc. (“Target Group” or “the Company”) was incorporated on July 2, 2013 under the laws of the state of Delaware to engage in any lawful corporate undertaking, including, but not limited to, selected mergers and acquisitions.

Target Group Inc. is a diversified and vertically integrated, progressive company with focus on both national and international presence. The Company owns and operates Canary Rx Inc, Canadian licensed producer, regulated under The Cannabis Act. Canary Rx Inc, operates a 44,000 square foot facility located in Norfolk County, Ontario, and has partnered with Dutch breeder, Serious Seeds, to cultivate exclusive & world class proprietary genetics. The Company has begun structuring multiple international production and distribution platforms and intends to continue rapidly expanding its global footprint as it focuses on building an iconic brand portfolio whose focus aims at developing cutting edge Intellectual Property among the medical and recreational cannabis markets. Target Group is committed to building industry-leading companies that transform the perception of cannabis and responsibly elevate the overall consumer experience.

The Company’s current business is to produce, manufacture, distribute, and conduct sales of cannabis products. As of the current year end, the company has produced and sold cannabis products in the amount of \$197,607 (Year ended December 31, 2020: \$108,930) through its investment in a joint venture.

On July 3, 2018, the Company filed an amendment in its Articles of association to change its name to Target Group Inc. The Company was able to secure an OTC Bulletin Board symbol CBDY from Financial Industry Regulatory Authority (FINRA).

On June 27, 2018, the Company entered into an Agreement and Plan of Share Exchange (“Exchange Agreement”) with Visava Inc., a private Ontario, Canada corporation (“Visava”). Visava owns 100% of Canary Rx Inc., a Canadian corporation that holds a leasehold interest in a parcel of property located in Ontario’s Garden Norfolk County for the production of cannabis.

The Exchange Agreement provides that, subject to its terms and conditions, the Company issued to the Visava shareholders an aggregate of 25,500,000 shares of the Company’s Common Stock in exchange for all of the issued and outstanding common stock held by the Visava shareholders. In addition of its Common Stock, the Company issued to the Visava shareholders, prorata Common Stock Purchase Warrants purchasing an aggregate of 25,000,000 shares of the Company’s Common Stock at a price per share of \$0.10 for a period of two years following the issuance date of the Warrants. Upon the closing of the Exchange Agreement, the Visava shareholders held approximately 46.27% of the issued and outstanding Common Stock of the Company and Visava will continue its business operations as a wholly-owned subsidiary of the Company. The transaction was closed effective August 2, 2018. During the quarter ended, September 30, 2020, all of the warrants expired, none were exercised.

## TARGET GROUP INC.

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Effective January 25, 2019, the Company entered into an Agreement and Plan of Share Exchange (“Exchange Agreement”) with CannaKorp Inc., a Delaware corporation (“CannaKorp”). Company had previously entered into a Letter of Intent with CannaKorp dated November 30, 2018 which was disclosed in the Company’s report on Form 8-K filed December 4, 2018.

The Exchange Agreement provides that, subject to its terms and conditions, the Company issued to the CannaKorp shareholders an aggregate of 30,407,412 shares of the Company’s common stock, based on a price per share of \$0.10, in exchange for 100% of the issued and outstanding common stock of CannaKorp held by the CannaKorp shareholders. In addition, the Company will issue Common Stock Purchase Warrants (“Warrants”) in exchange for all outstanding and promised CannaKorp stock options. The Warrants will grant the holders thereof the right to purchase up to approximately 7,211,213 shares of the Company’s common stock. The Company will also assume all outstanding liabilities of CannaKorp. Upon the closing of the Exchange Agreement, CannaKorp will continue its business operations as a subsidiary of the Company. The transaction was closed effective March 1, 2019. During the quarter ended, March 31, 2021, all of the warrants expired, none were exercised.

Effective August 8, 2019, the Company entered into an Exclusive License Agreement (“License Agreement”) with cGreen, Inc., a Delaware corporation (“cGreen”). The License Agreement grants to the Company an exclusive license to manufacture and distribute the patent-pending THC antidote True Focus™ in the United States, Europe and the Caribbean. The term of the license was ten (10) years and four (4) months from the effective date of August 8, 2019. In consideration of the license, the Company would issue 10,000,000 shares of its common stock as follows: (i) 3,500,000 within ten (10) days of the effective date; (ii) 3,500,000 shares on January 10, 2020; and (iii) 3,000,000 shares not later than June 10, 2020. In addition, the Company would pay cGreen royalties of 7% of the net sales of the licensed products and 7% of all sublicensing revenues collected by the Company. The Company would pay cGreen an advance royalty of \$300,000 within ten (10) days of the effective date; \$300,000 on January 10, 2020; and \$400,000 on or before June 10, 2020 and \$500,000 on or before November 10, 2020. All advance royalty payments would be credited against the royalties owed by the Company through December 31, 2020. During the quarter ended December 31, 2019, the intangible asset was written off based on management’s review and evaluation of its recoverability. During the quarter ended June 30, 2020, the Company was in arbitration with cGreen for the breaches of the terms of the License Agreement, however, through an early mediation, both companies reached to a settlement agreement to settle the breaches of the contract on July 27, 2020 (“Effective Date”). As per the settlement agreement, the License Agreement has been terminated and the Company does not have to issue the 10 million shares nor pay the outstanding royalty payable in the amount of \$1,191,860. As consideration, the Company paid \$130,000 within 30 days of the Effective Date and will pay \$100,000 in monthly installments of \$10,000 commencing in April 2021 to cGreen resulting in a gain on settlement in the amount of \$1,704,860. During quarter ended March 31, 2021, the Company has paid its first installment. As at March 31, 2021, the outstanding balance is \$90,000 of which \$90,000 (December 31, 2020: \$90,000) is current and \$nil (December 31, 2020: \$10,000) is non-current.

Effective September 17, 2019, CannaKorp entered into a Purchase, Licensing and Distribution Agreement (“Agreement”) with Nabis Arizona Property LLC of Scottsdale, Arizona (“Nabis”) concerning the distribution of CannaKorp’s *Wisp™ Vaporizer* and *Wisp™ Pods* in Arizona. The term of the Agreement is three (3) years with automatic renewals for additional one-year periods unless the Agreement is terminated pursuant to its terms. Nabis is required to pay CannaKorp \$45,000 for the equipment needed to manufacture the *WISP™ Pods*, of which \$4,500 will be paid within three (3) calendar days of Nabis obtaining regulatory approval of its vertically integrated license and the balance of \$40,500 within 180 days of the effective date of the Agreement.

Under the Agreement, Nabis is licensed to manufacture the *WISP™ Pods* and to sell the *WISP™ Pods* in conjunction with the sale of the *WISP™ Vaporizer*. Nabis is required to meet minimum quarterly orders of two hundred (200) *WISP™ Vaporizers* and five thousand (5,000) *WISP™ Pods* cartridges. Nabis is licensed to sell the *WISP™ Vaporizer* and the *WISP™ Pods* to end users in Arizona, excluding Amazon, eBay, Walmart or other multistate/national brick and mortar or online sales. CannaKorp has granted Nabis a right of first refusal to obtain an exclusive license in Michigan and in Washington for the same rights granted to Nabis in Arizona.

During the year ended December 31, 2020, the equipment to Nabis has been shipped and the Company has provided Nabis an additional 360 days before invoicing Nabis for the equipment. Once when the additional period has passed, the Company will invoice Nabis. Additionally, the first quarter of the Nabis agreement minimums were shipped and invoiced (200 *Wisp* Units and 5000 *Pod Assemblies* to enable Nabis to manufacture 5000 complete *Wisp Pods*) for online and retail distribution in the Arizona Market.

During the year ended, December 31, 2020, due to financial strain and difficulties during the pandemic Nabis was forced to restructure their company in its entirety. This has caused strain on the financial position of Nabis and has affected their ability to fulfill their commitments in the agreement signed with CannaKorp. The partnership has since been terminated and all of CannaKorp’s *CannaMatic* machinery has now been sent back to CannaKorp. The Company does not have any operations, employees or corporate offices based in United States.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Effective May 14, 2020, Canary entered into a Joint Venture Agreement (“Joint Venture”) with 9258159 Canada Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as “Thrive”) and 2755757 Ontario Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as “JVCo”). Canary and Thrive each hold 50% of the voting equity interest in JVCo. The term of the Joint Venture is five (5) years from its effective date of May 14, 2020.

On June 15, 2020, the Company, its first-tier subsidiaries Visava Inc. (“Visava”) CannaKorp Inc. (“CannaKorp”), and the Company’s second-tier subsidiary, Canary Rx Inc. (“Canary”), entered into a Debt Purchase and Assignment Agreement (“Agreement”) with CL Investors Inc. (“CLI”), a corporation organized under the laws of the Province of Ontario, Canada. June 15th was preliminary date of the agreement and the agreement was not finalized until the later date as indicated below. The CEO of the Company, is the Secretary of CLI, a director of the Company, is a shareholder of CLI and the brother of CEO, is the President and sole director of CLI therefore the below loan from CLI is classified under related party transactions.

Pursuant to the Agreement, CLI purchased from the Company for the sum of \$2,306,080, (CAD \$2,900,000) a debt obligation owing from Canary to the Company in the principal balance of \$8,429,120 (CAD \$10,600,000 (“Canary Debt”). Upon receipt of the consideration, the Company loaned the full sum to Canary under terms of an unsecured, non-interest-bearing promissory note, subject to a covenant by the Company not to take any collection action so long as the Canary Debt remains unpaid to CLI. As at March 31, 2021, \$3,976 (CAD \$5,000) is still outstanding from CLI which is presented as other receivable on the unaudited condensed consolidated interim balance sheet.

As a condition of the closing of the Agreement, the terms of the Canary Debt were amended to provide for interest at 5% per annum with a maturity date of 60 months from the date of the Agreement (“Term”). The Canary Debt will be repaid according to the following schedule:

- a) In the first year of the Term, Canary will pay CLI the greater of \$898,576 (CAD \$1,130,000) and fifty percent (50%) of the Net Revenue (hereinafter defined), provided that where the latter amount exceeds the former amount, Canary will, by the end of such first year, pay CLI no less than the former amount and Canary will, within thirty (30) days following the end of such first year, pay CLI the balance of such amount owing for such first year;
- b) In the second year of the Term, Canary will pay CLI the greater of \$1,669,920 (CAD \$2,100,000) and fifty percent (50%) of the Net Revenue, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2021, provided that where the latter amount exceeds the former amount, Canary will, within thirty (30) days following the end of such second year, pay CLI the balance of such amount owing for such second year;
- c) In the third year of the Term, Canary will pay CLI the greater of \$2,560,544 (CAD \$3,220,000) and fifty percent (50%) of the Net Revenue, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2022, provided that where the latter amount exceeds the former amount, Canary will, by the end of such third year, pay CLI no less than the former amount and Canary will, within thirty (30) days following the end of such third year, pay CLI the balance of the such payments owing for such third year;
- d) In the fourth year of the Term, Canary will pay CLI the greater of \$2,449,216 (CAD \$3,080,000) and fifty percent (50%) of the Net Revenue, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2023, provided that where the latter amount exceeds the former amount, Canary will Canary will, within thirty (30) days following the end of such fourth year, pay CLI the balance of such amount owing for such fourth year; and
- e) In the fifth year of the Term, Canary will pay CLI the balance owing under this Note, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2024 for an amount calculated by dividing twelve (12) into the sum of all amounts owing under this Note at the beginning of the fifth year of the Term on account of Principal and Interest, provided that where there are further amounts owing under this Note at the end of such fifth year, Canary will pay CLI all such further amounts within five (5) days following the end of such fifth year.

For the purposes of this Note, “Net Revenue” will mean any and all revenue generated from Canary’s Licensed Facility (hereinafter defined) to which it is entitled net of applicable taxes and third-party expenses.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The repayment of the Canary Debt, as amended, is guaranteed by Visava and the Company's wholly-owned subsidiary CannaKorp Inc. and secured by (i) a general security interest in the assets of the Company, Canary, Visava and CannaKorp Inc., respectively; and (ii) a pledge by the Company of all of the issued and outstanding common stock of Canary, Visava and CannaKorp Inc. held by the Company. In addition to the foregoing guarantees, security interest and stock pledge, CLI has been granted an option, in lieu of repayment of the amended Canary Debt, to demand, in its sole and absolute discretion the transfer, assignment and conveyance of 75% of the issued and outstanding capital stock of Visava and Canary. Furthermore, the President and sole director of CLI has been granted an option to acquire the remaining 25% of the issued and outstanding capital stock of Visava and Canary.

Effective August 14, 2020, the Agreement was amended ("Amendment") to provide that CLI will purchase from Rubin Schindermann, a director of the Company, 500,000 shares of the Company's Series A Preferred Stock in consideration of the payment by CLI to Rubin Schindermann of \$79,520 (CAD \$100,000) and the issuance to Schindermann of 10,000,000 shares of the Company's common stock. In consideration of the foregoing, Mr., Schindermann resigned as a director of the Company and from any and all administrative and executive positions with the Company's subsidiaries Visava Inc., Canary Rx Inc. and CannaKorp Inc., respectively. In addition, the Company issued Common Stock Purchase Warrant for 10,000,000 shares of Target common stock to CLI as consideration for the Agreement. Refer to Note 11 for additional details on warrants. The combined impact of both transactions resulted in debt issuance cost of \$251,518. This debt issuance cost will be amortized over the term of the debt on straight line basis.

The transactions contemplated by the Agreement and the Amendment closed on August 14, 2020.

**Going Concern and Management Plans**

The Company has earned minimal revenue since inception to date and has sustained operating losses during the three months ended March 31, 2021. The Company had working capital deficit of \$4,706,790 and an accumulated deficit of \$29,226,803 as of March 31, 2021. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and/or obtaining additional financing from its members or other sources, as may be required.

The unaudited condensed consolidated interim financial statements have been prepared assuming that the Company will continue as a going concern up-to at least 12 months from the balance sheet date; however, the above condition raises substantial doubt about the Company's ability to do so. The unaudited condensed consolidated interim financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

In order to maintain its current level of operations, the Company will require additional working capital from either cash flow from operations or from the sale of its equity. However, the Company currently has no commitments from any third parties for the purchase of its equity. If the Company is unable to acquire additional working capital, it will be required to significantly reduce its current level of operations.

**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Consolidation**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the rules and regulations of the SEC and are expressed in US dollars. Accordingly, the unaudited condensed consolidated interim financial statements do not include all information and footnotes required by US GAAP for complete annual financial statements. The unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2021 or for any other interim period. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as of and for the year ended December 31, 2020.

The unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Visava Inc. and CannaKorp, Inc. Significant intercompany accounts and transactions have been eliminated.

**Use of Estimates**

The preparation of the unaudited condensed consolidated interim financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates may include those pertaining to accruals. Actual results could materially differ from those estimates.

**Inventory**

Inventory is stated at the lower of cost or net realizable value, cost being determined on a weighted average cost basis, and market being determined as the lower of cost or net realizable value. The Company records write-downs of inventory that is obsolete or in excess of anticipated demand or market value based on consideration of product lifecycle stage, technology trends, product development plans and assumptions about future demand and market conditions. Actual demand may differ from forecasted demand, and such differences may have a material effect on recorded inventory values. Inventory write-downs are charged to cost of revenue and establish a new cost basis for the inventory. The cost is determined on the basis of the average cost or first-in, first-out methods.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****Fixed Assets**

Fixed assets are reported at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of assets, commencing when the assets become available for productive use, based on the following estimated useful lives:

Depreciation is calculated using the following terms and methods:

Furniture & office equipment	Straight-line	7 years
Machinery & equipment	Straight-line	3-5 years
Software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease period

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

**Fair Value of Financial Instruments**

The Company follows guidance for accounting for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the unaudited condensed consolidated interim financial statements on a recurring basis. Additionally, the Company adopted guidance for fair value measurement related to nonfinancial items that are recognized and disclosed at fair value in the unaudited condensed consolidated interim financial statements on a nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. The carrying amounts of financial assets such as cash approximate their fair values because of the short maturity of these instruments.

The estimated fair value of cash, accounts payable, and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments. The derivative liabilities of the promissory convertible notes and warrant liabilities are valued Level 3, refer to Note 11 for further details.



**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****Revenue recognition**

The Company adopted ASC 606 effective January 1, 2019, using the modified retrospective method after electing to delay the adoption of the accounting standard as the Company qualified as an “emerging growth company”. Since the Company did not have any contracts as of the effective day, therefore, there was no material impact on the unaudited condensed consolidation interim financial statements upon adoption of the new standard. Revenue is recognized when performance obligations under the terms of the contracts with our customers are satisfied. Our performance obligation generally consists of the promise to sell our finished products to our customers, wholesalers, distributors or retailers. Control of the finished products is transferred upon shipment to, or receipt at, our customers' locations, as determined by the specific terms of the contract. Once control is transferred to the customer, we have completed our performance obligation, and revenue is recognized.

The Company did not generate any revenue during three months ended March 31, 2021 as compared to \$30,000 revenue during comparable period ended March 31, 2020. The revenue represented the sale of Wisp™ vaporizer and pod units. Since the customer had received the units and there are no further obligations as per the agreement, revenue was recognized.

In addition, Canary generated revenue of \$197,607 (though its investment in JVCo) during the quarter ended March 31, 2021 (quarter ended December 31, 2020: \$108,930) and is represented as share of losses from joint venture on the unaudited condensed consolidated interim statement of operations. The revenue was concentrated to three customers (2020: one). The revenue represents the sale of cannabis product. Since the customer have received the product and there are no further obligations as per the agreement, revenue was recognized. Refer to Note 6 for additional details.

Deferred revenue is due to a shipment sent to one of the Company's distributors. However, since control has not been transferred and the performance obligation has not been completed, revenue has not been recognized and proceeds received are classified as deferred revenue. During the quarter ended March 31, 2021, the Company was able to settle the payment for \$27,500 leading to a gain of \$15,219. The settlement amount was paid subsequent to the quarter in April 2021.

**Equity Method Investments**

The Company uses the equity method of accounting for investments when the Company has the ability to significantly influence, but not control, the operations or financial activities of the investee. As part of this evaluation, the Company considers the participating and protective rights in the venture as well as its legal form. The Company records the equity method investments at cost and subsequently adjust their carrying amount each period for the Company's share of the earnings or losses of the investee and other adjustments required by the equity method of accounting. Distributions received from the equity method investments are recorded as reductions in the carrying value of such investments and are classified on the unaudited condensed consolidated interim statements of cash flows pursuant to the cumulative earnings approach. Under this approach, distributions received are considered returns on investment and are classified as cash inflows from operating activities unless the cumulative distributions received, less distributions received in prior periods that were determined to be returns of investment, exceed the cumulative equity in earnings recognized from the investment. When such an excess occurs, the current period distributions up to this excess are considered returns of investment and are classified as cash inflows from investing activities.

The Company monitors equity method investments for impairment and record reductions in their carrying values if the carrying amount of an investment exceeds its fair value. An impairment charge is recorded when such impairment is deemed to be other-than-temporary. To determine whether an impairment is other-than-temporary, we consider our ability and intent to hold the investment until the carrying amount is fully recovered. Circumstances that indicate an impairment may have occurred include factors such as decreases in quoted market prices or declines in the operations of the investee. The evaluation of an investment for potential impairment requires us to exercise significant judgment and to make certain assumptions. The use of different judgments and assumptions could result in different conclusions. The Company has recorded impairment losses related to our equity method investments of \$nil during the three months ended March 31, 2021 and 2020.

**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Recently Issued Accounting Standards**

The Company qualifies as an “emerging growth company” (EGC) under the 2012 JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. As an emerging growth company, management can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The management has elected to take advantage of the benefits of this extended transition period.

In August 2018, the FASB issued ASU 2018-13, “Changes to Disclosure Requirements for Fair Value Measurements”, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (for “emerging growth company” beginning after December 15, 2020). The Company has adopted this standard effective from January 1, 2021 and the adoption of this standard did not have any significant impact on the unaudited condensed consolidated interim financial statements.

The FASB recently issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470- 20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, to reduce complexity in applying GAAP to certain financial instruments with characteristics of liabilities and equity. The guidance in ASU 2020-06 simplifies the accounting for convertible debt instruments and convertible preferred stock by removing the existing guidance in ASC 470-20, Debt: Debt with Conversion and Other Options, that requires entities to account for beneficial conversion features and cash conversion features in equity, separately from the host convertible debt or preferred stock. The guidance in ASC 470-20 applies to convertible instruments for which the embedded conversion features are not required to be bifurcated from the host contract and accounted for as derivatives. In addition, the amendments revise the scope exception from derivative accounting in ASC 815-40 for freestanding financial instruments and embedded features that are both indexed to the issuer’s own stock and classified in stockholders’ equity, by removing certain criteria required for equity classification. These amendments are expected to result in more freestanding financial instruments qualifying for equity classification (and, therefore, not accounted for as derivatives), as well as fewer embedded features requiring separate accounting from the host contract. The amendments in ASU 2020-06 further revise the guidance in ASC 260, Earnings Per Share, to require entities to calculate diluted earnings per share (EPS) for convertible instruments by using the if-converted method. In addition, entities must presume share settlement for purposes of calculating diluted EPS when an instrument may be settled in cash or shares. The amendments in ASU 2020-06 are effective for public entities for fiscal years beginning after December 15, 2021 with early adoption permitted (for “emerging growth company” beginning after December 15, 2023). The Company will be evaluating the impact this standard will have on the Company’s unaudited condensed consolidated interim financial statements.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****3. Inventory**

At March 31, 2021, the inventory in the amount of \$99,000 (December 31, 2020: \$99,000) consists of finished goods and is held at a third-party location.

In addition, the inventory in the amount of \$99,000 (December 31, 2020: \$99,000) is secured against the loan provided by the Company's shareholder. Refer to Note 8 for further details.

**4. Sales Tax Recoverable**

As at March 31, 2021, the Company had \$115,110 of gross sales tax recoverable compared to \$95,386 as at December 31, 2020. This is due to sales tax paid by the subsidiary on expenses incurred during the year which are recoverable from the government.

The Company has recorded an allowance in the amount of \$24,616 (December 31, 2020: \$19,924) stemming from the potential uncollectible balances within the outstanding sales tax recoverable amount.

**5. Fixed Assets**

The Company's subsidiary, Canary, initiated construction on its 44,000 square foot cannabis cultivation facility in September of 2017. Since then, extensive demolition and structural upgrades have been carried out at the site. On May 1, 2019, the Company completed the construction of its 44,000 square foot cannabis cultivation facility and on May 14, 2019, the Company submitted a Site Evidence Package to Health Canada as part of the steps to obtain the license to cultivate cannabis at the Company's facility. On October 8, 2019, the Company was granted licenses to cultivate, process and sell cannabis pursuant to the Cannabis Act (Bill C-45).

Canary has recorded depreciation expense of \$228,004 during the three months ended March 31, 2021 (March 31, 2020: \$nil). Since the facility was not operating during the period ended September 30, 2020 no depreciation had been charged on all assets of Canary during that period.

The Company's other subsidiary, CannaKorp, has been utilizing its assets throughout the period and accordingly, has recorded depreciation expense of \$13,791 during the three months ended March 31, 2021 (March 31, 2020: \$21,989).

Below is a breakdown of the consolidated fixed asset, category wise:

	<b>Furniture &amp; fixture</b>	<b>Machinery &amp; Equipment</b>	<b>Software</b>	<b>Leasehold improvements</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Cost	1,128,362	773,005	43,673	7,234,833	<b>9,179,873</b>
Accumulated depreciation	(60,629)	(668,828)	(41,685)	(396,565)	<b>(1,167,707)</b>
	<b>1,067,733</b>	<b>104,177</b>	<b>1,988</b>	<b>6,838,268</b>	<b>8,012,166</b>

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****6. Joint Venture**

Effective May 14, 2020, Canary entered into a Joint Venture Agreement (“Joint Venture”) with 9258159 Canada Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as “Thrive Cannabis”) and 2755757 Ontario Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as “JVCo”). Canary and Thrive Cannabis each hold 50% of the voting equity interest in JVCo. The term of the Joint Venture is five (5) years from its effective date of May 14, 2020.

Under the Joint Venture, JVCo is permitted to use all eight (8) rooms, of Canary’s licensed cannabis cultivation facilities located in Simcoe, Ontario, Canada (“Licensed Site Portion”) for the purpose of operating and managing the Licensed Site Portion for the cultivation and process of cannabis pursuant to Canary’s license issued by Health Canada. During the term of the Joint Venture, JVCo will be responsible for the administration, operation and management of the Licensed Site Portion and all proceeds from the sale of the cannabis and related cannabis products cultivated therein will be payable to the JVCo.

In addition, Canary, Thrive Cannabis, and JVCo entered into a Unanimous Shareholder Agreement dated May 14, 2020 governing the management and administration of the business of JVCo.

As per the Joint Venture, Canary will provide the JVCo with a Hard Cost Loan with the maximum amount of \$954,240 (CAD \$1,200,000). This loan bears an interest rate of 7% per annum, matures in 12 months from effective date, and is secured against the personal property of the JVCo and Thrive will guarantee one-half (1/2) of the outstanding balance of the loan. As at March 31, 2021, the loan advanced amounts to \$266,392 (CAD \$335,000) and interest income charged for the three months ended in amount of \$4,598 (CAD \$5,782) is included in other income on the unaudited condensed consolidated interim statement of operations and comprehensive loss and interest receivable in amount of \$12,773 (CAD \$16,063) is included in receivable from joint venture on the unaudited condensed consolidated interim balance sheet.

The JVCo will reimburse Canary for certain expenses incurred by Canary for the cultivation and processing of cannabis products. Below is the table which summarizes the activity of the period:

<b>Period ended March 31,</b>	<b>2021</b>		<b>2020</b>	
	<b>CAD \$</b>	<b>USD \$</b>	<b>CAD \$</b>	<b>USD \$</b>
Sales	248,500	197,607	—	—
Eligible recoverable expenses	675,991	537,548	—	—
Recoverable amount	677,125	538,450	—	—
Loss on equity	(14,305)	(11,300)	—	—

Due to reimbursement of an office and general expense during the current quarter ended which had been expensed in the books of Canary in the prior period therefore leading to a credit (negative) expense on the unaudited condensed consolidated interim statement of operations and comprehensive loss. During the period ended March 31, 2021, revenue was sold to three customers (2020: N/A).

The JVCo shall make payments out of the revenues, net of applicable taxes and expenses (“Net Income”), in accordance with the following order of priority:

- a) First, the payment of recoverable expenses;
- b) Second, to the repayment of the Hard Cost Loan until repaid in full;
- c) Third, to the repayment of the Soft Costs (costs of services and materials provide by Thrive Cannabis) until repaid in full;
- d) Finally, any remaining Net Income shall be distributed, on a monthly basis, as follows:
  - (i) For the first two (2) years following execution of this Agreement, Canary shall receive 60% and Thrive Cannabis shall receive 40%; and
  - (ii) For the three (3) years following such period, Canary shall receive 57.5% and Thrive shall receive 42.5%.

Below is the position of the JVCo as at:

<b>As at March 31,</b>	<b>2021</b>		<b>2020</b>	
	<b>CAD \$</b>	<b>USD \$</b>	<b>CAD \$</b>	<b>USD \$</b>
Assets	1,723,207	1,370,294	—	—
Liabilities	2,418,351	1,923,073	—	—
Equity	(695,144)	(552,779)	—	—

**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**7. Goodwill**

**Business Acquisition**

ASC Topic 805, "Business Combinations" requires that all business combinations be accounted for using the acquisition method and that certain identifiable intangible assets acquired in a business combination be recognized as assets apart from goodwill. ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350") requires goodwill and other identifiable intangible assets with indefinite useful lives not be amortized, such as trade names, but instead tested at least annually for impairment (which the Company tests each year end, absent any impairment indicators) and be written down if impaired. ASC 350 requires that goodwill be allocated to its respective reporting unit and that identifiable intangible assets with finite lives be amortized over their useful lives.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****CannaKorp Inc.**

Effective January 25, 2019, the Company entered into an Agreement and Plan of Share Exchange (“Exchange Agreement”) with CannaKorp Inc., a Delaware corporation (“CannaKorp”). Company had previously entered into a Letter of Intent with CannaKorp dated November 30, 2018 which was disclosed in the Company’s report on Form 8-K filed December 4, 2018.

The Exchange Agreement provides that, subject to its terms and conditions, the Company issued to the CannaKorp shareholders an aggregate of 30,407,412 shares of the Company’s common stock, based on a price per share of \$0.10, in exchange for 100% of the issued and outstanding common stock of CannaKorp held by the CannaKorp shareholders. In addition, the Company will issue Common Stock Purchase Warrants (“Warrants”) in exchange for all outstanding and promised CannaKorp stock options. The Warrants will grant the holders thereof the right to purchase up to approximately 7,211,213 shares of the Company’s common stock. The Company will also assume all outstanding liabilities of CannaKorp. Upon the closing of the Exchange Agreement, CannaKorp will continue its business operations as a subsidiary of the Company. The transaction was closed effective March 1, 2019.

Due to the publicly traded nature of the Company’s shares of the common stock, the equity issuance of the shares was considered to be a more reliable measurement of fair market value of the transaction compared to having a separate valuation of the net assets. During the quarter ended, March 31, 2021, all of the warrants expired, none were exercised.

This acquisition was accounted for using the acquisition method of accounting. The fair value of assets, liabilities and intangible assets and the purchase price allocation as of March 1, 2019 was as follows:

	<b>Allocation of Purchase Price</b>
	<b>\$</b>
Cash	18,961
Accounts Receivable	2,068
Inventory	326,595
Prepaid and other receivables	89,585
Property and equipment, net	88,129
<b>Total assets</b>	<b>525,338</b>
Accounts payable	(1,365,790)
Accrued expenses and other current liabilities	(286,435)
Deferred revenue	(128,158)
Payable to related parties	(753,738)
<b>Total liabilities</b>	<b>(2,534,121)</b>
<b>Net liabilities</b>	<b>(2,008,783)</b>
Goodwill	6,071,627
<b>Total net assets acquired</b>	<b>4,062,844</b>

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The purchase consideration of 30,407,412 shares and 7,211,213 warrants of the Company's common stock valued as detailed below:

	<b>\$</b>
Number of Common Stock	30,407,712
Market price on the date of issuance	0.108
<b>Fair value of Common Stock</b>	<b>3,284,033</b>
	<b>\$</b>
Number of warrants	7,211,213
Fair value price per warrant	0.108
<b>Fair value of warrant</b>	<b>778,811</b>
Fair value of Common Stock	3,284,033
Fair value of warrant	778,811
<b>Purchase consideration</b>	<b>4,062,844</b>

The fair value of these warrants was measured at the date of acquisition using the Black-Scholes option pricing model using the following assumptions:

- Forfeiture rate of 0%;
- Stock price of \$0.108 per share;
- Exercise price between the range of \$0.13 to \$0.15 per share
- Volatility at 635.49%
- Risk free interest rate of 2.55%;
- Expected life of 2 years; and
- Expected dividend rate of 0%

During the quarter ended December 31, 2019, the goodwill was revaluated after the completion of CannaKorp's audit of the year ended December 31, 2018. This resulted in changing the balance on acquisition date, March 1, 2019 thereby increasing the goodwill by \$369,315 to \$6,071,627.

During the year ended, December 31, 2019, the Company identified circumstances which would call for evaluation of goodwill impairment and therefore impaired \$1,485,925 reducing the goodwill related to the CannaKorp to \$4,585,702.

During the year ended, December 31, 2020, the Company identified circumstances which would call for evaluation of goodwill impairment and therefore impaired the remaining balance of goodwill related to the CannaKorp to \$nil.

Refer to Note 11 for details on warrants.

**Visava Inc./Canary Rx Inc.**

On June 27, 2018, the Company entered into an Agreement and Plan of Share Exchange ("Exchange Agreement") with Visava Inc., a private Ontario, Canada corporation ("Visava"). Visava owns 100% of Canary Rx Inc., a Canadian corporation that holds a leasehold interest in a parcel of property located in Ontario's Garden Norfolk County for the production of cannabis.

Pursuant to the Agreement, the Company acquired 100% of the issued and outstanding shares of Visava Inc. in exchange for the issuance of 25,500,000 shares of the Company's Common Stock and will issue to the Visava shareholders, prorata Common Stock Purchase Warrants purchasing an aggregate of 25,000,000 shares of the Company's Common Stock at a price per share of \$0.10 for a period of two years following the issuance date of the Warrants. As a result of this transaction, Visava Inc. became a wholly owned subsidiary of the Company and the former shareholders of Visava Inc. owned approximately 46.27% of the Company's shares of Common Stock. The transaction was closed effective August 2, 2018. During the quarter ended, September 30, 2020, all of the warrants expired, none were exercised.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

This acquisition was accounted for using the acquisition method of accounting. The fair value of assets, liabilities and intangible assets and the purchase price allocation as of August 2, 2018 was as follows:

	<b>Allocation of Purchase Price</b>
	<b>\$</b>
Prepaid and other receivables	15,368
Sales tax recoverable	133,614
Furniture and equipment	897
Capital work in progress	898,422
<b>Total assets</b>	<b>1,048,301</b>
Bank overdraft	(63,693)
Accounts payable	(1,158,164)
Payable to related parties	(101,797)
<b>Total liabilities</b>	<b>(1,323,654)</b>
<b>Net liabilities</b>	<b>(275,353)</b>
Goodwill	3,594,195
<b>Total net assets acquired</b>	<b>3,318,842</b>
	<b>\$</b>
Number of Common Stock	25,500,000
Market price on the date of issuance	0.067
<b>Fair value of Common Stock</b>	<b>1,695,750</b>
	<b>\$</b>
Number of warrants	25,000,000
Fair value price per warrant	0.065
<b>Fair value of warrant</b>	<b>1,623,092</b>
Fair value of Common Stock	1,695,750
Fair value of warrant	1,623,092
<b>Purchase consideration</b>	<b>3,318,842</b>

The fair value of these warrants was measured at the date of acquisition using the Black-Scholes option pricing model using the following assumptions:

- Forfeiture rate of 0%;
- Stock price of \$0.067 per share;
- Exercise price of \$0.10 per share
- Volatility at 329%
- Risk free interest rate of 2.66%;
- Expected life of 2 years; and
- Expected dividend rate of 0%



**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Refer to Note 11 for details on warrants.

During the period and year ended March 31, 2021 and December 31, 2020, respectively, the Company has identified no circumstances which would call for further evaluation of goodwill impairment related to Canary.

**Goodwill**

The Company tests for impairment of goodwill at the reporting unit level. In assessing whether goodwill is impaired, the Company utilize the two-step process as prescribed by ASC 350. The first step of this test compares the fair value of the reporting unit, determined based upon discounted estimated future cash flows, to the carrying amount, including goodwill. If the fair value exceeds the carrying amount, no further work is required and no impairment loss is recognized. If the carrying amount of the reporting unit exceeds the fair value, the goodwill of the reporting unit is potentially impaired and step two of the goodwill impairment test would need to be performed to measure the amount of an impairment loss, if any. In the second step, the impairment is computed by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss in the amount of the excess is recognized and charged to statement of operations.

**8. Related Party Transactions and Balances**

During the period ended March 31, 2021, the Company expensed \$77,943 (March 31, 2020: \$83,239) in management service fee for services provided by the current key officers of the company.

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The breakdown of the related party balance as at March 31, 2021 in the amount of \$10,121,537 (December 31, 2020: \$9,934,960) is below:

*Debt purchase by CL Investors Inc.*

On June 15, 2020, the Company and its subsidiaries, entered into a Debt Purchase and Assignment Agreement (“Agreement”) with CL Investors Inc. (“CLI). June 15th was preliminary date of the agreement and the agreement was not finalized until the later date as indicated below.

The CEO of the Company, is the Secretary of CLI, a director of the Company, is a shareholder of CLI and the brother of CEO, is the President and sole director of CLI therefore the loan from CLI is classified under related party transactions.

CLI purchased from the Company for the sum of \$2,306,080, (CAD \$2,900,000) a debt obligation owing from Canary, the Company’s second tier subsidiary, to the Company in the principal balance of \$8,429,120 (CAD \$10,600,000 (“Canary Debt”). Upon receipt of the monetary consideration, the Company loaned the full sum to Canary under terms of an unsecured, non-interest-bearing promissory note, subject to a covenant by the Company not to take any collection action so long as the Canary Debt remains unpaid to CLI. As at March 31, 2021, \$3,976 (CAD \$5,000) is still outstanding from CLI.

The Canary debt owed to CLI from Canary bears an interest at 5% per annum and matures on August 14, 2025. The repayment of the debt is guaranteed by the Company and its subsidiaries plus secured by a general security interest in the assets of the Company and its subsidiaries and a pledge by the Company of all of the issued and outstanding common stock of Canary, Visava and CannaKorp Inc. held by the Company. In addition to the above, CLI has been granted an option, in lieu of repayment of the amended Canary Debt, to demand, in its sole and absolute discretion the transfer, assignment and conveyance of 75% of the issued and outstanding capital stock of Visava and Canary. Furthermore, the President and sole director of CLI has been granted an option to acquire the remaining 25% of the issued and outstanding capital stock of Visava and Canary.

Interest expense charged for the year ended in amount of \$104,662 (CAD \$132,500) is included in interest and bank charges on the unaudited condensed consolidated interim statement of operations and comprehensive loss and accrued interest in amount of \$265,751 (CAD \$334,194) is included in accounts payable and accrued liabilities on the unaudited condensed consolidated interim balance sheet.

The repayment schedule of the minimum principal payments is shown below:

2021	\$ 1,039,648
2022	\$ 1,693,447
2023	\$ 2,269,022
2024	\$ 2,174,767
2025	\$ 1,252,236
Total	\$ 8,429,120
Current portion	\$ (1,366,058)
Non-current portion	\$ 7,063,062

Effective August 14, 2020, the Agreement was amended (“Amendment”) to provide that CLI will purchase from Rubin Schindermann, a director of the Company, 500,000 shares of the Company’s Series A Preferred Stock in consideration of the payment by CLI to Rubin Schindermann of \$79,520 (CAD \$100,000) and the issuance to Mr. Schindermann of 10,000,000 shares of the Company’s common stock. In consideration of the foregoing, Mr., Schindermann resigned as a director of the Company and from any and all administrative and executive positions with the Company’s subsidiaries. In addition, the Company issued Common Stock Purchase Warrant for 10,000,000 shares of Target common stock to CLI as consideration for the Agreement. Refer to Note 11 for additional details on warrants. The combined impact of both transactions resulted in debt issuance cost of \$251,518. This debt issuance cost will be amortized over the term of the debt on straight line basis. As at March 31, 2021, the balance is \$233,139 of which \$53,357 is current while \$179,782 is non-current.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***Shareholder loan*

On December 20, 2019, one of the Company's shareholders provided a loan up to \$795,200 (CAD \$1,000,000). The loan bears an annual interest rate of 16%, is secured by all assets owned by the Company and its subsidiaries including leasehold improvements and matures in one year that is December 20, 2020. During the year ended December 31, 2020, the loan maximum was increased by \$795,200 (CAD \$1,000,000). This additional loan bears an annual interest rate of 43% and has a lender fee of 10%. Due to above amendment, the maximum loan which the company can borrow is \$1,590,400 (CAD \$2,000,000) which is also the outstanding balance as at March 31, 2021. Interest expense charged for the three months ended March 31, 2020 in amount of \$116,195 (CAD \$146,121) is included in interest and bank charges on the unaudited condensed consolidated interim statement of operations and comprehensive loss and accrued interest in the amount of \$314,901 (CAD \$396,002) is included in accounts payable and accrued liabilities on the unaudited condensed consolidated interim balance sheet.

*Shareholder promissory note*

Effective April 20, 2020, the Company issued its promissory note ("Note") to one of the Company's shareholders in the principal amount of \$236,993. The Note contained an original issue discount of \$15,300 resulting in net proceeds to the Company of \$221,693. The Note carries interest at the rate of 12% per annum and the note matures on April 20, 2021. During the quarter ended, September 30, 2020, the Company paid the outstanding balance and accrued interest in full, in the amount of \$251,213.

*Outstanding management service fee*

The balance owing to key officers of the Company is \$270,155 (December 31, 2020: \$217,359). The outstanding balance are primarily outstanding management service fee. During the three months ended March 31, 2021, nil shares (March 31, 2020: nil shares) were issued for these services performed as of and for the three months ended March 31, 2021.

*Balances outstanding related to subsidiaries*

On February 22, 2020, Randal MacLeod, who is shareholder in the Company and former President of the subsidiary, Visava terminated his employment agreement and during the three months ended March 31, 2021, \$nil (December 31, 2020, \$54,307) was paid as remuneration for management services included in salaries and wages. As at March 31, 2021, the balance owing is \$nil (December 31, 2020: \$nil).

During the year ended December 31, 2019, the Company settled with the loan holders provided to the Company's subsidiary, CannaKorp. Total amount subject to settlement was \$817,876 which includes accrued interest and accrued payroll. The company settled by paying \$954,374 as consideration of cash, 920,240 shares (recorded in shares to be issued) and warrants of 920,240 shares with an exercise price of \$0.15 per share. This resulted in a settlement loss of \$136,498. Of the total settlement amount, as at March 31, 2021 and December 31, 2020, \$65,000 was outstanding to be paid. This amount includes late payment penalties of \$25,000. During the quarter ended March 31, 2021, all of the warrants expired, none were exercised.

During the three months ended March 31, 2021, the Company has purchased \$nil of consulting services from GTA Angel Group which is owned by the Company's CEO's brother. The balance outstanding as at March 31, 2021 is \$26,957 and is included in accounts payable and accrued liabilities.

During the three months ended March 31, 2021, the Company has purchased consulting services amounting to \$nil from BaK Consulting which is owned by one of the Company's director. The balance outstanding as at March 31, 2021 is \$nil.

During the three months ended March 31, 2021, the Company subleases its principal executive office premise from Norlandam Marketing Inc., a company owned by one of directors. During quarter ended March 31, 2021, the premises were subleased to a third party which makes rent payments directly to Norlandam Marketing Inc. The outstanding balance as at March 31, 2021 is balance of \$nil.

**9. Operating Lease Right-Of-Use Assets and Lease Liability**

The Company adopted ASC 842 as of January 1, 2019, using a modified retrospective approach and applying the standard's transition provisions at January 1, 2020, the effective date. The Company made an accounting policy election to exclude from balance sheet reporting those leases with initial terms of 12 months or less. The Company determines if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified fixed asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. The Company has lease agreements which include lease and non-lease components, which the Company has elected to account for as a single lease component for all classes of underlying assets. Lease expense for variable lease components is recognized when the obligation is probable.

Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As an implicit interest rate is not readily determinable in the Company's leases, the incremental borrowing rate is used based on the information available at adoption date in determining the present value of lease payments. The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor. Options for lease renewals have been excluded from the lease term (and lease liability) for the majority of the Company's leases as the reasonably certain threshold is not met.

The Company does not own any real property and it currently leases two locations. For accounting purposes, these leases are treated as operating leases. Upon adoption of ASC 842, the Company recognized \$1,795,730 (CAD \$2,258,212) of right-to-use assets as operating leases and operating lease obligations. The right-to-use asset was reduced by \$1,661,905 (CAD \$2,089,921) due to recognition of the prior deferred rent liability which was eliminated upon adoption of ASC 842. Details of these leases are detailed below:

During quarter ended March 31, 2021, the Company subleased its executive premises to a third party. During quarter ended March 31, 2021, the Company subleased its executive premises to a third party which makes rent payments directly to the landlord. However, if the sub-lessee cancels its sub-lease agreement with the landlord during the Company's lease term with the landlord (ending on August 30, 2023), the Company will be responsible for making rent payments for the period from the date of cancellation by the sub-lessee to August 30, 2023.

The Company's subsidiary, Canary, is a party to a 10-year lease agreement (initiated on July 2014) with respect to its facility to produce Medical Marijuana. The lease agreement was amended effective January 1, 2020, where the amended 10-year term starts on May 1, 2020 and provides the Company an option to extend for three (3) additional terms of ten (10) years. Additionally, effective January 1, 2020, the amended agreement increased the minimum rent to \$27,832 (CAD \$35,000) plus applicable taxes per month and on each anniversary date, commencing from January 1, 2021, the minimum rent will increase by 1.00%. Furthermore, only the current 10-year term has been factored into the calculation of the lease liability. Effective May 1, 2020, due to the implementation of the new lease, \$737,467 (CAD \$988,293) was forgiven by the landlord and one vendor.

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

These leases will expire between 2023 and 2030. The weighted average discount rate used for these leases were 16% (average borrowing rate of the Company). Maturities of lease liabilities were:

2021	\$	261,424
2022		352,175
2023		351,874
2024		347,545
Thereafter		1,913,533
Total lease payments		3,226,551
Less imputed interest		(1,519,544)
Present value of lease liabilities		1,707,007
Current portion		(88,465)
Non-current portion	\$	<u>1,618,542</u>

Below is the reconciliation of the net operating lease presented on the unaudited condensed consolidated interim statement of operations:

	<b>For the three months ended March 31, 2021</b>
	<b>\$</b>
Gross operating lease expense	68,058
Gross rent and utilities expenses	150,525
Recoverable expenses from JVCo related to rent and utilities	(231,628)
	<u>(13,045)</u>

As explained in Note 6, the JVCo reimburses certain percentage of gross expenses incurred by Canary which includes rent and utilities. Due to this unique circumstance and since operating lease expense are related to rent expenses, the Company has decided to group the operating lease expenses, all lease related expenses and the recoverable amount from JVCo to show a net operating lease expense.

**10. Convertible Promissory Notes**

Interest amounting to \$82 was accrued for the three months ended March 31, 2021 (March 31, 2020: \$10,082).

Principal amount outstanding as at March 31, 2021 and December 31, 2020 was \$480 and \$3,128, respectively. At both period ends, the entire balance was current.

During the period ended March 31, 2021, the Company converted the outstanding principal balance of Note K.

All notes maturing prior to the date of this report are outstanding.

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*Derivative liability*

During the three months ended March 31, 2021, holders of convertible promissory notes converted principal amounting to \$2,648 (March 31, 2020: \$nil). The Company recorded and fair valued the derivative liability as follows:

	Derivative liability as at December 31, 2020 \$	Conversions / Redemption during the period \$	Change due to Issuances \$	Fair value adjustment \$	Derivative liability as at March 31, 2021 \$
Note D	1,066	—	—	1,301	2,367
Note F	7,864	—	—	10,364	18,228
Note G	2,857	—	—	3,765	6,622
Note K	281	(227)	—	(54)	—
	<b>12,068</b>	<b>(227)</b>	<b>—</b>	<b>15,376</b>	<b>27,217</b>

**Key assumptions used for the valuation of convertible notes**

Derivative element of the convertible notes was fair valued using multinomial lattice model. Following assumptions were used to fair value these notes as at March 31, 2021:

- Projected annual volatility of 234%;
- Risk free interest rate of 0.11%;
- Stock price of \$0.025;
- Liquidity term of 0.25 years;
- Dividend yield of 0%; and
- Exercise price of \$0.0064 to \$0.0151.

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**11. Stockholders' Equity**

**Capitalization**

*Preferred Stock*

- Par value: \$0.0001
- Authorized: 20,000,000
- Issued: 1,000,000 shares were outstanding as at March 31, 2021 and December 31, 2020

*Common Stock*

- Par value: \$0.0001
- Authorized: 850,000,000
- Issued: 573,452,193 shares are outstanding as at March 31, 2021 (December 31, 2020: 573,277,094)

As of March 31, 2021, convertible notes, warrants and preferred stock outstanding could be converted into 3,889,376 (December 31, 2020: 6,928,486), 387,214,383 (December 31, 2020: 364,891,384) and 100,000,000 (December 31, 2020: 100,000,000) shares of common stock, respectively. These together will exceed the authorized common share limit; however, majority of the warrants are unlikely to be exercised due to the depressed share price.

**Preferred Stock**

Shares of preferred stock may be issued from time to time in one or more series as may be determined by the board of directors. The board of directors may fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof without any further vote or action by the stockholders of the Company, except that no holder of preferred stock shall have pre-emptive rights. Any shares of preferred stock so issued would typically have priority over the common stock with respect to dividend or liquidation rights. The board of directors does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or otherwise.

*Series A Preferred Stock ("Series A Stock")*

Dividends shall be declared and set aside for any shares of Series A Stock in the same manner and amount as for the Common Stock. Series A Stock, as a class, shall have voting rights equal to a multiple of 2X the number of shares of Common Stock issued and outstanding that are entitled to vote on any matter requiring shareholder approval. The Series A Stock holder shall not vote as a separate class but shall vote together with the common stock on all matters, including any amendment to increase or decrease the authorized capital stock. Upon the voluntary or involuntary dissolution, liquidation or winding up of the corporation, the assets of the Company available for distribution to its shareholders shall be distributed to the holders of common stock and the holders of the Series A Stock ratably without any preference to the holders of the Series A Stock. Shares of Series A Stock can be converted at any time into fully-paid and nonassessable shares of Common Stock at the rate of One Hundred (100) shares of Common Stock for each One (1) share of Series A Stock.

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**Common Stock**

Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the stockholders. Holders of common stock do not have cumulative voting rights.

Subject to preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to share ratably in dividends, if any, as may be declared from time to time by the board of directors in its discretion from funds legally available therefore.

Holders of common stock have no pre-emptive rights to purchase the Company's common stock. There are no conversion or redemption rights or sinking fund provisions with respect to the common stock. The Company may issue additional shares of common stock which could dilute its current shareholder's share value.

2021

During the quarter ended March 31, 2021, the Company issued 175,099 shares of common stock to an individual on conversion of a convertible promissory note amounting to \$2,648. In addition, 15,624 shares of common stock to be issued as consideration of the intellectual property rights granted by Smit to the Company's subsidiary, Canary. These were recorded at fair value of \$504, based on the market price of the Company's stock on the date of agreement. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued.

During the quarter ended March 31, 2021, the Company sold 38,183,326 shares of common stock as consideration for private placements. These were recorded at fair value of \$904,833, based on the cash proceeds received by the Company. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued. As part of consideration for the private placement, the Company also agreed to issue warrants to purchase 38,183,326 shares of common stock.

2020

During the quarter ended December 31, 2019, the Company had found an error in issuing in the incorrect private placement and therefore had recorded a subscription receivable in the amount of \$220,000 based on the cash proceeds of the private placement and this was offset by shares to be issued, therefore, a net zero effect on equity. During quarter ended March 31, 2020, the incorrect number of shares, 11,000,000, were cancelled.

During the quarter ended March 31, 2020, 15,624 shares of common stock to be issued as consideration of the intellectual property rights granted by Smit to the Company's subsidiary, Canary. These were recorded at fair value of \$193, based on the market price of the Company's stock on the date of agreement. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued.

During the quarter ended June 30, 2020, the Company issued 3,131,126 shares of common stock to individual on conversion of a convertible promissory note amounting to \$40,770 (including principal balance and accrued interest). In addition, 5,208 shares of common stock to be issued as consideration of the intellectual property rights granted by Smit to the Company's subsidiary, Canary. These were recorded at fair value of \$42, based on the market price of the Company's stock on the date of agreement. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued.

As explained in Note 8, during the quarter ended September 30, 2020, the Company issued 10,000,000 shares of common stock to a director of the company pursuant to Amendment to the Debt Purchase and Assignment Agreement ("Agreement") with CLI. These were recorded at fair value of \$130,000, based on the market price of the Company's stock on the date of agreement. In addition, 26,040 shares of common stock to be issued as consideration of the intellectual property rights granted by Smit to the Company's subsidiary, Canary. These were recorded at fair value of \$353, based on the market price of the Company's stock on the date of agreement. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued.

During the quarter ended December 31, 2020, the Company issued 15,624 shares of common stock to be issued as consideration of the intellectual property rights granted by Smit to the Company's subsidiary, Canary. These were recorded at fair value of \$215, based on the market price of the Company's stock on the date of agreement. These are currently recorded under shares to be issued and will be allocated between common stock and additional paid in capital once the shares are issued.



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**Shares to be issued include the following:**

	<u>Shares</u>		<u>Amount</u>	<u>Description</u>
				80,000 shares of common stock to be issued as compensation to advisers and consultants. These were recorded at fair value of \$52,000, based on the market price of the Company's stock on the date of issue.
Services	115,000	\$	73,000	35,000 to be issued as settlement of amount due for website development services amounting to \$247,306. The fair value of the shares on the date of settlement was \$21,000, resulting in gain on settlement amounting to \$226,306 during year ended December 31, 2017.
				Consideration for private placements with the fair value based on cash proceeds received. Proper allocation between common stock and additional paid in capital of the amount received will be completed in the period when the shares are issued.
Private placements	38,886,765	\$	942,313	During the period ended June 30, 2020, the Company found the allocation between shares to be issued and additional paid in capital was not performed correctly when the shares were issued for the past private placements. This has been corrected in this period and as a result of this reclassification, there was no impact on total equity.
Settlement of CannaKorp's loans	930,240	\$	80,838	Refer Note 8 for details.
Agreement with Serious Seeds	78,120	\$	1,307	As consideration for intellectual property rights granted by Smit. The fair value is based on the market price of the Company's stock on the date of issue as per the agreement.
	<u>40,010,125</u>	<u>\$</u>	<u>1,097,458</u>	

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**Warrants**

As further explained in Note 14, the warrants (with exercise price in United States Dollar) were re-classified as liability as at December 31, 2019 and therefore have been revalued on each period end. The fair value of the warrants was measured on reporting dates using the Black-Scholes option pricing model using the following assumptions:

	As at March 31, 2021	As at December 31, 2020	As at September 30, 2020	As at June 30, 2020	As at March 31, 2020
Forfeiture rate	0%	0%	0%	0%	0%
Stock price	\$ 0.025	\$ 0.014	\$ 0.011	\$ 0.018	\$ 0.010
Exercise price	\$ 0.023 to \$0.250	\$ 0.023 to \$0.200	\$ 0.023 to \$0.200	\$ 0.023 to \$0.200	\$ 0.023 to \$0.200
Volatility	236% to 306%	238% to 293%	244% to 306%	215% to 298%	195% to 286%
Risk free interest rate	0.16% to 2.48%	0.13% to 2.48%	0.13% to 2.48%	0.16% to 2.66%	0.23% to 2.66%
Expected life (years)	0.01 to 1.93	0.15 to 1.93	0.01 to 1.93	0.01 to 2.12	0.24 to 2.37
Expected dividend rate	0%	0%	0%	0%	0%

The fair value of the warrants, which were issued during the below quarters, were measured on issuance dates using the Black-Scholes option pricing model using the below assumptions.

2021

	During quarter ended March 31, 2021
Forfeiture rate	0%
Stock price	\$ 0.011 to \$0.067
Exercise price	\$ 0.025 to \$0.059
Volatility	306%
Risk free interest rate	0.09% to 0.14%
Expected life (years)	2
Expected dividend rate	0%
Fair value of warrants	\$ 2,152,191

2020

	During quarter ended December 31, 2020	During quarter ended September 30, 2020	During quarter ended June 30, 2020	During quarter ended March 31, 2020
Forfeiture rate	0%	0%	0%	0%
Stock price	\$ 0.012 to \$0.014	\$ 0.008 to \$0.018	\$ 0.008	\$ 0.010 to \$0.014
Exercise price	\$ 0.200	\$ 0.037 to \$0.200	\$ 0.200	\$ 0.150 to \$0.200
Volatility	293%	295% to 753%	305%	312%
Risk free interest rate	0.14% to 0.16%	0.11% to 0.27%	0.27%	1.61%
Expected life (years)	2	2 to 5	2	2
Expected dividend rate	0%	0%	0%	0%
Fair value of warrants	\$ 545	\$ 132,357	\$ 177	\$ 3,137

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Breakdown of warrants outstanding as at March 31, 2021 and December 31, 2020 are details below:

	<b>Warrants outstanding as at March 31, 2021</b>	<b>Warrants outstanding as at December 31, 2020</b>	<b>Remaining contractual life term as at March 31, 2021 (years)</b>	<b>Remaining contractual life term as at December 31, 2020 (years)</b>
Acquisition of CannaKorp	–	7,211,213	N/A	0.16
Private placements	376,747,711	346,233,258	0.01 to 1.92	0.15 to 1.62
Settlement of CannaKorp loans	–	930,240	N/A	0.24
Serious Seeds	466,672	416,671	0.77 to 1.93	1.01 to 1.26
CLI	10,000,000	10,100,002	4.37	4.62
<b>Total</b>	<b>387,214,383</b>	<b>364,891,384</b>		

During three months ended March 31, 2021, 15,810,326 warrants expired (related to private placements, acquisition of CannaKorp and settlement of CannaKorp loans).

**12. Earnings (Loss) Per Share**

FASB ASC 260, Earnings Per Share provides for calculations of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

**13. Contingencies and commitments***Contingencies*

During the year ended December 31, 2019, a terminated employee of Canary has filed a lawsuit against the Company amounting to approximately \$1,669,920 (CAD \$2,100,000) in Ontario, Canada. Currently, the Company is defending its position and believes that the ultimate decision will be in favor of the Company. Due to the uncertainty of timing and the amount of estimated future cash flows, if any, relating to this claim, no provision has been recognized.

A complaint for damages in the amount of \$150,000 was lodged against CannaKorp by the former Chief Financial Officer of the CannaKorp for outstanding professional fees. No claim has been registered and is working with management for a settlement. The Management are of the view that no material losses will arise in respect of the legal claim at the date of these unaudited condensed consolidated interim financial statements. As at March 31, 2021, \$188,865 has been recorded in the CannaKorp's payable based on past accruals and outstanding invoices. Due to the uncertainty of timing and the amount of estimated future cash flows, if any, relating to this claim, no further amount has been recognized.

As explained in Note 1, on July 27, 2020 ("Effective Date"), the Company entered into a settlement agreement with cGreen, Inc., a Delaware corporation ("cGreen"). As consideration, the Company paid \$130,000 within 30 days of the Effective Date and will pay \$100,000 in monthly installments of \$10,000 commencing in April 2021 to cGreen. During quarter ended March 31, 2021, the Company has paid its first installment. As at March 31, 2021, the outstanding balance is \$90,000 of which \$90,000 (December 31, 2020: \$90,000) is current and \$nil (December 31, 2020: \$10,000) is non-current.

In April 2020, an employee of Canary, who had previously resigned from the company, filed a claim that their bonus, that had been promised in their employment agreement was unpaid and had filled a claim with the Ministry of Labour in Ontario. While the Ministry of Labour deemed the bonus owed as a valid payment, the matter has since progressed to the Ontario Labour Relations Board (OLRB) in which the company is disputing this bonus due to several contractual factors that the company believes will allow this ruling to be overturned and revised in the company's favor. During quarter ended March 31, 2021, the Company settled with the employee in the amount of \$15,904 (CAD \$20,000).

A claim for damages in the amount of \$1,481,302 (CAD \$1,862,805) was lodged against Company and its directors by the former Chief Financial Officer of the Company for wrongful dismissal. The management are of the view that no material losses will arise in respect of the legal claim at the date of these unaudited condensed consolidated interim financial statements. As at March 31, 2021, \$11,684 has been recorded in the Target's payable based on past accruals. Due to the uncertainty of timing and the amount of estimated future cash flows, if any, relating to this claim, no further amount has been recognized.

During the year ended December 31, 2020, a claim for damages in the amount of \$103,995 (CAD \$130,778) was lodged against Canary by a vendor for breach of contract. The management are of the view that no material losses will arise in respect of the legal claim at the date of these unaudited condensed consolidated interim financial statements. As at March 31, 2021, \$109,857 (CAD \$138,150) has been recorded in the Canary's payable based on past accruals. Due to the uncertainty of timing and the amount of estimated future cash flows, if any, relating to this claim, no further amount has been recognized.

*Covid-19 Pandemic*

On March 11, 2020, the World Health Organization declared the ongoing COVID-19 outbreak as a global health emergency. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including the closure of certain non-essential businesses.

During the period and year ended March 31, 2021 and December 31, 2020, respectively, the pandemic did not have a material impact on the Company's operations. As at March 31, 2021 and December 31, 2020, the Company did not observe any material impairment of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. The Company has taken steps to minimize the potential impact of the pandemic including safety measures with respect to personal protective equipment, the reduction in travel and the implementation of a virtual office including regular video conference meetings and participation in virtual customer meetings and other virtual events.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, balance sheet and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

**TARGET GROUP INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Commitments

As per the Distribution, Collaboration and Licensing Agreement (“*Agreement*”) entered with Serious Seeds B.V. (“*Serious Seeds*”), effective December 6, 2018, the Company will issue to Serious Seeds B.V. each month 5,208 shares of common stock, beginning on the thirteen (13th) month following the effective date of the Agreement and continuing through the sixtieth (60th) month of the initial term. Furthermore, Serious Seeds will be issued warrants in each of the foregoing months to purchase 16,667 shares of Target common stock at varying exercise prices ranging from \$0.20 to \$0.35 per share. All of the warrants must be exercised on or before the two (2) year anniversary date of each of the warrant issuance dates. As at March 31, 2021, none of the above shares have been issued.

In consideration of the Company’s appointment as Serious’ exclusive distributor in Canada, the Company will pay Serious certain royalties as follows:

1 <sup>st</sup> year:	2.00% of gross sales
2 <sup>nd</sup> year:	2.25% of gross sales
3 <sup>rd</sup> year:	2.50% of gross sales
4 <sup>th</sup> year:	2.75% of gross sales
5 <sup>th</sup> and following years:	3.00% of gross sales

**TARGET GROUP INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****14. Restatement**

During quarter ended March 31, 2020, the Company identified that due to the change in functional currency of the Company from United States Dollar to Canadian Dollar during year ended December 31, 2019, the outstanding warrants as at December 31, 2019 no longer meet the scope exception of ASC 815 and therefore, should not be considered indexed to its own stock and as a result, these warrants should be re-classified from additional paid-in-capital to liability as at December 31, 2019.

As a result of this restatement, the following line items were restated in the comparative balance sheet as at December 31, 2019:

	<b>Balance as previously reported</b>	<b>Adjustments</b>	<b>Restated balance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Warrant liability	—	6,146,116	6,146,116
Total liability	6,529,359	6,146,116	12,675,475
Additional paid-in capital	29,846,004	(6,146,116)	23,699,888
Total equity	9,935,137	(6,146,116)	3,789,021

**15. Subsequent Events**

The Company's management has evaluated subsequent events up to May 7, 2021, the date the unaudited condensed consolidated interim financial statements were issued, pursuant to the requirements of ASC 855 and has determined the below material subsequent event to report:

During April 2021, the Company paid the outstanding settled amount of \$27,500, disclosed as deferred revenue on unaudited condensed consolidated interim balance sheet, to a distributor to release the inventory to the Company.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The information and financial data discussed below is derived from the unaudited condensed consolidated interim financial statements of the Target Group Inc. ("we," "us" or the "Company") for the three months ended March 31, 2021 and were prepared and presented in accordance with generally accepted accounting principles in the United States.*

### Forward Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q that are not historical facts are "forward -looking statements" which can be identified by the use of the terminology such as "estimates," "projects," "plans," "believes," "expects," "anticipates," "intends," or the negative or other variations, or by discussions of strategy that involve risks and uncertainties. We urge you to be cautious of the forward-looking statements, that such statements, which are contained in this Quarterly Report, reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors affecting our operations, market growth, services, products and licenses. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of the risks we face, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events. Factors that may cause actual results, our performance or achievements to differ materially from those contemplated by such forward-looking statements include without limitation:

- Our ability to raise capital when needed and on acceptable terms and conditions;
- Our ability to attract and retain management;
- Our ability to enter in to long-term supply agreements for the mineralized material;
- General economic conditions; and
- Other factors discussed in Risk Factors.

All forward-looking statements made in connection with this Quarterly Report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given the uncertainties that surround such statements you are cautioned not to place undue reliance on such forward-looking statements.

### **Overview**

Target Group Inc. ("Target Group" or "the Company") was incorporated in the State of Delaware on July 2, 2013, under our original name of River Run Acquisition Corporation. Effective May 13, 2014, the Company changed its name to Chess Supersite Corporation. On July 3, 2018, we filed an amendment in our Certificate of Incorporation to change our name to Target Group Inc.

Our original business comprised the operation of an extensive chess gaming website under the name ChessStars™. This comprehensive user-friendly web site [www.chessstars.com](http://www.chessstars.com), offered a state-of-the-art playing zone, broadcasts of the major tournaments, intuitive mega database, chess skilled contests and much more.

Effective October 18, 2018, our common stock became eligible for quotation on the OTCQB platform operated by OTC Markets Group Inc, under the symbol "CBDY".

Effective December 12, 2018, our Board of Directors approved the termination of our ChessStars™ online chess playing platform effective December 31, 2018. Effective December 7, 2020, we sold the ChessStars™ business to a former director, Alexander Starr in consideration of Starr's cancellation of the \$60,000 debt owing to him by us.

During the second quarter of 2020, the global spread of Coronavirus (COVID-19) continued to have a significant impact on the Canadian and global economy and customer purchasing behaviour, while equity markets remained volatile. However, these factors have not impacted the Company's operations, financial results for the quarter.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### **Business and Plan of Operations**

#### **Cannabis Business-Canada**

We are now engaged in the cultivation, processing and distribution of curated cannabis products for the adult-use medical and recreational cannabis market in Canada and where it has been legalized by state legislation, in the United States. We believe that there is a shift in the public's perception of cannabis from a state of prohibition to a state of legalization. In October 2018, Canada became the first major industrialized nation to legalize adult-use cannabis at the national federal level. Cannabis is still heavily regulated. However, the medical use of cannabis is now permitted in up to 29 countries and many more countries have reformed, or are considering reforming, their cannabis uses laws to include the recreational use of cannabis.

In the 2016 publication by Deloitte, Insights and Opportunities Recreational Marijuana, the project size of the Canadian adult-use market ranged from CAD \$4.9 billion to CAD \$8.7 billion annually. In the 2018 publication by Deloitte, A Society in Transition, an Industry Ready to Boom, the projected size of the Canadian adult-use market in 2019 ranged from CAD \$1.8 billion to CAD \$4.3 billion. The Canadian medical cannabis industry experienced substantial growth since 2014. Health Canada projects the Canadian cannabis market will reach CAD \$1.3 billion in annual value by 2024.

We intend to position ourselves with a core emphasis on co-packaging services to accommodate all consumer-packaged goods required for the sophisticated cannabis market in Canada and internationally. This will integrate cannabinoid research, analytical testing, product development and manufacturing.

Our product manufacturing will include, but will not be limited to the following:

- Cannabis flower pods for vaporizer use
- Cannabis extract pods for vaporizer use
- Cannabis pre-rolls
- K-Cup infused coffee and tea pods
- Infused cannabis beverages
- Infused cannabis edibles
- Infused topical products and CBD wellness products.

#### **Acquisitions**

To take advantage of the opportunity resulting from the legalization of adult-use cannabis in Canada, we completed several strategic acquisitions and entered into several significant agreements as follows:

##### Visava Inc./Canary Rx Inc.

On June 27, 2018, the Company entered into an Agreement and Plan of Share Exchange ("Exchange Agreement") with Visava Inc., a private Ontario, Canada corporation ("*Visava*"). Visava owns 100% of Canary Rx Inc. ("*Canary*"), a Canadian corporation that operates a 44,000 square foot facility located in Ontario's Garden Norfolk County for the production of cannabis. Canary is a Canadian Licensed Producer under Health Canada's Cannabis Act ("Bill C-45"). Canary expects to grow up to 4.5 million grams of cannabis annually out of its Simcoe facility once it is at full capacity. The Company is now growing premium cannabis in all of its 8 indoor grow rooms. Each 2,200 square feet. room gets up to 5.4 turns annually.

Pursuant to the Exchange Agreement, the Company issued to the Visava shareholders an aggregate of 25,500,000 shares of the Company's Common Stock in exchange for all of the issued and outstanding common stock held by the Visava shareholders. In addition of its Common Stock, the Company issued to the Visava shareholders, prorata Common Stock Purchase Warrants to purchase an aggregate of 25,000,000 shares of the Company's Common Stock at a price per share of \$0.10 for a period of two years following the issuance date of the Warrants. The transactions contemplated by the Exchange Agreement closed effective August 2, 2018. Visava will continue its business operations as a first-tier wholly-owned subsidiary of the Company with Canary operating as our second-tier subsidiary. During the quarter ended, September 30, 2020, all of the warrants expired, none were exercised.

##### CannaKorp Inc.

Pursuant to the terms of an Agreement and Plan of Share Exchange dated January 25, 2019 ("*Exchange Agreement*"), on March 1, 2019 we completed the acquisition of Massachusetts –based CannaKorp Inc., a Delaware corporation ("*CannaKorp*"). CannaKorp has developed a single-use pre-measured pod and vaporizer system for consumers interested in vaporizing natural herbs, including cannabis. The patent-pending system is known as The Wisp™ and Wisp Pods™. The Wisp™ vaporizer system extracts the medically beneficial compounds more efficiently while simultaneously offering a much safer and enjoyable experience than other alternatives.

Under the terms of the Exchange Agreement, we issued 30,407,712 shares of our common stock to the exchanging CannaKorp shareholders in exchange for 99.8% of the outstanding common stock held by the CannaKorp shareholders. CannaKorp will continue to operate as our subsidiary. During the quarter ended, March 31, 2021, all of the warrants expired, none were exercised.



## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Agreements

#### Serious Seeds B.V.

Effective December 6, 2018, the Company and Canary entered into a Distribution, Collaboration and Licensing Agreement ("*Agreement*") with Serious Seeds B.V. ("*Serious Seeds*"), incorporated in the Netherlands, and Simon Smit ("*Smit*"), President of Serious Seeds. Under the Agreement, Canary was appointed the exclusive distributor in Canada and all other legal markets globally of Serious' proprietary cannabis seed strains and Serious Seeds' cannabis cuttings, dried flowers, extracts and seeds. In addition, under the Agreement Canary Rx and Serious Seeds will develop certain "Collaborative Products" defined as cannabis seed strains created collaboratively using Serious Seeds' intellectual property. During the term of the Agreement, Canary will own all of the intellectual property related to the Collaborative Products.

Under the Agreement, Smit has granted Canary an exclusive license in Canada and all legal markets globally to Serious Seeds' intellectual property including the right to use the service mark of Serious Seeds and all of the names of Serious Seeds' proprietary cannabis seed strains including but not limited to Chronic, AK-47, White Russian, Bubble Gum, Kali Mist, Warlock, Double Dutch, Bidly, Early, Motavation and Strawberry-AKeil.

The initial term of the Agreement will be five (5) years and will be automatically renewed for consecutive five (5) terms subject to rights of termination upon one hundred and eighty (180) days prior notice. In consideration of the intellectual property rights granted by Smit to Canary, the Company will issue to Smit 250,000 shares of the Company's common stock on the effective date of the Agreement. In addition, on the thirteenth (13) month following the effective date of the Agreement of the initial term, the Company will issue to Smit 5,208 shares of common stock and warrants to purchase 200,000 shares of Target common stock at an exercise price of \$0.15 per share. Thereafter, from the fourteenth (14) month following the effective date of the Agreement and continuing through the sixtieth (60) month of the initial term, the Company will issue Smit 5,208 shares of common stock and warrants to purchase 16,667 shares of Target common stock, each month, at varying exercise prices ranging from \$0.20 to \$0.35 per share. All of the above warrants must be exercised on or before the two (2) year anniversary date of each of the warrant issuance dates.

In consideration of Canary Rx's appointment as Serious' exclusive distributor in Canada, Canary Rx will pay Serious Seeds certain royalties as follows:

1 <sup>st</sup> year:	2.00% of gross sales
2 <sup>nd</sup> year:	2.25% of gross sales
3 <sup>rd</sup> year:	2.50% of gross sales
4 <sup>th</sup> year:	2.75% of gross sales
5 <sup>th</sup> and following years:	3.00% of gross sales

On October 8, 2019, Canary was granted licenses to cultivate, process and sell cannabis pursuant to the Cannabis Act (Bill C-45). These Standard Licenses enable Canary to produce approximately 3,600kg of dried cannabis flower per year. Canary has curated a bank of 3,500 seeds, comprised of more than 125 strains, including the entire Serious Seeds collection. The Company has the capacity to grow 8 different strains at a time, within the facility's 8 separate flower rooms.

#### Cannavolve Inc. Sales Agency Agreement

Effective December 13, 2018, the Company appointed Cannavolve Inc., an Ontario, Canada corporation based in Toronto ("*Cannavolve*"), under the terms of a Licensed Producer/Licensed Processor Sales Agency Agreement ("*Agency Agreement*"), as the Company's exclusive agent in Canada to market and sell the CannaKorp Wisp™ vaporizer, the Serious Seeds™ products and Canary branded cannabis in the recreational cannabis markets (collectively the "*Products*"). Cannavolve is an independent recreational cannabis sales and marketing Company established to represent licensed producers and licensed processors in Canada of cannabis and cannabis accessories. Cannavolve operates in Canada with offices in Halifax, Montreal, Calgary and Vancouver.

Under the Agency Agreement, Cannavolve will be paid a commission of 6% of net sales based on the wholesale prices of the Products. The initial term of the Agency Agreement is two (2) years from December 13, 2018 subject to a renewal term of two (2) additional years. In addition to customary termination provisions based upon the material default of either the Company or Cannavolve, we can terminate the Agency Agreement without cause upon ninety (90) days prior written notice. The agreement was renewed on December 13, 2020 for additional two (2) years.

#### cGreen, Inc. Exclusive License Agreement

Effective August 8, 2019, the Company entered into an Exclusive License Agreement ("*License Agreement*") with cGreen, Inc., a Delaware corporation ("*cGreen*"). The License Agreement grants to the Company an exclusive license to manufacture and distribute the patent-pending THC antidote True Focus™ in the United States, Europe and the Caribbean. The term of the license is ten (10) years and four (4) months from the effective date of August 8, 2019. In consideration of the license, the Company will issue 10,000,000 shares of its common stock as follows: (i) 3,500,000 within ten (10) days of the effective date; (ii) 3,500,000 shares on January 10, 2020; and (iii) 3,000,000 shares not later than June 10, 2020. In addition, the Company will pay cGreen royalties of 7% of the net sales of the licensed products and 7% of all sublicensing revenues collected by the Company. The Company will pay cGreen an advance royalty of \$300,000 within ten (10) days of the effective date; \$300,000 on January 10, 2020; and \$400,000 on or before June 10, 2020 and \$500,000 on or before November 10, 2020. All advance royalty payments will be credited against the royalties owed by the Company through December 31, 2020.

During the quarter ended December 31, 2019, the intangible asset was written off based on management's review and evaluation of its recoverability.

Additionally, during the quarter ended June 30, 2020, the Company was in arbitration with cGreen for the breaches of the terms of the License Agreement, however, through an early mediation, both companies reached to a settlement agreement to settle the breaches of the contract on July 27, 2020 ("*Effective Date*").

As per the settlement agreement, the License Agreement has been terminated and the Company does not have to issue the 10 million shares nor pay the outstanding royalty payable in the amount of \$1,191,860. As consideration, the Company paid \$130,000 within 30 days of the Effective Date and will pay \$100,000 in monthly installments of \$10,000 commencing in April 2021 to cGreen. During quarter ended March 31, 2021, the Company has paid its first installment. As at March 31, 2021, the outstanding balance is \$90,000 of which \$90,000 (December 31, 2020: \$90,000) is current and \$nil (December 31, 2020: \$10,000) is non-current.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Nabis Holding Sales Agreement

Effective September 17, 2019, CannaKorp entered into a Purchase, Licensing and Distribution Agreement ("*Agreement*") with Nabis Arizona Property LLC of Scottsdale, Arizona ("*Nabis*") concerning the distribution of CannaKorp's *Wisp*<sup>TM</sup> Vaporizer and *Wisp*<sup>TM</sup> Pods in Arizona. The term of the Agreement is three (3) years with automatic renewals for additional one-year periods unless the Agreement is terminated pursuant to its terms. Nabis is required to pay CannaKorp \$45,000 for the equipment needed to manufacture the *WISP*<sup>TM</sup> Pods, of which \$4,500 will be paid within three (3) calendar days of Nabis obtaining regulatory approval of its vertically integrated license and the balance of \$40,500 within 180 days of the effective date of the Agreement.

Under the Agreement, Nabis is licensed to manufacture the *WISP*<sup>TM</sup> Pods and to sell the *WISP*<sup>TM</sup> Pods in conjunction with the sale of the *WISP*<sup>TM</sup> Vaporizer. Nabis is required to meet minimum quarterly orders of two hundred (200) *WISP*<sup>TM</sup> Vaporizers and five thousand (5,000) *WISP*<sup>TM</sup> Pods cartridges. Nabis is licensed to sell the *WISP*<sup>TM</sup> Vaporizer and the *WISP*<sup>TM</sup> Pods to end users in Arizona, excluding Amazon, eBay, Walmart or other multistate/national brick and mortar or online sales. CannaKorp has granted Nabis a right of first refusal to obtain an exclusive license in Michigan and in Washington for the same rights granted to Nabis in Arizona.

During the year ended December 31, 2020, the equipment to Nabis has been shipped and the Company has provided Nabis an additional 360 days before invoicing Nabis for the equipment. Once when the additional period has passed, the Company will invoice Nabis. Additionally, the first quarter of the Nabis agreement minimums were shipped and invoiced (200 *Wisp* Units and 5000 Pod Assemblies to enable Nabis to manufacture 5000 complete *Wisp* Pods) for online and retail distribution in the Arizona Market.

During the year ended, December 31, 2020, due to financial strain and difficulties during the pandemic Nabis was forced to restructure their company in its entirety. This has caused strain on the financial position of Nabis and has affected their ability to fulfill their commitments in the agreement signed with CannaKorp. The partnership has since been terminated and all of CannaKorp's CannaMatic machinery has now been sent back to CannaKorp. The Company does not have any operations, employees or corporate offices based in United States.

### Joint Venture Agreement

Effective May 14, 2020, Canary entered into a Joint Venture Agreement ("*Joint Venture*") with 9258159 Canada Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as "*Thrive Cannabis*") and 2755757 Ontario Inc., a corporation organized under the laws of the Province of Ontario, Canada (referred to as "*JVCo*"). Canary and Thrive Cannabis each hold 50% of the voting equity interest in JVC. The term of the Joint Venture is five (5) years from its effective date of May 14, 2020.

Under the Joint Venture, JVCo is permitted to use all eight (8) rooms, of Canary's licensed cannabis cultivation facilities located in Simcoe, Ontario, Canada ("*Licensed Site Portion*") for the purpose of operating and managing the Licensed Site Portion for the cultivation and process of cannabis pursuant to Canary's license issued by Health Canada. During the term of the Joint Venture, JVCo will be responsible for the administration, operation and management of the Licensed Site Portion and all proceeds from the sale of the cannabis and related cannabis products cultivated therein will be payable to the JVCo.

In addition, Canary, Thrive Cannabis, and JVCo entered into a Unanimous Shareholder Agreement dated May 14, 2020 governing the management and administration of the business of JVCo.

As per the Joint Venture, Canary will provide the JVCo with a Hard Cost Loan with the maximum amount of \$954,240 (CAD \$1,200,000). This loan bears an interest rate of 7% per annum, matures in 12 months from effective date, and is secured against the personal property of the JVCo and Thrive will guarantee one-half (1/2) of the outstanding balance of the loan. As at March 31, 2021, the loan advanced amounts to \$266,392 (CAD \$335,000) and interest income charged for the three months ended in amount of \$4,598 (CAD \$5,782) is included in other income on the unaudited condensed consolidated interim statement of operations and comprehensive loss and interest receivable in amount of \$ 12,773 (CAD \$16,063) is included in receivable from joint venture on the unaudited condensed consolidated interim balance sheet.

**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

The JVCo will reimburse Canary for certain expenses incurred by Canary for the cultivation and processing of cannabis products. Below is the table which summarizes the activity of the period:

Period ended March 31,	2021		2020	
	CAD \$	USD \$	CAD \$	USD \$
Sales	248,500	197,607	—	—
Eligible recoverable expenses	675,991	537,548	—	—
Recoverable amount	677,125	538,450	—	—
Loss on equity	(14,305)	(11,300)	—	—

Due to reimbursement of an office and general expense during the current quarter ended which had been expensed in the books of Canary in the prior period therefore leading to a credit (negative) expense on the unaudited condensed consolidated interim statement of operations and comprehensive loss. During the period ended March 31, 2021, revenue was sold to three customers (2020: N/A).

The JVCo shall make payments out of the revenues, net of applicable taxes and expenses ("Net Income"), in accordance with the following order of priority:

- a) First, the payment of recoverable expenses;
- b) Second, to the repayment of the Hard Cost Loan until repaid in full;
- c) Third, to the repayment of the Soft Costs (costs of services and materials provide by Thrive Cannabis) until repaid in full;
- d) Finally, any remaining Net Income shall be distributed, on a monthly basis, as follows:
  - (i) For the first two (2) years following execution of this Agreement, Canary shall receive 60% and Thrive Cannabis shall receive 40%; and
  - (ii) For the three (3) years following such period, Canary shall receive 57.5% and Thrive shall receive 42.5%.

Below is the position of the JVCo as at:

As at March 31,	2021		2020	
	CAD \$	USD \$	CAD \$	USD \$
Assets	1,723,207	1,370,294	—	—
Liabilities	2,418,351	1,923,073	—	—
Equity	(695,144)	(552,779)	—	—

**CL Investors Debt Purchase and Assignment Agreement**

On June 15, 2020, the Company, its first-tier subsidiaries Visava Inc. ("Visava") CannaKorp Inc. ("CannaKorp"), and the Company's second-tier subsidiary, Canary Rx Inc. ("Canary"), entered into a Debt Purchase and Assignment Agreement ("Agreement") with CL Investors Inc. ("CLI"), a corporation organized under the laws of the Province of Ontario, Canada. June 15th was preliminary date of the agreement and the agreement was not finalized until the later date as indicated below.

The CEO of the Company, is the Secretary of CLI, a director of the Company, is a shareholder of CLI and the brother of CEO, is the President and sole director of CLI therefore the below loan from CLI is classified under related party transactions.

Pursuant to the Agreement, CLI purchased from the Company for the sum of \$2,306,080, (CAD \$2,900,000) a debt obligation owing from Canary, the Company's second tier subsidiary, to the Company in the principal balance of \$8,429,120 (CAD \$10,600,000 ("Canary Debt")). Upon receipt of the monetary consideration, the Company loaned the full sum to Canary under terms of an unsecured, non-interest-bearing promissory note, subject to a covenant by the Company not to take any collection action so long as the Canary Debt remains unpaid to CLI. As at March 31, 2021, \$3,976 (CAD \$5,000) is still outstanding from CLI.

As a condition of the closing of the Agreement, the terms of the Canary Debt were amended to provide for interest at 5% per annum with a maturity date of 60 months from the date of the Agreement ("Term"). The Canary Debt will be repaid according to the following schedule:

- a) In the first year of the Term, Canary will pay CLI the greater of \$898,576 (CAD \$1,130,000) and fifty percent (50%) of the Net Revenue (hereinafter defined), provided that where the latter amount exceeds the former amount, Canary will, by the end of such first year, pay CLI no less than the former amount and Canary will, within thirty (30) days following the end of such first year, pay CLI the balance of such amount owing for such first year;
- b) In the second year of the Term, Canary will pay CLI the greater of \$1,669,920 (CAD \$2,100,000) and fifty percent (50%) of the Net Revenue, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2021, provided that where the latter amount exceeds the former amount, Canary will, within thirty (30) days following the end of such second year, pay CLI the balance of such amount owing for such second year;
- c) In the third year of the Term, Canary will pay CLI the greater of \$2,560,544 (CAD \$3,220,000) and fifty percent (50%) of the Net Revenue, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2022, provided that where the latter amount exceeds the former amount, Canary will, by the end of such third year, pay CLI no less than the former amount and Canary will, within thirty (30) days following the end of such third year, pay CLI the balance of the such payments owing for such third year;
- d) In the fourth year of the Term, Canary will pay CLI the greater of \$2,449,216 (CAD \$3,080,000) and fifty percent (50%) of the Net Revenue, by way of

twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2023, provided that where the latter amount exceeds the former amount, Canary will, within thirty (30) days following the end of such fourth year, pay CLI the balance of such amount owing for such fourth year; and

- e) In the fifth year of the Term, Canary will pay CLI the balance owing under this Note, by way of twelve (12) consecutive monthly installments payable on the 14th day of each month commencing on August 14, 2024 for an amount calculated by dividing twelve (12) into the sum of all amounts owing under this Note at the beginning of the fifth year of the Term on account of Principal and Interest, provided that where there are further amounts owing under this Note at the end of such fifth year, Canary will pay CLI all such further amounts within five (5) days following the end of such fifth year.

For the purposes of this Note, "Net Revenue" will mean any and all revenue generated from Canary's Licensed Facility (hereinafter defined) to which it is entitled net of applicable taxes and third-party expenses.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The repayment of the Canary Debt, as amended, is guaranteed by Visava and the Company's wholly-owned subsidiary CannaKorp Inc. and secured by (i) a general security interest in the assets of the Company, Canary, Visava and CannaKorp Inc., respectively; and (ii) a pledge by the Company of all of the issued and outstanding common stock of Canary, Visava and CannaKorp Inc. held by the Company. In addition to the foregoing guarantees, security interest and stock pledge, CLI has been granted an option, in lieu of repayment of the amended Canary Debt, to demand, in its sole and absolute discretion the transfer, assignment and conveyance of 75% of the issued and outstanding capital stock of Visava and Canary.

Furthermore, the President and sole director of CLI has been granted an option to acquire the remaining 25% of the issued and outstanding capital stock of Visava and Canary.

Effective August 14, 2020, the Agreement was amended ("Amendment") to provide that CLI will purchase from Rubin Schindermann, a director of the Company, 500,000 shares of the Company's Series A Preferred Stock in consideration of the payment by CLI to Rubin Schindermann of \$79,520 (CAD \$100,000) and the issuance to Schindermann of 10,000,000 shares of the Company's common stock. In consideration of the foregoing, Mr., Schindermann resigned as a director of the Company and from any and all administrative and executive positions with the Company's subsidiaries Visava Inc., Canary Rx Inc. and CannaKorp Inc., respectively. In addition, the Company issued Common Stock Purchase Warrant for 10,000,000 shares of Target common stock to CLI as consideration for the Agreement. Refer to Note 11 for additional details on warrants. The combined impact of both transactions resulted in debt issuance cost of \$233,139. This debt issuance cost will be amortized over the term of the debt on straight line basis.

The transactions contemplated by the Agreement and the Amendment closed on August 14, 2020.

### Forward Looking Relating to Future Operations of the Company.

Currently, the company and its senior management are exploring several new, additional opportunities at its Simcoe, Ontario cultivation facility to expand its the Company's product offerings in other cannabis related Consumer Packaged Goods (CPG) Product categories.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Employees

As at March 31, 2021, we had three employees which include Anthony Zarcone, Chief Executive Officer.

On January 9, 2020, Anthony Zarcone was named co-Chief Executive Officer to serve with Mr. Schindermann. On January 24, 2020, Mr. Schindermann submitted his resignation as co-Chief Executive Officer; however, he remained a director of the Company. Further to the explanation in Note 8 in the unaudited condensed consolidated interim financial statements, effective August 14, 2020, Mr. Schindermann resigned as a director of the Company and from any and all administrative and executive positions with the Company's subsidiaries.

On February 14, 2020, the Company terminated the employment of Azmatali Mehrli as Chief Financial Officer. At the present time, the Company has not appointed a new Chief Financial Officer. Alexander Starr, our former president, terminated his employment agreement effective February 22, 2019.

We have contracted with a number of independent contractors and consultants to provide a range of information technology and marketing services who do not receive cash compensation but receive shares of our common stock as compensation. This mitigates any need for full or part-time employees for these services.

### Intellectual Property Protection

Our subsidiary CannaKorp Inc. holds the following patents:

International Patent Application No. PCT/US20115/013778  
Title: METHODS AND APPARATUS FOR PRODUCING HERBAL VAPO  
Filing Date: January 30, 2015  
Ref. No.: B1411.70000WO00

U.S. Provisional Application No.: 61/934.255  
Title: CONTAINER POD AND DELIVERY SYSTEM  
Filing Date: January 31, 2014  
Ref. No.: B1411.70000US00

In addition, CannaKorp has proprietary rights to certain trade names, trademarks and service marks which include WISP POD™; cPOD™; CANNACUP™; and WISP™. CannaKorp also has certain proprietary formulas and processes involving herbal formulas and flavors, proprietary herbal production processes and an herbal base developed to suspend active ingredients for optimal vaporization.

At the present time, CannaKorp has failed to meet its annuities payments as well as maintenance fees on the 2 referenced patents. Although, there has been a lapse and these patents remain unmaintained, there still remains the possibility of CannaKorp reinstating these patents if done so in a reasonable amount of time. At this time, management is determining the value maintaining these patents will provide the company. Once management has completed their assessment, the company will proceed accordingly. advance in that determined direction moving forward. Additionally, CannaKorp is actively seeking a JV Partner joint venture partner and/ or licensor to assist in both marketing and launching the Wisp Vaporizer and Wisp Pods in both the US and Canadian Legal Cannabis/ HEMP markets.

### Results of Operations

We have not generated significant revenue to date and consequently our operations are subject to all of the risks inherent in the establishment of a new business enterprise. Our analysis on the performance of the Company is as follows:

#### *Balance sheet – As at March 31, 2021 and December 31, 2020*

#### Cash

At March 31, 2021 we had cash of \$395,257 compared to \$172,597 as at December 31, 2020. The increase is due to proceeds from private placement and the utilization of bank overdraft facilities during the current period ended where were offset by an investment in a joint venture which reflects payments of salaries, rent, and other operating expenses of our subsidiary, Canary, and payment towards outstanding payables during the period.

**Prepaid asset**

At March 31, 2021 we had prepaid expenses of \$47,329 compared to \$46,775 as at December 31, 2020. The balance represents the security deposit for the leased land for the facility to produce medical marijuana.

**Sales tax recoverable**

At March 31, 2021, we had \$115,110 of gross sales tax recoverable compared to \$95,386 as at December 31, 2020. This is due to sales taxes paid by our subsidiary on expenses incurred during the year which are recoverable from the government.

We recorded an allowance in the amount of \$24,616 (December 31, 2020: \$19,924) stemming from the potential uncollectible balances within the outstanding sales tax recoverable amount.



## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Goodwill and intangible asset

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of our subsidiaries at the date of acquisition.

In addition, intangible assets represent the Exclusive License Agreement entered with cGreen. The value of the license is based on 10 million common stock valued at the market rate of the stock prevailing on August 8, 2019 and the royalty payments in the amount of \$2,243,000. The asset is amortized over the 10 year term of the license. During the quarter ended December 31, 2019, the intangible asset was written off based on our management's review and evaluation of the intangible asset's recoverability.

### Fixed assets

The Company initiated construction on its 44,000 square foot cannabis cultivation facility in September of 2017. Since then, extensive demolition and structural upgrades have been carried out at the site. On May 1, 2019, the Company completed the construction of its 44,000 square foot cannabis cultivation facility and on May 14, 2019, the Company submitted a Site Evidence Package to Health Canada as part of the steps to obtain the license to cultivate cannabis at the Company's facility. On October 8, 2019, the Company was granted licenses to cultivate, process and sell cannabis pursuant to the Cannabis Act (Bill C-45).

### Accounts payable and accrued liabilities

Accounts payable amounting to \$2,129,180 as at March 31, 2021, primarily represents consulting and construction services related to capital work in progress and fixed asset additions amounting to \$302,429, interest on promissory notes and loans amounting to \$629,949, outstanding and accrued professional fees amounting to \$963,838.

Accounts payable amounting to \$1,809,120 as at December 31, 2020, primarily represents consulting and construction services related to capital work in progress amounting to 141,935, interest on promissory notes and loans amounting to \$403,865, and outstanding plus accrued professional fees of \$1,002,098.

### Payable to related parties

As at March 31, 2021, we had \$10,121,537 payable to related parties as compared to \$9,934,960 as at December 31, 2020. The balance primarily represents loans provided by the Company's shareholders and a related party, CLI, management services fee outstanding to the managers of the company, and outstanding amount of \$65,000 to be paid to a former shareholder of CannaKorp as part of the settlement agreement.

For additional details, refer to Note 8 in the unaudited condensed consolidated interim financial statements.

### Convertible promissory notes payable

Interest amounting to \$82 was accrued for the three months ended March 31, 2021 (March 31, 2020: \$10,082).

Principal amount outstanding as at March 31, 2021 and December 31, 2020 was \$480 and \$3,128, respectively. At both period ends, the entire balance was current.

During the period ended March 31, 2021, the Company converted the outstanding principal balance of a promissory note.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### *Statement of Operations – For the three months March 31, 2021 and 2020:*

#### **Revenue**

The Company did not generate revenue during quarter ended March 31, 2021 as compared to \$30,000 revenue during comparable period ended in 2020. The revenue represented the sale of Wisp™ vaporizer and pod units.

In addition, Canary generated revenues of \$197,607 (through its investment in JVCo) during the quarter ended March 31, 2021 (quarter ended December 31, 2020: \$108,930) and is represented as share of losses from joint venture on the unaudited condensed consolidated interim statement of operations. The entire revenue was sold to three customers (2020: one).

#### **Expenses**

Our expenses are classified primarily into advisory and consultancy fees, management fees, salaries and wages, legal and professional fees, and amortization and depreciation expense. The significant decrease in operating expenses for the three months ended March 31, 2021 compared to 2020 is due to lower advisory and consultancy fees, salaries and wages, and office expenses during the period which resulted due to lower amount of activity compared to prior period and reimbursement of operating expenses of our subsidiary, Canary, by the joint venture. Refer to Note 6 for additional details.

Expenses for the three months ended March 31, 2021 primarily represented consulting fees of \$1,906 (2020: \$44,269), management fees of \$77,943 (2020: \$83,239), salary and wages amounting in total to \$4,669 (2020: \$138,780), legal and professional charges of \$46,424 (2020: \$124,000) comprising legal, review, accounting and Edgar agent fee, amortization and depreciation expense amounting to \$241,795 (2020: \$21,989), and office and general expenses amounting to \$(18,274) (2020: \$58,858).

Other income and expenses comprised, change in fair value of derivative and warranty liability amounting to negative \$2,091,334 (2020: positive \$3,455,325), gain on settlement amounting to \$15,219 (2020: \$nil) interest and bank charges amounting to \$220,997 (2020: \$36,249), accretion expenses of \$nil (2020: \$12,200) related to promissory notes and share of loss from joint venture of \$11,300 (2020: \$nil).

## **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

### **Liquidity and Capital Resources**

As at March 31, 2021, we had a working capital deficit of \$4,706,790 (December 31, 2020: \$4,118,770). We are actively seeking various financing opportunities to meet the deficit capital requirements.

We have relied on equity financing and personal funds for our operations. The proceeds may not be sufficient to effectively develop our business to the fullest extent to allow us to maximize our revenue potential, in which case, we will need additional capital.

We will need capital to allow us to invest in development. The Company anticipates that its future operations will generate positive cash flows starting in 2021 provided that it is successful in obtaining additional financing in the foreseeable future.

#### *Net cash from (used in) operating activities*

During the period ended March 31, 2020, operating activities provided cash of \$79,451 compared to usage of cash \$869,973 for the corresponding period of the prior year. This improvement is due to the management's efficient use of cash and Canary starting to generate sales through the JVCo compared to prior period.

#### *Net cash used in investing activities*

During the period ended March 31, 2020, investing activities used cash of \$785,585 compared to \$nil for the corresponding period of the prior year. The current period cash utilization represents improvements to Canary's facility to increase its efficiency and increase cannabis production, and investment made in the JVCo by way of paying operating expenses such as salaries, rent, utilities, etc., which will be reimbursed by the JVCo in the future.

#### *Net cash from financing activities*

During the period ended March 31, 2020, net cash provided by financing activities was \$925,177 compared to \$710,891 for the corresponding period of the prior year. During the current period, cash was primarily provided by private placements while in the prior period, loans were received from multiple related parties.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

### **Critical Accounting Policies**

Revenue is recognized when persuasive evidence of an arrangement exists, services have been performed, the amount is fixed and determinable, and collection is reasonably assured.

Other critical accounting policies are described in the Company's Form 10-K for the year ended December 31, 2020.

### **Subsequent Events**

During April 2021, the Company paid the outstanding settled amount of \$27,500, disclosed as deferred revenue on unaudited condensed consolidated interim balance sheet, to a distributor to release the inventory to the Company.

**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Description of Property**

We do not own any properties at this time and do not have presently any agreements to acquire any properties.

Our principal executive office is located at 20 Hempstead Drive, Hamilton, Ontario, Canada.

Our subsidiary, Canary, leases a 44,000 square foot facility located in Norfolk County, Ontario to produce medical and recreational cannabis.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Smaller reporting companies are not required to provide the information required by this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedures**

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), we have carried out an evaluation, with the participation of our management, including the Company’s principal executive officer and principal financial officer of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of March 31, 2021 to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

#### **Changes in internal controls**

No change in our system of internal control over financial reporting occurred during the period ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

During the year ended December 31, 2019, a terminated employee of Canary has filed a suit against the Company amounting to approximately \$1,669,920 (CAD \$2,100,000) in Ontario, Canada. Currently, the Company is defending its position and believes that the ultimate decision will be in favor of the Company.

In April 2020, an employee of Canary, who had previously resigned from the company, filed a claim that their bonus, that had been promised in their employment agreement was unpaid and had filled a claim with the Ministry of Labour in Ontario. While the Ministry of Labour deemed the bonus owed as a valid payment, the matter has since progressed to the Ontario Labour Relations Board (OLRB) in which the company is disputing this bonus due to several contractual factors that the company believes will allow this ruling to be overturned and revised in the company's favor. During quarter ended March 31, 2021, the Company settled with the employee in the amount of \$15,904 (CAD \$20,000).

A claim for damages in the amount of \$1,481,302 (CAD \$1,862,805) was lodged against Company and its directors by the former Chief Financial Officer of the Company for wrongful dismissal. The management are of the view that no material losses will arise in respect of the legal claim at the date of these unaudited condensed consolidated interim financial statements. As at March 31, 2021, \$11,684 has been recorded in the Target's payable.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the quarter ended March 31, 2021, the Company issued 175,099 shares of common stock to individual upon the exercise of conversion rights under a convertible promissory note. The conversion price was \$0.0151 per share.

The foregoing shares were issued pursuant to the exemption from registration provided by Section 4(a)(2) and/or Regulation S of the Securities Act of 1933, as amended, for sales not involving a public offering and sales to non-United States residents residing abroad.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibits:

<b>Exhibit No.</b>	<b>Description</b>	<b>Incorporated by Reference</b>		
		<b>Form</b>	<b>Exhibit</b>	<b>Filing Date</b>
<a href="#">2.1</a>	<a href="#">Asset Acquisition Agreement</a>	<a href="#">8-K</a>	<a href="#">2.1</a>	<a href="#">12/11/14</a>
<a href="#">2.1.1</a>	<a href="#">Agreement and Plan of Share Exchange dated June 27, 2018 with Visava Inc.</a>	<a href="#">8-K</a>	<a href="#">2.1</a>	<a href="#">07/03/18</a>
<a href="#">2.1.2</a>	<a href="#">Agreement and Plan of Share Exchange dated January 25, 2019 with CannaKorp Inc. and David Manly, as Stockholder Representative</a>	<a href="#">8-K</a>	<a href="#">2.1</a>	<a href="#">01/29/19</a>
<a href="#">3(i)(a)</a>	<a href="#">Articles of Incorporation</a>	<a href="#">10-12G</a>	<a href="#">3.1</a>	<a href="#">09/30/13</a>
<a href="#">3(i)(a)</a>	<a href="#">Amended Articles of Incorporation</a>	<a href="#">8-K</a>		<a href="#">05/13/14</a>
<a href="#">3(i)(a)</a>	<a href="#">Certificate of Amendment</a>	<a href="#">8-K</a>	<a href="#">3(i)</a>	<a href="#">10/20/16</a>
<a href="#">3(i)(a)</a>	<a href="#">Certificate of Amendment</a>	<a href="#">8-K</a>	<a href="#">3(i)</a>	<a href="#">04/12/17</a>
<a href="#">3(i)(a)</a>	<a href="#">Certificate of Amendment</a>	<a href="#">8-K</a>	<a href="#">3(i)</a>	<a href="#">07/03/17</a>
<a href="#">3(i)(a)</a>	<a href="#">Certificate of Amendment</a>	<a href="#">8-K</a>	<a href="#">3(i)</a>	<a href="#">11/01/17</a>
<a href="#">3(i)(a)</a>	<a href="#">Certificate of Amendment</a>	<a href="#">8-K</a>	<a href="#">3(i)</a>	<a href="#">09/25/18</a>
<a href="#">3.2</a>	<a href="#">Bylaws</a>	<a href="#">10-12G</a>	<a href="#">3.2</a>	<a href="#">09/30/13</a>
<a href="#">4.1</a>	<a href="#">Description of Capital Stock</a>	<a href="#">10-K</a>	<a href="#">4.1</a>	<a href="#">04/14/20</a>
<a href="#">10.1</a>	<a href="#">Form of Securities Purchase Agreement-Blackbridge Capital Growth Fund, LLC</a>	<a href="#">10-K</a>	<a href="#">10.1</a>	<a href="#">03/31/17</a>
<a href="#">10.2</a>	<a href="#">Form of Convertible Promissory Note</a>	<a href="#">10-K</a>	<a href="#">10.2</a>	<a href="#">03/31/17</a>
<a href="#">10.3</a>	<a href="#">Form of Convertible Promissory Note</a>	<a href="#">10-K</a>	<a href="#">10.3</a>	<a href="#">03/31/17</a>
<a href="#">10.4</a>	<a href="#">Form of Convertible Promissory Note</a>	<a href="#">10-K</a>	<a href="#">10.4</a>	<a href="#">03/31/17</a>
<a href="#">10.5</a>	<a href="#">Form of Securities Purchase Agreement-Crown Bridge Partners, LLC</a>	<a href="#">10-K</a>	<a href="#">10.5</a>	<a href="#">03/31/17</a>
<a href="#">10.6</a>	<a href="#">Form of Convertible Promissory Note</a>	<a href="#">10-K</a>	<a href="#">10.6</a>	<a href="#">03/31/17</a>
<a href="#">10.7</a>	<a href="#">Form of Convertible Promissory Note</a>	<a href="#">8-K</a>		<a href="#">03/07/16</a>
<a href="#">10.8</a>	<a href="#">Non-Negotiable Promissory Note</a>	<a href="#">8-K</a>		<a href="#">03/07/16</a>
<a href="#">10.9</a>	<a href="#">Securities Purchase Agreement</a>	<a href="#">8-K</a>		<a href="#">03/07/16</a>

<a href="#"><u>10.10</u></a>	<a href="#"><u>Securities Purchase Agreement-Power Up Lending Group Ltd.</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.10</u></a>	<a href="#"><u>03/28/18</u></a>
<a href="#"><u>10.11</u></a>	<a href="#"><u>Convertible Promissory Note-Power-Up Lending Group Ltd.</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.11</u></a>	<a href="#"><u>03/28/18</u></a>
<a href="#"><u>10.12</u></a>	<a href="#"><u>Securities Purchase Agreement-Power Up Lending Group Ltd.</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.12</u></a>	<a href="#"><u>03/28/18</u></a>
<a href="#"><u>10.13</u></a>	<a href="#"><u>Convertible Promissory Note-Power-Up Lending Group Ltd.</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.13</u></a>	<a href="#"><u>03/28/18</u></a>
<a href="#"><u>10.14</u></a>	<a href="#"><u>Securities Purchase Agreement-Power Up Lending Group Ltd. dated December 24, 2018</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.14</u></a>	<a href="#"><u>04/01/19</u></a>
<a href="#"><u>10.15</u></a>	<a href="#"><u>Convertible Promissory Note-Power-Up Lending Group Ltd. dated December 24, 2018</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.15</u></a>	<a href="#"><u>04/01/19</u></a>
<a href="#"><u>10.16</u></a>	<a href="#"><u>Distribution, Collaboration and Licensing Agreement dated December 6, 2018 between Target Group Inc, Canary Rx Inc., Serious Seeds B.V. and Simon Smit</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.16</u></a>	<a href="#"><u>04/01/19</u></a>
<a href="#"><u>10.17</u></a>	<a href="#"><u>Licensed Producer/Licensed Processor Sales Agency Agreement dated December 13, 2018 with Cannavolve Inc.</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.17</u></a>	<a href="#"><u>04/01/19</u></a>
<a href="#"><u>10.18</u></a>	<a href="#"><u>Exclusive License Agreement dated August 8, 2019 with cGreen Inc.</u></a>	<a href="#"><u>8-K</u></a>	<a href="#"><u>2.1</u></a>	<a href="#"><u>08/13/19</u></a>
<a href="#"><u>10.19</u></a>	<a href="#"><u>Purchase, Licensing and Purchase Agreement dated September 17,2019 between CannaKorp, Inc. and Nabis Arizona LLC</u></a>	<a href="#"><u>8-K</u></a>	<a href="#"><u>10.1</u></a>	<a href="#"><u>09/19/19</u></a>
<a href="#"><u>10.20</u></a>	<a href="#"><u>Loan Agreement dated December 20, 2019 with Jerry Zarcone</u></a>	<a href="#"><u>10-K</u></a>	<a href="#"><u>10.20</u></a>	<a href="#"><u>04/14/20</u></a>
<a href="#"><u>10.21</u></a>	<a href="#"><u>First Amending Agreement dated March 11, 2020 with Jerry Zarcone</u></a>	<a href="#"><u>10-Q</u></a>	<a href="#"><u>10.21</u></a>	<a href="#"><u>06/05/20</u></a>
<a href="#"><u>10.22</u></a>	<a href="#"><u>Second Amending Agreement dated April 30, 2020 with Jerry Zarcone</u></a>	<a href="#"><u>10-Q</u></a>	<a href="#"><u>10.22</u></a>	<a href="#"><u>08/10/20</u></a>
<a href="#"><u>10.23</u></a>	<a href="#"><u>Third Amending Agreement dated May 15, 2020 with Jerry Zarcone</u></a>	<a href="#"><u>10-Q</u></a>	<a href="#"><u>10.23</u></a>	<a href="#"><u>08/10/20</u></a>
<a href="#"><u>10.24</u></a>	<a href="#"><u>Promissory Note Between Target Group Inc. and Frank Zarcone</u></a>	<a href="#"><u>10-Q</u></a>	<a href="#"><u>10.24</u></a>	<a href="#"><u>08/10/20</u></a>
<a href="#"><u>10.25</u></a>	<a href="#"><u>Joint Venture Agreement between Canary Rx Inc. and 9258159 Canada, Inc. dated May 14, 2020</u></a>	<a href="#"><u>10-Q</u></a>	<a href="#"><u>10.25</u></a>	<a href="#"><u>08/10/20</u></a>
<a href="#"><u>10.26</u></a>	<a href="#"><u>Debt Purchase and Assignment Agreement dated June 15, 2020</u></a>	<a href="#"><u>8-K</u></a>	<a href="#"><u>10.1(i)</u></a>	<a href="#"><u>08/18/20</u></a>
<a href="#"><u>10.27</u></a>	<a href="#"><u>Amendment dated August 14, 2020 to Debt Purchase and Assignment Agreement</u></a>	<a href="#"><u>8-K</u></a>	<a href="#"><u>10.1(ii)</u></a>	<a href="#"><u>08/18/20</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>			
<a href="#"><u>31.2*</u></a>	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>			



[32.1\\*](#)      [Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS      XBRL Instance Document\*

101.SCH      XBRL Taxonomy Extension Schema\*

101.CAL      XBRL Taxonomy Extension Calculation Linkbase\*

101.DEF      XBRL Taxonomy Extension Definition Linkbase\*

101.LAB      XBRL Taxonomy Extension Label Linkbase\*

101.PRE      XBRL Taxonomy Extension Presentation Linkbase\*

\* Filed herewith.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TARGET GROUP INC.

Dated: May 7, 2021

By: /s/ Anthony Zarcone  
Chief Executive Officer, and Director

Dated: May 7, 2021

By: /s/ Barry Alan Katzman  
Director

Dated: May 7, 2021

By: /s/ Saul Niddam  
Director

Dated: May 7, 2021

By: /s/ Frank Monte  
Director

**CERTIFICATION PURSUANT TO SECTION 302**

I, Anthony Zarcone, certify that:

1. I have reviewed this Form 10-Q of Target Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited condensed consolidated interim financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed consolidated interim financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2021

/s/ Anthony Zarcone  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO SECTION 302**

I, Anthony Zarcone, certify that:

1. I have reviewed this Form 10-Q of Target Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited condensed consolidated interim financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed consolidated interim financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2021

/s/ Anthony Zarcone  
Principal Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned officer of Target Group Inc. (the "Company"), hereby certify that:

The Report on Form 10-Q for the period ended March 31, 2021 of the Company fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2021

By: /s/ Anthony Zarcone  
Chief Executive Officer  
(Principal Executive Officer)  
(Principal Financial Officer)

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