LINEAGE GROW COMPANY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JANUARY 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Lineage Grow Company Ltd.:

Opinion

We have audited the consolidated financial statements of Lineage Grow Company Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at January 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had an accumulated deficit of $14,249,489 and a working capital deficiency of $1,967,590 at January 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended January 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 29, 2018.

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

MNP LLP

Toronto, Ontario
May 29, 2019

Chartered Professional Accountants
Licensed Public Accountants

MNP

LINEAGE GROW COMPANY LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at January 31, 2019	As at January 31, 2018
	$	$
Assets		
Current Assets		
Cash	**578,528**	4,347,368
Other receivables (Note 5)	**321,035**	63,152
Inventories (Note 6)	**112,674**	-
Prepaid expenses (Note 7)	**60,132**	118,281
Total Current Assets	**1,072,369**	4,528,801
Non-Current Assets		
Investments and advances (Note 8)	**2,799,045**	-
Intangible assets (Note 4 and 9)	**546,666**	-
Goodwill (Notes 4 and 9)	**875,176**	-
Total Assets	**5,293,256**	4,528,801
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 10)	**532,354**	664,191
Convertible debentures – current (Note 11)	**73,141**	-
Derivative liabilities (Note 11)	**289,693**	-
Note payable – current (Note 12)	**2,116,773**	-
Tax payable	**27,998**	-
Total Current Liabilities	**3,039,959**	664,191
Non-Current Liabilities		
Convertible debentures (Note 11)	**-**	2,166,863
Derivative liabilities (Note 11)	**-**	1,510,831
Convertible note payable (Note 11)	**937,397**	-
Deferred tax liability (Note 17)	**145,547**	-
Total Liabilities	**4,122,903**	4,341,885
Shareholders' Equity		
Share capital (Note 13)	**12,939,533**	5,692,180
Shares to be issued (Note 13)	**-**	1,110,122
Conversion component of convertible debentures (Note 11)	**8,824**	8,824
Reserve for warrants (Note 14)	**1,659,898**	1,223,176
Reserve for share-based payments (Note 15)	**782,960**	72,638
Accumulated other comprehensive income	**28,627**	1,006
Accumulated deficit	**(14,249,489)**	(7,921,030)
Total Shareholders' Equity	**1,170,353**	186,916
Total Liabilities and Shareholders' Equity	**5,293,256**	4,528,801

Nature of operations (Note 1)
Commitments and contingencies (Note 20)
Subsequent events (Note 23)

Approved on behalf of the Board of Directors:

"Peter Bilodeau" (signed)
CEO and Director

"Aurelio Useche" (signed)
Director

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

LINEAGE GROW COMPANY LTD.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended January 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Sales	**679,449**	-
Cost of goods sold (Note 6)	**(548,001)**	-
Gross Margin	**131,448**	-
Expenses		
Management and consulting fees (Note 16)	**865,050**	325,951
Professional fees (Note 16)	**819,240**	427,844
Stock-based compensation (Note 15)	**820,139**	46,912
Share-based payments (Note 13)	**254,021**	254,606
Office and general	**1,038,255**	151,773
Allowance for expected credit losses (Note 8)	**365,114**	-
Miscellaneous	**4,923**	19,172
	(4,166,742)	(1,226,258)
Loss before the Undernoted	**(4,035,294)**	(1,226,258)
Interest and other income	**98,314**	8,054
Write-down of investment (Note 8)	**(1,658,604)**	-
Impairment of licenses (Note 9)	**(63,909)**	-
Fair value changes in derivative liabilities (Note 11)	**(230,482)**	(1,227,612)
Finance costs (Notes 11 and 12)	**(410,322)**	(146,196)
Net Loss before Taxes	**(6,300,297)**	(2,592,012)
Income tax expense (Note 17)	**(28,162)**	-
Net Loss	**(6,328,459)**	(2,592,012)
Other Comprehensive Income (Loss)		
Exchange gain on translation of foreign operations	**27,621**	1,006
Total Comprehensive Loss	**(6,300,838)**	(2,591,006)
Weighted Average Number of Shares Outstanding		
Basic and diluted	**59,231,540**	32,625,808
Net Loss per Share		
Basic and diluted	**(0.107)**	(0.079)

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

LINEAGE GROW COMPANY LTD.
Consolidated Statements of Cash Flows
For the years ended January 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Operating Activities		
Net loss for the year	(6,328,459)	(2,592,012)
Adjustments for non-cash items:		
Allowance for expected credit losses (Note 8)	365,114	-
Finance costs (Notes 11 and 12)	410,322	146,196
Fair value changes in derivative liabilities (Note 11)	230,482	1,227,612
Stock-based compensation (Note 15)	820,139	46,912
Share-based payments (Notes 13 and 20)	254,021	254,606
Interest on promissory notes receivable and payable, net	(89,451)	-
Write-down of investment (Note 8)	1,658,604	-
Impairment of licenses (Note 9)	63,909	-
Income tax expense	28,162	-
	(2,587,157)	(916,686)
Changes in non-cash working capital:		
Other receivables (Note 5)	(257,883)	(48,346)
Inventories (Note 6)	126,773	-
Prepaid expenses (Note 7)	(8,966)	(43,063)
Accounts payable and accrued liabilities (Note 10)	(144,642)	519,891
Income tax payable	(164)	-
Cash Flows (Used in) Operating Activities	(2,872,039)	(488,204)
Financing Activities		
Proceeds from private placements (Note 13)	991,900	1,185,000
Share issue costs (Note 13)	(132,256)	(95,129)
Proceeds received on subscriptions (Note 13)	-	855,516
Proceeds from convertible debentures financing (Note 11)	-	2,500,000
Issuance costs of debentures financing (Note 11)	-	(280,815)
Proceeds from notes payable (Note 12)	2,196,211	-
Repayments of notes payable (Note 12)	(132,230)	-
Proceeds from exercise of warrants (Note 13)	1,101,259	63,299
Proceeds from exercise of options (Note 13)	310,500	-
Cash Flows Provided by Financing Activities	4,335,384	4,227,871
Investing Activities		
Acquisition of Terpene Station (Note 4)	(519,000)	-
Cash acquired on Terpene Station Acquisition (Note 4)	12,806	-
Additions of intangible assets (Note 9)	(12,608)	-
Advances made to Altai Partners (Note 8)	(2,155,490)	-
Investments and advances made in Walnut Oaks (Note 8)	(2,590,838)	-
Cash Flows (Used in) Investing Activities	(5,265,130)	-
(Decrease) Increase in cash	(3,801,785)	3,739,667
Effects of foreign exchange on cash	32,945	1,006
Cash, beginning of year	4,347,368	606,695
Cash, end of year	578,528	4,347,368

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

LINEAGE GROW COMPANY LTD.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended January 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Share Capital		Reserves						
	Number of Shares	**Amount**	**Shares to be Issued**	**Conversion Component of Convertible Debentures**	**Warrants**	**Share-Based Payments**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total**
	#	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, January 31, 2017	**31,846,115**	**4,838,430**	**-**	**8,824**	**907,417**	**31,175**	**(5,329,018)**	**-**	**456,828**
Issued for cash consideration:									-
Private placement (Note 13)	4,740,000	1,185,000	-	-	-	-	-	-	1,185,000
Warrants issued on private placement (Note 14)	-	(453,586)	-	-	453,586	-	-	-	-
Finder's warrants issued on private placement (Note 14)	-	-	-	-	69,258	-	-	-	69,258
Share issuance costs (Notes 13 and 14)	-	(120,791)	-	-	(74,705)	-	-	-	(195,496)
Shares to be issued (Note 13)	-	-	1,110,122	-	-	-	-	-	1,110,122
Warrants exercised (Note 13)	610,995	74,918	-	-	(11,620)	-	-	-	63,298
Issued for non-cash consideration:									
Issued for debenture interest	1,200,000	42,000	-	-	-	-	-	-	42,000
Warrants expired (Note 14)	-	120,760	-	-	(120,760)	-	-	-	-
Stock-based compensation (Note 15)	-	-	-	-	-	46,912	-	-	46,912
Stock options expired (Note 15)	-	5,449	-	-	-	(5,449)	-	-	-
Exchange gain on translating foreign operations	-	-	-	-	-	-	-	1,006	1,006
Net loss for the year	-	-	-	-	-	-	(2,592,012)	-	(2,592,012)
Balance, January 31, 2018	**38,397,110**	**5,692,180**	**1,110,122**	**8,824**	**1,223,176**	**72,638**	**(7,921,030)**	**1,006**	**186,916**
Issued for cash consideration:									
Private placement (Note 13)	7,389,664	1,847,416	(855,516)	-	-	-	-	-	991,900
Warrants issued on private placement (Note 14)	-	(683,287)	-	-	683,287	-	-	-	-
Finder's warrants issued on private placement (Note 14)	-	-	-	-	70,196	-	-	-	70,196
Share issuance costs (Notes 13 and 14)	-	(127,552)	-	-	(74,901)	-	-	-	(202,453)
Warrants exercised (Note 13)	11,012,589	1,311,297	-	-	(210,038)	-	-	-	1,101,259
Options exercised (Note 13)	2,996,667	420,317	-	-	-	(109,817)	-	-	310,500
Issued for non-cash consideration:									
Issued for put-option agreement (Notes 13 and 20)	1,650,000	254,606	(254,606)	-	-	-	-	-	-
Issued for termination of letters of intent (Notes 13 and 20)	654,545	113,000	-	-	-	-	-	-	113,000
Issued for consulting fees (Note 13)	706,909	141,021	-	-	-	-	-	-	141,021
Issued on conversion of debentures (Notes 11 and 13)	12,500,000	3,871,513	-	-	-	-	-	-	3,871,513
Issued for debentures interest (Notes 11 and 13)	336,000	67,200	-	-	-	-	-	-	67,200
Warrants expired (Note 14)	-	31,822	-	-	(31,822)	-	-	-	-
Stock-based compensation (Note 15)	-	-	-	-	-	820,139	-	-	820,139
Exchange gain on translating foreign operation	-	-	-	-	-	-	-	27,621	27,621
Net loss for the year	-	-	-	-	-	-	(6,328,459)	-	(6,328,459)
Balance, January 31, 2019	**75,643,484**	**12,939,533**	**-**	**8,824**	**1,659,898**	**782,960**	**(14,249,489)**	**28,627**	**1,170,353**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lineage Grow Company Ltd. ("Lineage" or the "Company") currently operates two (2) retail dispensaries in the State of Oregon in the United Stated (the "US") (see Note 4 for details). The Company is focused on assembling a portfolio of licensed operators, either through direct acquisition or through joint ventures, with an aim towards a vertically-integrated cannabis business that leverages cultivation, brands, distribution, and retail assets in legalized cannabis markets across multiple jurisdictions in the US and Canada. The Company's common shares are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "BUDD".

The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

The business of cannabis operations involves a high degree of risk, and there is no assurance that any prospective project in the medical and/or adult-use cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

At January 31, 2019, the Company had a working capital deficiency of $1,967,590 (January 31, 2018 – working capital of $3,864,610) has not yet achieved profitable operations, has accumulated losses of $14,249,489 (January 31, 2018 – $7,921,030), notes payable due within 12 months and expects to incur further losses in the retail dispensaries in Oregon, all of which cast significant doubt upon the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs the medical and/or adult-use cannabis industry, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

These consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and classifications of statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized by the Company's Board of Directors on May 29, 2019.

2.2 Basis of Measurement

The consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (continued)

2.3 Basis of Consolidation

These consolidated financial statements incorporate the accounts of Lineage and its wholly-owned subsidiaries (collectively the "Company"):

	Jurisdiction
Lineage Grow Company Ltd.	Ontario, Canada
Lakeside Minerals Corp.	Ontario, Canada
1183290 Alberta Inc.	Alberta, Canada
Unite Capital Corp.	Ontario, Canada
LGC Holdings USA, Inc.	Nevada, US
LGC Real Estate Holdings, LLC	Nevada, US
LGC Real Estate (Colorado), LLC	Nevada, US
LGC Operations, LLC	Nevada, US
Lineage GCL Oregon Corporation	Oregon, US
LGC LOR DIS 1, LLC	Oregon, US
LGC LOR DIS 2, LLC	Oregon, US
Lineage GCL California, LLC	California, US
LGC Agricultural Operations Inc. (i)	Nevada, US

(i) Dissolved on July 11, 2018.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

2.4 Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Business combination

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

2. BASIS OF PRESENTATION (continued)

2.4 Significant Accounting Judgments and Estimates (continued)

Business combination (continued)

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Licenses and trade names have an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (the "Cash-Generating Unit or "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified each retail cannabis dispensary as a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

Impairment

Long-lived assets, including property and equipment and intangible assets are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

2. BASIS OF PRESENTATION (continued)

2.4 Significant Accounting Judgments and Estimates (continued)

Impairment (continued)

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Derivative liabilities

The conversion feature and the warrants component of convertible debentures and convertible note payable which contain contractual terms that result in the potential adjustment in the conversion or exercise price, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's common shares. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature of the convertible debentures and convertible note payable is required to be measured at fair value at each reporting period. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash

Cash comprises bank balances held in Canadian chartered banks, funds held in trust with the Company's legal counsel which is available on demand, and cash held at the location of the Company's two (2) dispensaries in Oregon.

3.2 Revenue with Customers

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

Revenue is recognized at the fair value of consideration received. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts. The Company's sales of cannabis and related merchandise and other products consist of one (1) performance obligation. The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer.

On adoption of this accounting policy during the year, there were no transitional adjustments as the Company did not have any revenues in the prior year.

3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. The Company measures inventory cost using specific identification for its retail inventories. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company reviews inventories for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

3.4 Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial Instruments (continued)

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

Expected credit loss impairment model

IFRS 9 – Financial Instruments ("IFRS 9") introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statement of loss and comprehensive loss (see Note 8).

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss).

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial Instruments (continued)

Measurement (continued)

The Company's classification and measurements of financial assets and liabilities are summarized below:

	IFRS 9 Classification	IAS 39 Measurement
Cash	FVTPL	Amortized cost
Other receivables (excluding sales tax recoverable)	Amortized cost	Amortized cost
Investments and advances	Amortized cost / FVTPL	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	FVTPL

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For investments classified in level 3, the fair value was determined based on implied enterprise value of the investee by referring to values of comparable entities.

	Fair value as at January 31, 2019 (under IFRS 9)			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Cash	578,528	-	-	578,528
Investment	-	-	312,996	312,996
Derivative liabilities	-	289,693	-	289,693
	578,528	**289,693**	**312,996**	**1,181,217**

	Fair value as at January 31, 2018 (under IAS 39)			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Derivative liabilities	-	1,510,831	-	1,510,831
	-	**1,510,831**	**-**	**1,510,831**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Compound Instruments

The components of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the market interest rate then in effect for a similar convertible instrument. This amount is recorded as a liability, at amortized cost, using the effective interest method until its expiry at the time of conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component of the total fair value of the compound instrument. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. Transaction costs related to the issuance of convertible debentures are allocated to the liability and equity components in proportion to their initial carrying amounts. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible debentures using the effective interest method. Interest and accretion expense are recognized as a finance cost in the consolidated statements of loss. Upon expiry, the equity component is transferred to deficit.

The conversion feature and the warrants component which do not meet equity classification, as they contain contractual terms that result in the potential adjustment in the conversion or exercise price, are accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company’s common shares. The effect is that the convertible debentures are accounted for at amortized cost, with the embedded derivative liabilities being measured at fair value with changes in value being recorded in profit or loss.

3.6 Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization is provided over the estimated useful lives as follows:

Brand name	Straight-line basis over 4 years
Licenses	Indefinite life
Goodwill	Indefinite life

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment on goodwill is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at January 31, 2019 and 2018, the Company had no material provisions.

3.8 Income Taxes

Internal Revenue Code 280E Provision

The Company's US subsidiaries will be treated for US federal income tax purposes under US Internal Revenue Code ("IRC") Section 7874 and be subject to US federal income tax. Certain of these subsidiaries are subject to IRC Section 280E. This section disallows deductions and credits attributable to a trade or business of trafficking in controlled substances. Under US laws, marijuana is a Schedule 1 controller substance under the US Federal Controlled Substances Act.

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current income tax

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period-end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Share Capital

In situations where the Company issues units, the value of units is bifurcated, and the value of warrants is included as a separate reserve of the Company's equity. On expiry, the fair value of the warrants is transferred to share capital.

3.10 Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

3.11 Loss per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes conversion, exercise or contingent issuance of options, warrants and securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

For the years ended January 31, 2019 and 2018, no potential shares are included in the computation as they are anti-dilutive.

3.12 Share-Based Payments

Equity-settled share-based payments to employees (including directors and officers) are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to reserves for share-based payments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized on the consolidated statement of loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments are transferred to share capital. On expiry, the recorded fair value of the options is transferred to share capital.

3.13 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Foreign Currency Transactions

Functional and presentation currency

Items included in the consolidated financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Lineage and its Canadian subsidiaries is the Canadian Dollar ("$" or "CAD"), which is the presentation currency of the consolidated financial statements. The functional currency of all subsidiaries incorporated in the US is the US Dollar ("USD").

Transactions and balances

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

The results and financial position of all the entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity as accumulated other comprehensive income (loss).

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss).

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in accumulated other comprehensive income (loss) are recognized in the consolidated statements of loss as part of the gain or loss on sale.

3.15 Changes in Accounting Policies

The Company adopted the following standards, effective February 1, 2018. These changes were made in accordance with the applicable transitional provisions. There was no material impact upon adoption of the new standards on the Company's consolidated financial statements:

IFRS 9 – Financial Instruments

As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results. As such, all comparative period information is presented in accordance with the previous accounting policies. Adjustments to the carrying amounts of financial assets and liabilities, at the date of initial application have been recognized in opening deficit and other components of equity for the current period. New or amended interim disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Changes in Accounting Policies (continued)

IFRS 9 – Financial Instruments (continued)

Effective February 1, 2018, the Company adopted all the requirements of IFRS 9 and the related consequential amendments to IFRS 7 – Financial Instruments: Disclosures. IFRS 9 introduces new requirements for:

- Classification and measurement of financial assets and financial liabilities,
- Impairment for financial assets and
- General hedge accounting, which represent a significant change from IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”).

IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, such that the Company’s accounting policy with respect to financial liabilities is unchanged. IFRS 9 contains three (3) principal classification categories for financial assets: measured at amortized cost (“AMC”), FVTOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)

The IASB issued IFRS 15 in May 2014. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. On adoption of IFRS 15, there were no transitional adjustments as the Company did not have any revenues in the prior year.

IFRS 15 replaces IAS 18 – Revenue and establishes a single 5-step model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Under IFRS 15 the core principles of revenue recognition are to identify the contract with the customer, identify the performance obligation, determine the transaction price, allocate the transaction price and recognize revenue when the entity satisfies the performance obligation. IFRS 15 requires the transaction price to be allocated to each separate performance obligation in proportion to the stand-alone selling price. In addition, variable consideration should only be recognized to the extent that is highly probable that a significant reversal in the amount of the cumulative revenue recognized will not occur.

3.16 Recent Accounting Pronouncements

The IASB and the IFRS Interpretations Committee (“IFRIC”) have issued certain pronouncements that are mandatory for the Company’s accounting periods commencing on or after February 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded.

IFRS 16 – Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Recent Accounting Pronouncements (continued)

IFRS 16 – Leases (“IFRS 16”) (continued)

IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 will not be reassessed for whether a lease exists. The Company will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at February 1, 2019, without restating comparatives. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company has reviewed all of its leasing arrangements outstanding as at January 31, 2019, in respect of the new lease standard. The standard will primarily affect the accounting for the Company’s operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of approximately $792,474. The Company intends to apply the simplified transition approach and will not restate comparative amounts to the year prior to adoption. In respect of these lease commitments, the Company expects to recognize right-of-use assets and lease liabilities of approximately $564,191, respectively, as at January 1, 2019. The Company expects that profit or loss will decrease for the year ending January 31, 2020 as a result of the application of IFRS 16.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRIC concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

4. BUSINESS ACQUISITION

On September 26, 2018, the Company acquired the assets of Terpene Station (the “Terpene Station Acquisition”). Terpene Station is an Oregon-based cannabis retailer engaged in the selling of cannabis products such as flower, edibles and oils. Goodwill of $863,924, is not tax deductible, and was recognized due to the expected synergies from combining operations of Terpene Station and the Company. The Company determined that the Terpene Station Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the accounting acquirer on the acquisition date of September 26, 2018.

Pursuant to the terms of the Asset Purchase Agreements between the Company and Terpene Station, the aggregate purchase price by the Company consisted of:

(i) Cash payment of USD $400,000; and

(ii) Issuance of a secured convertible promissory note (the “Secured Convertible Note”) in the principal amount of USD $800,000 convertible into common shares of Lineage at a price of CAD $0.35 per share for a term of three (3) years (see Note 11 for details).

(Expressed in Canadian Dollars)

4. BUSINESS ACQUISITION (continued)

Included in the Company's financial results were $679,449 in revenue and $368,598 in net loss before tax attributable to the acquisitions from the date of acquisition to January 31, 2019.

On a pro-forma basis (unaudited), had these acquisitions been completed on February 1, 2018, the Company's total revenue and net loss for the period would have amounted to $1,988,631 and $7,038,684, respectively. Management considers these 'pro-forma' estimates to represent an approximate measure of the performance of the combined company on an annualized basis. The Company did not incur significant transaction-related costs.

Final valuations of assets and liabilities are not yet complete due to the timing of the acquisition and the inherent complexity associated with the valuations.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on a preliminary estimate of fair value. The preliminary allocation is subject to adjustment, specifically relate to valuation of intangible assets acquired.

Purchase Price Consideration Paid	
	$
Cash	**519,000**
Fair value of convertible promissory note (Note 11)	**842,301**
Derivative liability component of convertible promissory note	**195,699**
	1,557,000

Net Identifiable Assets Acquired	
	$
Cash	**12,806**
Inventories	**239,447**
Security deposit	**7,268**
Intangible assets	
Brand name	**159,485**
Licenses	**430,546**
Liabilities assumed	**(12,806)**
Deferred tax liability	**(143,670)**
Total net identifiable assets acquired	**693,076**
Goodwill	**863,924**

(Expressed in Canadian Dollars)

5. OTHER RECEIVABLES

	January 31, 2019	January 31, 2018
	$	$
Sales tax receivables (i)	**51,663**	63,152
Other receivables (ii)	**269,372**	-
	321,035	63,152

(i) The Company's sales tax receivables arise from harmonized sales tax refunds and amounts due from government taxation authorities. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables, which are due in less than one year.

(ii) During the year, the Company signed a Letter of Intent ("LOI") with a third-party to develop a medical marijuana facility in Pennsylvania, under which USD $200,000 was advanced to the third-party, which is included in other receivables. As the necessary permits were not obtained, the advance was repaid to the Company subsequent to year-end.

6. INVENTORIES

As at January 31, 2019, the Company's inventories consisted of finished goods and products located at the Terpene Station dispensaries. During the year ended January 31, 2019, inventories of $548,001 (2018 – $nil) were expensed and included in cost of goods sold.

As at January 31, 2019, inventories were recorded at the lower of cost and net realizable value.

7. PREPAID EXPENSES

As at January 31, 2019, prepaid expenses and advances consisted of the following:

	January 31, 2019	January 31, 2018
	$	$
Insurance and rent	**5,062**	1,493
Advances made to suppliers and consultants	**41,355**	42,404
Others	**13,715**	74,384
	60,132	118,281

8. INVESTMENTS AND ADVANCES

Altai Partners, LLC

On March 28, 2018, the Company entered into a LOI to acquire a 100% interest in Altai Partners, LLC ("Altai"), a limited liability company operating out of California (the "Altai Acquisition"). Altai has an agreement in place to acquire a 45% interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"), a licensed dispensary operating in San Jose, California.

On April 3, 2018, concurrent to its agreement acquiring a 45% ownership interest in LUX, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Under the terms of the Altai Acquisition, Lineage will purchase a 100% interest in Altai in exchange for the following consideration:

(a) $3,450,000 in common shares in the capital of Lineage priced at USD $0.20 per common share, to be issued to the seller upon closing;

(b) USD $750,000 to be lent to Altai under a promissory note at 12% annual interest, maturing May 31, 2018. This note will become a loan to subsidiary after completion of the Altai Acquisition; and

8. INVESTMENTS AND ADVANCES (continued)

Altai Partners, LLC (continued)

(c) Lineage, under its ownership of Altai, will assume USD $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation includes four (4) cash payments to LUX shareholders of USD $300,000 each, beginning April 28, 2018 and ending December 30, 2018.

As at January 31, 2019, the Company had advanced total funds of $2,155,490 (USD $1.65 million) to Altai, comprised of (a) total advances of $1,174,440 (USD $900,000) from three (3) separate cash payments of USD $300,000, and (b) funds of $981,050 (USD $750,000) in the form of two (2) promissory notes, issued at USD $250,000 and USD $500,000, respectively. These promissory notes will become a loan to subsidiary after completion of the Altai Acquisition. Should the Altai Acquisition not ultimately close, the advances will be repaid to the Company.

As at January 31, 2019, the total advances made to Altai were recorded at an amortized cost of $2,041,335 (January 31, 2018 – $nil), net of an allowance for ECL $216,876 (2018 – $nil).

Completion of the Altai Acquisition is subject to satisfactory completion of due diligence, execution of a definitive agreement, required approvals and consents, as well as the completion of Altai's acquisition of 100% ownership interest in LUX.

Walnut Oaks, LLC

On June 12, 2018, the Company entered into a term sheet (the "Term Sheet") to acquire California-based Walnut Oaks, LLC ("Walnut Oaks") d/b/a Agris Farms. Walnut Oaks operates a craft cannabis cultivation facility in Yolo County in Northern California. Pursuant to the Term Sheet, Lineage would acquire a 51% interest in Walnut Oaks based on an implied enterprise value of USD $6,600,000. Consideration would be in the form of shares and the assumption of liabilities. Lineage would have an option to acquire the remaining 49% of Walnut Oaks within six (6) months from closing for share consideration.

On November 20, 2018, the Company, through its subsidiary Lineage GCL California, LLC, entered into a Membership Interest Purchase Agreement with Walnut Oaks (the "Agris Agreement") to acquire membership interests in Walnut Oaks (the "Agris Acquisition"). Pursuant to the Agris Agreement which superseded the Term Sheet, Lineage would acquire a 100% ownership interest in Walnut Oaks. The aggregate purchase price payable under the Agris Acquisition is as follows:

(a) USD $6,600,000 payable on closing, comprised of:

  (i) An amount of USD $2,148,880 payable on closing by the issuance of Lineage common shares at a price of $0.165 per share;

  (ii) The assumption of liabilities in the aggregate amount of USD $2,951,120 which is to be settled as follows:

  - USD $451,120 payable in cash which had been paid;
  - USD $1,000,000 convertible on closing, into Lineage common shares at a price of $0.165 per share; and
  - USD 1,500,000 which, on closing, Lineage will assume as a subordinate note owing to a third-party lender who will be granted a put option by Lineage in favor of the holder where the note holder can choose to convert the subordinate note into a Lineage note convertible into a unit consisting of one (1) Lineage common share and one-half (1/2) of a warrant with a conversion price of $0.19 per share and a warrant exercise price of $0.25 per share. On closing, the third-party will have a general security interest over all assets of Walnut Oaks.

(Expressed in Canadian Dollars)

8. INVESTMENTS AND ADVANCES (continued)

Walnut Oaks, LLC (continued)

(iii) A cash investment into Walnut Oaks in the amount of USD $1,500,000 of which $316,020 (USD $238,128) was subscription for the purchase of 698.17 membership units (approximately 6.53%) of Walnut Oaks and the excess of $1,658,604 (USD $1,261,872) as advances. Subsequently, these advances were written down as their recoverability was uncertain.

(b) The sellers may also be entitled to receive an earn-out payment equal to six (6) times of any EBITDA in excess of USD $1.1 million.

As at January 31, 2019, additional advances were made to Walnut Oaks were recorded at an amortized cost of $444,714, net of an allowance for ECL of $148,238 (2018 – $nil).

As at January 31, 2019, the total investments made to Walnut Oaks were recorded at $312,996 (2018 – $nil).

Closing of the Agris Acquisition is subject to various conditions, including the approval of Yolo County for the transfer of cultivation license, and required approvals and consents.

9. INTANGIBLE ASSETS

	Brand Name	Licenses	Goodwill	Total
	$	$	$	**$**
January 31, 2018	-	-	-	**-**
Acquired on business acquisition (Note 4)	159,485	430,546	863,924	**1,453,955**
Additions of intangible assets	-	12,608	-	**12,608**
Impairment of licenses	-	(63,909)	-	**(63,909)**
Effects of movements in foreign exchange	2,077	6,858	11,252	**20,187**
January 31, 2019	161,562	385,103	875,176	**1,421,841**

Management has determined the Company's CGUs to be each retail dispensary. At year-end, management had impaired the value of the licenses for its cannabis retail dispensary in Portland, Oregon. For the year ended January 31, 2019, an impairment charge of $63,909 (2018 – $nil) was recorded on the consolidated statements of loss and comprehensive loss.

The Company estimated the recoverable amounts of goodwill and indefinite-lived intangible assets by determining the value in use of each CGU. The key assumptions include:

- Expected cash flows underlying the Company's business plans for the periods 2019 through 2023.
- Cash flows beyond 2023 are projected to grow at a perpetual growth rate, which was estimated to be 2%.
- In order to risk-adjust the cash flow projections in determining value in use, the Company utilized an after-tax discount rate of approximately 19% to 21%.

(Expressed in Canadian Dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The following is an aged analysis of the accounts payable and accrued liabilities:

	January 31, 2019	January 31, 2018
	$	$
Less than 90 days	**532,354**	388,938
Greater than 90 days	**-**	275,253
	532,354	664,191

11. CONVERTIBLE DEBENTURES

SIDEX Debentures

On September 16, 2014, the Company closed a non-brokered private placement of an unsecured convertible debenture under SIDEX's program "Field Action 2014" (the "SIDEX Debentures") for gross proceeds of $50,000. The SIDEX Debentures matured two (2) years from the closing date. As an incentive for purchasing these debentures, the Company issued 333,333 warrants on closing. Each warrant was exercisable into common shares of the Company at a price of $0.15 per share for the first year and $0.30 per share in the second year from the closing date and had a value of $19,293.

On September 16, 2016, the Company extended the maturity date of the SIDEX Debentures until September 16, 2017. The rate of interest on the SIDEX Debentures is 12% per annum, to be accrued until and payable on the maturity date.

On November 2, 2017, the Company further extended the maturity date of the SIDEX Debentures to March 16, 2019. The conversion price was also amended to equal to $0.20 per share.

Convertible Debentures

On May 12, 2017, the Company closed a brokered private placement offering of convertible debentures (the "Convertible Debentures") of 2,500 units for gross proceeds of $2,500,000. The offering is in accordance with the proposed transaction with Nutritional High International Inc. ("NHII") regarding the build-out of cannabis cultivation facilities in the States of Nevada and Colorado (see Note 20). The issue price of each unit was $1,000 and consisted of:

(i) $1,000 principal amount of 12.0% convertible secured redeemable debentures; and
(ii) 4,000 warrants exercisable into common shares of Lineage at a price of $0.325 for a period of 24 months.

The Convertible Debentures rank pari passu and mature 24 months from the closing date and are convertible at the option of the debenture holders at any time prior to the maturity date into common shares of the Company at a conversion price of $0.25 per share. The Convertible Debentures bear interest at a rate of 12.0% per annum, payable semi-annually in advance. The Company may elect to satisfy its obligation to pay interest on the Convertible Debentures by issuing common shares to the debenture holders at a price of $0.25 per common share.

The Convertible Debentures, and the portions related to the conversion feature and the warrants component are classified as liabilities. The conversion feature and the warrants component do not meet equity classification, as they contain contractual terms that result in the potential adjustment in the conversion or exercise price. In failing the equity classification, the conversion feature and the warrants component are accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The effect is that the Convertible Debentures are accounted for at amortized cost, with the embedded derivative liabilities being measured at fair value with changes in value being recorded in profit or loss. The discount is being accreted over the term of the Convertible Debentures utilizing the effective interest method at a 28.6% discount rate.

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURES (continued)

Amendments to Convertible Debentures

Repricing of the Convertible Debentures

On February 1, 2018, pursuant to the amended terms of the Convertible Debentures, the Company repriced the Convertible Debentures. As the Company closed the first tranche of a concurrent financing within nine (9) months of issuance of the Convertible Debentures at a price of $0.25, the conversion price of the Convertible Debentures was reduced from $0.25 to $0.20 by operation of the adjustment terms of the debentures.

The adjustment to the conversion price was retroactive upon closing of the first tranche ("Tranche 1") of a brokered private placement financing on January 24, 2018 (the "Concurrent Financing") (see Note 13). Effective February 26, 2018, the exercise price of the common share purchase warrants issued was amended from $0.325 to $0.25.

During the year ended January 31, 2019, all 2,500 units of the Convertible Debentures were converted into 12,500,000 common shares of the Company, at the adjusted conversion price of $0.20 (see Note 13).

Restated Escrow Agreement

On February 1, 2018, with the consent of the debenture holders, the Company entered into an amended and restated escrow agreement (the "Amended and Restated Escrow Agreement") to change the conditions for the release of escrow. Pursuant to the Amended and Restated Escrow Agreement, the revised conditions to release escrowed funds are as follows:

(i) Closing of the Mt. Baker Strategic Partnership;

(ii) Regulatory approval over the Mt. Baker Definitive Agreements (the "Mt. Baker Agreements");

(iii) Closing of the Company's Terpene Station Acquisition or such other acquisition by the Company with similar or better financial metrics, approved by Foundation Markets Inc. ("FMI");

(iv) Registration of a general security agreement over the assets of the Company in the State of Washington, including all equipment leased by the Company to Mt. Baker Greeneries, LLC ("Mt. Baker"), and registration of a second secured position over assets acquired in the Terpene Station Acquisition; and

(v) The Company has completed an equity financing.

On October 31, 2018, the Company had met all of the above and was released from the escrow conditions upon closing of the Terpene Station Acquisition (see Note 4) and the effective termination of the Mt. Baker Agreements (see Note 20).

The following table reflects the changes to the Convertible Debentures for the years ended January 31, 2019 and 2018:

	$
Balance, January 31, 2017	**52,316**
Issuance of Convertible Debentures	2,500,000
Transaction costs relating to convertible debentures – cash	(254,287)
Fair value of derivative conversion option on date of issuance	(149,079)
Fair value of warrant liability on date of issuance	(134,140)
Interest and accretion expense	152,053
Balance, January 31, 2018	**2,166,863**
Accretion expense	269,137
Conversion of debentures and interest accrued	(2,362,859)
Balance, January 31, 2019	**73,141**

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURES (continued)

The changes to the embedded derivative liabilities related to the Convertible Debentures are as follows:

	$
Balance, January 31, 2017	**-**
Fair value of derivative conversion option on date of issuance	149,079
Fair value of warrant liability on date of issuance	134,140
Fair value changes of derivative liabilities	1,227,612
Balance, January 31, 2018	**1,510,831**
Derecognition of derivative liabilities on conversion	(1,650,238)
Fair value changes of derivative liabilities	293,860
Balance, January 31, 2019	**154,453**

The Company used the Black-Scholes valuation model to estimate the fair value of the embedded derivative liabilities upon the initial measurement and as at January 31, 2019 and 2018, based on the following assumptions:

	January 31, 2019	January 31, 2018	May 12, 2017
Valuation date share price	$0.165	$0.154	$0.035
Conversion price	$0.20	$0.20	$0.25
Exercise price	$0.25	$0.325	$0.325
Expected remaining life	0.28 years	1.28 years	2 years
Volatility [(1)]	108%	131%	157%
Risk-free interest rate	1.71%	1.61%	0.68%

[(1)] Expected volatility is based on historical volatility of comparable companies.

Secured Convertible Note

On August 29, 2018, as part of the consideration paid for the Terpene Station Acquisition, the Company issued the Secured Convertible Note to the seller in the principal amount of USD $800,000. The Secured Convertible Note is convertible at the option of the seller, at a share price of CAD $0.35. Interest will accrue on the principal amount at 12% per annum until the earlier of (1) repayment in full of the Secured Convertible Note or (2) on conversion.

The Company will pay the principal amount of USD $800,000 and all accrued and unpaid interest, as follows:

(i) USD $150,000 on the first anniversary of the Note (“First Payment Due Date”), if the Conversion Option is not exercised 30 days before the First Payment Due Date;

(ii) USD $150,000 on the second anniversary of the Note (“Second Payment Due Date”), if the Conversion Option is not exercised 30 days before the Second Payment Due Date; and

(iii) The balance on the three (3) year anniversary of the Note, if the Conversion Option is not exercised 30 days before the three (3) year anniversary of the Note.

The Secured Convertible Note, and the portion related to the conversion option, are classified as liabilities. The conversion feature does not meet equity classification, as they contain contractual terms that result in the potential adjustment in the conversion price. In failing the equity classification, the conversion feature was accounted for as an embedded derivative liability as its fair value is affected by changes in the fair value of the Company’s shares. The effect is that the Secured Convertible Note is accounted for at amortized cost, with the embedded derivative liability being measured at fair value with changes in value being recorded in profit or loss.

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURES (continued)

Secured Convertible Note (continued)

The following table reflects the changes to the Secured Convertible Note for the year ended January 31, 2019:

	$
Balance, January 31, 2018	**-**
Issuance of Secured Convertible Note	842,301
Interest and accretion expense	84,619
Effects of movements in foreign exchange	10,477
Balance, January 31, 2019	**937,397**

The changes to the embedded derivative liabilities related to the Secured Convertible Note are as follows:

	$
Balance, January 31, 2018	**-**
Fair value of derivative conversion option on date of issuance	195,699
Fair value changes of derivative liabilities	(63,378)
Effects of movements in foreign exchange	2,919
Balance, January 31, 2019	**135,240**

12. NOTES PAYABLE

Promissory Note

On September 24, 2018, the Company issued a promissory note agreement (the "Promissory Note") with the Corporate Secretary of the Company, in exchange for an advance of USD $150,000 ($196,211). The Promissory Note bears interest at a rate of 10% per annum and is due on demand. As at January 31, 2019, the Company had made payments of USD $100,000 ($132,230) on the Promissory Note, and the amounts in outstanding principal of $65,720 (USD $50,000) (January 31, 2018 – $nil) and accumulated interest of $1,080 (USD $822) (January 31, 2018 – $nil) were owed by the Company. During the year ended January 31, 2019, $6,594 (2018 – $nil) of interest expense was incurred in relation to the Promissory Note.

Harborside Note

On November 16, 2018, Lineage issued a promissory note to Harborside Inc. (the "Harborside Note") in the principal amount of $2,000,000 as a Bridge Loan. The Harborside Note is unsecured, and bears in interest at 12% per annum, or 18% per annum if the Bridge Loan is in default. The Bridge Loan is repayable at the earlier of (a) November 16, 2019, or (b) if the proposed business combination between Lineage and Harborside is terminated (see Notes 22 and 23), the date that is six (6) months after the date of termination. The proceeds of the Bridge Loan were expected to be used by Lineage to subscribe for Walnut Oaks membership units as set out in Note 8. During the year ended January 31, 2019, $49,973 (2018 – $nil) of interest expense was incurred in relation to the Harborside Note, which is unpaid as at January 31, 2019.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares and preferred shares.

	January 31, 2019	January 31, 2018
	$	$
Issued: 75,643,484 common shares (January 31, 2018 – 38,397,110)	**12,939,533**	5,692,180

On February 8, 2018, the Company closed the second tranche ("Tranche 2") of the Concurrent Financing, consisting of 3,442,064 units at a price of $0.25 per unit, for gross proceeds of $860,516. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one (1) common share at a price of $0.325 per common share for a period of 24 months from the closing date, as disclosed in Note 15. In conjunction with the brokered private placement, the Company paid finders' fee of $62,900 and issued 251,600 finders' warrants (see Note 14).

On February 14, 2018, the Company closed the third tranche ("Tranche 3") of the Concurrent Financing, consisting of 3,047,600 units at a price of $0.25 per unit, for gross proceeds of $761,900. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one (1) common share at a price of $0.325 per common share for a period of 24 months from the closing date, as disclosed in Note 15. In conjunction with the brokered private placement, the Company paid finders' fee of $18,800 and issued 75,200 finders' warrants (see Note 14).

On February 16, 2018, the Company closed the fourth and last tranche ("Tranche 4") of the Concurrent Financing, consisting of 900,000 units at a price of $0.25 per unit, for gross proceeds of $225,000. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one (1) common share at a price of $0.325 per common share for a period of 24 months from the closing date, as disclosed in Note 15. In conjunction with the brokered private placement, the Company also paid finders' fee of $18,000 and issued 72,000 finders' warrants (see Note 14).

On closing of Tranches 2 to 4 of the Concurrent Financing, proceeds of $855,516 in relation to subscription funds received by the Company as at January 31, 2018, were reallocated to share capital.

On March 7, 2018, the Company issued 1,650,000 common shares to NHII as partial consideration for its introduction of Mt. Baker, and for entering into the Put Option Agreement (see Note 20). The common shares were valued at $254,606, as at January 31, 2018, based on the share price of Tranche 1 of the Concurrent Financing.

On March 7, 2018, the Company issued 320,000 common shares to FMI Capital Advisory Inc. ("FMICA") as compensation for consulting services. The common shares were valued at $80,000, based on the fair value of the services received. The fair value of these common shares was expensed as share-based payments in the consolidated statements of loss and comprehensive loss.

On May 24, 2018, the Company issued 336,000 common shares at a price of $0.20 per common share, to satisfy the third semi-annual interest payment for the Convertible Debentures. These common shares were valued at $67,500 based on the Company's most recently completed financing at the time.

On October 30, 2018, the Company issued 386,909 common shares to FMICA as finder's fee in connection with the closing of the Terpene Station Acquisition. The common shares were valued at $61,021, based on the Company's most recently traded share price. The fair value of these common shares was expensed as share-based payments in the consolidated statements of loss and comprehensive loss.

13. SHARE CAPITAL (continued)

Share capital transactions for the year ended January 31, 2019 (continued)

On December 5, 2018, the Company issued 200,000 common shares to Quinsam Capital Corporation ("Quinsam") as compensation of $38,000 for terminating the terminate the LOI previously entered whereby Lineage would acquire Quinsam's right to a 35% equity stake in Herbiculture Inc. (the "Herbiculture LOI") (see Note 16). The fair value of these common shares was expensed as share-based payments in the consolidated statements of loss and comprehensive loss.

On January 25, 2019, the Company issued 454,545 common shares to NHII to settle a lump-sum balance of $75,000 pursuant to the termination of the Put Option Agreement (see Note 20). The fair value of these common shares was expensed as share-based payments in the consolidated statements of loss and comprehensive loss.

During the year ended January 31, 2019, the Company issued 12,500,000 common shares as a result of the conversion of 2,500 units of Convertible Debentures at the adjusted conversion price of $0.20 (see Note 11).

During the year ended January 31, 2019, 11,012,589 common shares were issued as a result of the exercise of 11,012,589 warrants for total cash proceeds of $1,101,259. All issued shares are fully paid.

During the year ended January 31, 2019, 2,996,667 common shares were issued as a result of the exercise of 2,996,667 options for total cash proceeds of $310,500. All issued shares are fully paid.

Share capital transactions for the year ended January 31, 2018

On May 12, 2017, the Company issued 600,000 common shares at a price of $0.25 per common share, to satisfy the first semi-annual interest payment for the Convertible Debentures. These common shares were valued at $150,000 based on the Company's most recently completed financing at the time.

On June 26, 2017, the Company issued 10,995 common shares as a result of the exercise of the Company's Initial Public Offering warrants, for cash proceeds of $3,299. The warrants were exercised at a weighted-average exercise price of $0.30 per warrant.

On November 12, 2017, the Company issued another 600,000 common shares at a price of $0.25 per common share, to satisfy the second semi-annual interest payment for the Convertible Debentures. These common shares were valued at $21,000 based on the Company's most recently completed financing at the time.

On November 21, 2017, the Company issued 600,000 common shares as a result of the exercise of warrants for cash proceeds of $60,000. All issued shares are fully paid.

On January 24, 2018, the Company closed Tranche 1 of the Concurrent Financing, consisting of 4,740,000 units at a price of $0.25 per unit, for gross proceeds of $1,185,000. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one (1) common share at a price of $0.325 per common share for a period of 24 months from the closing date, as disclosed in Note 14. In conjunction with the brokered private placement, the Company also paid finders' fee of $94,800 and issued 379,200 finders' warrants (see Note 14).

Escrow shares

As at January 31, 2019, there were 6,667,655 shares held in escrow. The shares in escrow will be released over 36 months subsequent to March 10, 2019.

(Expressed in Canadian Dollars)

14. RESERVE FOR WARRANTS

The following table summarizes the warrant activities for the years ended January 31, 2019 and 2018:

	January 31, 2019		January 31, 2018	
	Number of warrants outstanding	**Weighted average exercise price**	Number of warrants outstanding	Weighted average exercise price
	#	**$**	#	$
Balance, beginning of year	**27,539,753**	**0.25**	14,643,514	0.17
Issued	**7,389,664**	**0.325**	14,740,000	0.325
Issued	**398,800**	**0.25**	400,000	0.25
Issued	**-**	**-**	379,200	0.25
Exercised	**(11,012,589)**	**0.10**	(603,665)	0.10
Expired	**(674,631)**	**0.90**	(2,019,296)	0.30
Balance, end of year	**23,640,997**	**0.29**	27,539,753	0.25

In conjunction with Tranche 2 of the Concurrent Financing which closed on February 8, 2018, the Company issued 3,442,064 warrants at an exercise price of $0.325 per share for a period of 24 months from the closing date. In addition, the Company also issued 251,600 finders' warrants which entitle the holder to purchase one (1) unit at a price of $0.25 per unit, exercisable until February 8, 2020.

In conjunction with Tranche 3 of the Concurrent Financing which closed on February 14, 2018, the Company issued 3,047,600 warrants at an exercise price of $0.325 per share for a period of 24 months from the closing date. The Company also issued 75,200 finders' warrants which entitle holder to purchase one (1) unit at a price of $0.25 per unit, exercisable until February 14, 2020.

In conjunction with Tranche 4 of the Concurrent Financing which closed on February 16, 2018, the Company issued 900,000 warrants at an exercise price of $0.325 per share for a period of 24 months from the closing date. The Company also issued 72,000 finders' warrants which entitle holder to purchase one (1) unit at a price of $0.25 per unit, exercisable until February 16, 2020.

Warrants issuance for the year ended January 31, 2018

On May 12, 2017, in conjunction with the Convertible Debentures offering, the Company issued 10,000,000 warrants at an exercise price of $0.325 per share and 400,000 broker warrants at an exercise price of $0.25 per share.

In conjunction with Tranche 1 of the Concurrent Financing which closed on January 24, 2018, the Company issued 4,740,000 warrants at an exercise price of $0.325 per share for a period of 24 months after the closing date. In addition, the Company also issued 379,200 finders' warrants which entitle holder to purchase one (1) unit at a price of $0.25 per unit, exercisable until January 24, 2020.

The Company used the Black-Scholes valuation model to estimate the fair value of the warrants issued during the years ended January 31, 2019 and 2018, based on the following assumptions:

Issuance date	**February 8, 2018**	**February 14, 2018**	**February 16, 2018**
Number of warrants	3,442,065	3,047,600	900,000
Implied share price	$0.157	$0.157	$0.157
Exercise price	$0.325	$0.325	$0.325
Expected life of warrants	2 years	2 years	2 years
Expected volatility (1)	146%	146%	146%
Risk-free interest rate	1.83%	1.82%	1.82%
Fair value	$318,656	$281,522	$83,109

(Expressed in Canadian Dollars)

14. RESERVE FOR WARRANTS (continued)

Issuance date	February 8, 2018	February 14, 2018	February 16, 2018
Number of finders' warrants	251,000	75,200	72,000
Share price	$0.25	$0.25	$0.25
Exercise price	$0.25	$0.25	$0.25
Expected life of warrants	2 years	2 years	2 years
Expected volatility [(1)]	146%	146%	146%
Risk-free interest rate	1.83%	1.82%	1.82%
Fair value	$44,328	$13,218	$12,651

Issuance date	January 24, 2018	January 24, 2018
Number of warrants	4,740,000	379,200
Share price	$0.154	$0.25
Exercise price	$0.325	$0.25
Expected life of warrants	2 years	2 years
Expected volatility [(1)]	155%	155%
Risk-free interest rate	1.81%	1.81%
Fair value	$453,586	$69,258

[(1)] Expected volatility is based on historical volatility of comparable companies.

The following table summarizes information of warrants outstanding as at January 31, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	$	Years
March 16, 2019	333,333	0.20	0.12
May 12, 2019	10,000,000	0.25	0.28
May 12, 2019	400,000	0.25	0.28
January 24, 2020	4,740,000	0.325	0.98
January 24, 2020	379,200	0.25	0.98
February 8, 2020	3,442,064	0.325	1.02
February 8, 2020	251,600	0.25	1.02
February 14, 2020	3,047,600	0.325	1.04
February 14, 2020	75,200	0.25	1.04
February 16, 2020	900,000	0.325	1.04
February 16, 2020	72,000	0.25	1.04
	23,640,997	**0.29**	**0.68**

15. RESERVE FOR SHARE-BASED PAYMENTS

The Company maintains a stock option plan (the "Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Plan is limited to 10% of the aggregate number of shares outstanding. As at January 31, 2019, the Company has 1,951,015 common shares that are issuable under the Plan. The exercise price and vesting terms are determined by the Board of Directors.

(Expressed in Canadian Dollars)

15. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following table summarizes the stock option activities for the years ended January 31, 2019 and 2018:

	January 31, 2019		January 31, 2018	
	Number of options outstanding	**Weighted average exercise price**	Number of options outstanding	Weighted average exercise price
	#	**$**	#	$
Balance, beginning of year	**2,915,000**	**0.10**	3,170,000	4.80
Granted	**2,695,000**	**0.25**	-	-
Granted	**3,000,000**	**0.165**	-	-
Exercised	**(2,830,000)**	**0.10**	-	-
Exercised	**(166,667)**	**0.165**	-	-
Cancelled	**-**	**-**	(85,000)	0.10
Expired	**-**	**-**	(170,000)	0.10
Balance, end of year	**5,613,333**	**0.20**	2,915,000	0.10

Options grants for the year ended January 31, 2019

On May 24, 2018, the Company granted 1,875,000 stock options to various officers and directors of the Company. The options are exercisable for $0.25 per share and will expire on May 24, 2023. 1/6 of the options vested immediately on grant, with an additional 1/6 vesting every six (6) months until fully vested. The Company also granted 800,000 stock options to various consultants. The transactions were measured at the fair value of stock options on the date of grant, as the fair value of the services cannot be reliably measured. These options are exercisable for $0.25 per share and will expire on May 24, 2023. 1/4 of the options vested immediately on grant, with an additional 1/4 vesting every subsequent quarter until fully vested.

On August 3, 2018, the Company granted 20,000 stock options to a consultant. The options are exercisable for $0.25 per share and will expire on August 3, 2023. The options vest 1/3 every six (6) months from the grant date, until fully vested.

On December 14, 2018, upon accelerated vesting and the full exercise of 790,000 options exercisable at $0.10 with expiry on December 12, 2021, the Company granted 3,000,000 stock options to its officers and directors, as well as various consultants. The options are exercisable for $0.165 per share and will expire on December 14, 2023. All options vested immediately on grant.

Options grants for the year ended January 31, 2018

During the year ended January 31, 2018, there were no options transactions.

The Company used the Black-Scholes valuation model to estimate the fair value of the options granted during the year ended January 31, 2019, based on the following assumptions:

Grant date	**May 24, 2018**	**August 3, 2018**	**December 14, 2018**
Number of options	2,675,000	20,000	3,000,000
Share price	$0.195	$0.19	$0.165
Exercise price	$0.25	$0.25	$0.165
Expected life of options	5 years	5 years	5 years
Expected volatility [1]	146%	142%	164%
Risk-free interest rate	2.23%	2.25%	2.04%
Fair value	$463,721	$3,335	$463,788

[1] Expected volatility is based on historical volatility of comparable companies.

(Expressed in Canadian Dollars)

15. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following table summarizes information of options outstanding and exercisable as at January 31, 2019:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life
	#	#	$	Years
December 12, 2021	85,000	85,000	0.10	2.87
May 24, 2023	2,675,000	1,225,000	0.25	4.31
August 3, 2023	20,000	-	0.25	4.51
December 14, 2023	2,833,333	2,833,333	0.165	4.87
	5,613,333	**4,143,333**	**0.20**	**4.57**

16. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel compensation

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

On October 15, 2010, Lineage and FMICA entered into a financial advisory and consulting agreement, subsequently amended on June 5, 2017. Peter Bilodeau, the Chief Executive Officer ("CEO") and Director of the Company, is also the President of FMICA. FMICA is a subsidiary of Foundation Financial Holdings Corp., an entity in which Adam Szweras is a director and whereas his minor children hold an indirect interest. For the year ended January 31, 2019, the Company was charged $232,333 (2018 – $159,000) for advisory consulting services provided by FMICA. As at January 31, 2019, no balance was owed to FMICA (January 31, 2018 – 87,033; included in accounts payable and accrued liabilities).

Effective April 17, 2018, Lineage and Peter Bilodeau entered into a consulting agreement, providing for CEO and consulting services to the Company. Fees of $10,000 are payable on a monthly basis from the effective date. During the year ended January 31, 2019, the CEO was paid $94,720 (2018 – $nil) for CEO consulting services provided to the Company and a management bonus of $40,000 (2018 – $nil), which are included in management and consulting fees. As at January 31, 2019, an amount of $3,380 (January 31, 2018 – $nil) owing to the CEO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Upon closing of the Concurrent Financing in February 2018, the Company and Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, amended the management services agreement, providing for CFO services to Lineage, as well as other accounting and administrative services, which are included in professional fees. In consideration for the services provided, the Company agreed to pay a monthly fee of $8,000. During the year ended January 31, 2019, the Company was charged $110,605 (2018 – $87,950) for services provided by Branson. As at January 31, 2019, no balance was owed to Branson (January 31, 2018 – $15,000; included in accounts payable and accrued liabilities).

During the year ended January 31, 2019, the Company also paid a management bonus of $10,000 (2018 – $nil) to the CFO of the Company. As at January 31, 2019, an amount of $4,074 (January 31, 2018 – $nil) owing to the CFO for reimbursement of expenses was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the year ended January 31, 2019, the Company recorded fees of $225,125 (2018 – $64,000), including a bonus of $150,000 (2018 – $nil) paid upon the Company securing its listing on the CSE, for services rendered by a former officer to the Company, which are included in management and consulting fees. As at January 31, 2019, no balance was owed to the former officer (January 31, 2018 – $80,825; included in accounts payable and accrued liabilities).

16. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Key management personnel compensation (continued)

During the year ended January 31, 2019, officers and directors of the Company received stock-based compensation of $575,819 (2018 – $nil).

Agreements with related parties

On January 24, 2018, the Company and FMI entered into a private placement finder's fee agreement in relation to the Concurrent Financings which closed in February 2018 (see Note 13). Peter Bilodeau and Adam Szweras are the President and the Chairman of FMI, respectively. Of the Tranches which closed in February 2018, FMI was paid the following compensation:

- Tranche 2: Finder's fee of $28,925 and 80,200 finders' warrants exercisable at $0.25 for two (2) years;
- Tranche 3: Finder's fee of $12,800 and 51,200 finders' warrants exercisable at $0.25 for two (2) years; and
- Tranche 4: Finder's fee of $4,500 and 18,000 finders' warrants exercisable at $0.25 for two (2) years.

On March 7, 2018, the Company issued 320,000 common shares to FMICA as compensation for consulting services in relation to the closing of the Concurrent Financings (see Note 13).

On October 30, 2018, the Company issued 386,909 common shares to FMICA as finder's fee in connection with the closing of the Terpene Station Acquisition (see Note 13).

On November 30, 2018, the Company and Quinsam agreed to terminate the Herbiculture LOI. As compensation for terminating the Herbiculture LOI, the Company paid Quinsam a termination fee of $38,000 on December 5, 2018, through the issuance of 200,000 common shares at $0.19 (see Note 13). Keith Li is also the CFO of Quinsam.

Conversion of Convertible Debentures

During the year ended January 31, 2019, the following related parties have converted their Convertible Debentures:

- $160,000 was converted by Quinsam into 800,000 common shares of the Company and accumulated interest of $9,600 into 48,000 common shares of the Company at $0.20 per share.

- A former officer of the Company converted $25,000 principal into 125,000 common shares of the Company at $0.20 per share.

The Convertible Debentures held by related parties were subscribed in prior year and there were no outstanding Convertible Debentures as of January 31, 2019

(Expressed in Canadian Dollars)

17. INCOME TAXES

Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018 – 26.5%) were as follows:

	2019	**2018**
	$	**$**
(Loss) before income taxes	(6,300,297)	(2,592,012)
Expected income tax recovery based on statutory rate	(1,669,580)	(687,000)
Adjustments to expected income tax benefit:		
Differences to foreign tax rates	83,990	-
Share-based compensation	217,340	-
Section 280E adjustment	250,440	-
Share issuance cost booked to equity	(53,650)	-
Fair value change in derivative liability	77,870	-
Provision on advances	96,760	-
Expenses not deductible for tax purposes	26,092	18,000
Change in benefit of tax assets not recognized	998,900	669,000
Income tax provision (recovery)	**28,162**	**-**

The Company's income tax expense (recovery) is allocated as follows:

	2019	**2018**
	$	**$**
Current tax expense (recovery)	28,162	-
Deferred tax expense (recovery)	-	-
	28,162	**-**

Deferred income tax

The following table summarizes the components of deferred tax:

	2019	**2018**
	$	**$**
Deferred tax assets		
Non-capital losses carried forward	14,210	-
Deferred tax liabilities		
Intangible assets	(159,967)	-
Net deferred tax assets (liabilities)	**(145,547)**	**-**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian Dollars)

17. INCOME TAXES (continued)

Deferred income tax (continued)

Movements in net deferred tax liabilities are summarized as follows:

	2019	2018
	$	$
Balance, beginning of year	-	-
Recognized in profit or loss	-	-
Recognized in other comprehensive income	-	-
Recognized in equity	-	-
Other	**145,547**	-
Balance, end of year	**145,547**	-

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2019	2018
	$	$
Non-capital loss carry-forwards – US	370,000	-
Provision for bad debts – US	1,658,604	-
Non-capital loss carry-forwards – Canada	6,413,000	3,905,000
Capital loss carryforwards	113,000	-
Share issue costs and others	371,000	140,000
Mineral property costs	844,000	703,000
	9,769,604	**4,748,000**

The Canadian non-capital loss carryforwards expire as noted in the table below. Net capital loss carryforwards may be carried forward indefinitely, but can only be used to reduce capital gains.

Share issue and financing costs will be fully amortized in 2023.

The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

The Company's Canadian non-capital income tax losses expire as follows:

	$
2031	2,758,000
2036	231,000
2037	210,000
2038	1,161,000
2039	2,053,000
	6,413,000

(Expressed in Canadian Dollars)

18. CAPITAL RISK MANAGEMENT

The Company's objective in managing its capital structure is to ensure the entity continues as a going concern as well as to maintain optimal returns and benefits to shareholders and other stakeholders. The Company monitors its capital structure and makes adjustments according to market conditions to meet its objectives given the current business and industry outlook in general. To maintain or adjust the capital structure, the Company may issue new shares or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;
(ii) reducing or eliminating exploration expenditures which are of limited strategic value; and
(iii) exploring alternate sources of liquidity.

In light of the above, the Company will continue to assess and acquire an interest in new business opportunities if it feels there is sufficient potential and if it has adequate financial resources to do so.

As at January 31, 2019, the Company's capital consists of share capital, conversion component of convertible debentures, reserve in warrants, reserve in share-based payments, accumulated other comprehensive income and accumulated deficit, in the amount of $1,170,353 (January 31, 2018 – $186,916).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the years ended January 31, 2019 and 2018.

The Company is not subject to externally imposed capital requirements.

19. FINANCIAL INSTRUMENT RISKS

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and other receivables, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is primarily held with reputable Canadian chartered banks and in trust with the Company's legal counsel. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivables is minimal.

The loss allowance at January 31, 2019 determined under IFRS 9 was as follows:

	Receivable from Keystone Frequency	**Advances and promissory notes to Altai Partners**	**Investments in Walnut Oaks, LLC**	**Total**
	$	**$**	**$**	**$**
Balance prior to ECL allowance	262,880	2,258,211	592,952	3,114,043
Projected loss rate	0%	10%	25%	n/a
12-month ECL allowance	-	216,876	148,238	365,114
Balance as at January 31, 2019, net of allowance	**262,880**	**2,041,335**	**444,714**	**2,748,929**

19. FINANCIAL INSTRUMENT RISKS (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at January 31, 2019, the Company had a cash balance of $578,528 (January 31, 2018 – $4,347,368) to settle current liabilities of $3,039,959 (January 31, 2018 – $664,191).

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

As at January 31, 2019, the Company had the following contractual obligations:

	Less than 1 year	**1 to 3 years**	**3 to 5 years**	**Total**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities (Note 10)	532,354	-	-	532,354
Convertible debentures (Note 11)	73,141	-	-	73,141
Derivative liabilities (Note 11)	289,693	-	-	289,693
Notes payable (Note 12)	2,116,773	-	-	2,116,773
Convertible notes payable (Note 11)	-	937,397	-	937,397
	3,011,961	**937,397**	**-**	**3,949,358**

Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the US, where the majority of transactions are incurred in USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in USD may expose the Company to the risk of exchange rate fluctuations.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a 12-month period:

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, investments and advances, accounts payable and accrued liabilities, notes payable and convertible promissory notes that are denominated in USD. A 10% change in either direction of the USD exchange rate would have changed the net income by approximately $195,785.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debts have fixed interest rates. As at January 31, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

20. COMMITMENTS AND CONTINGENCIES

Nutritional High International Inc.

On February 22, 2017, the Company entered into a LOI with NHII, whereby the Company was to build medical and adult-use cannabis cultivation facilities in Henderson, Nevada and Pueblo, Colorado ("Proposed Transaction"). As part of the Proposed Transaction, the Company was to enter into the following arrangements with NHII:

(i) NHII will assign to the Company its right to acquire a Provisional Marijuana Cultivation License issued by the Nevada Division of Public and Behavioral Health for a payment of USD $500,000;

(ii) The Company will form a joint venture company with NHII for the purposes of acquiring and holding a real property located in Henderson, to be licensed for the operation of a medical marijuana cultivation facility; and

(iii) NHII will lease to the Company, land and a building in Pueblo (the "Pueblo Facility") which qualify for marijuana cultivation. The Company will then sublease the Pueblo Facility to Palo Verde, LLC ("Palo Verde"), a party which has applied to renew a cultivation license in Colorado respecting the Pueblo Facility.

Upon the execution of the formal agreement between the Company and NHII, Lineage was to issue between 1,000,000 to 3,000,000 common shares to NHII.

On January 22, 2018, the Company and NHII entered into an amended and restated LOI, restating the LOI entered on February 22, 2017 as amended on June 29, 2017, which revised the Proposed Transaction as follows:

(i) All sections of the Proposed Transaction relating to the acquisition of a Provisional Marijuana Cultivation License issued by the Nevada Division of Public and Behavioral Health and the acquisition of real property in Henderson, Nevada have been removed.

(ii) The Proposed Transaction will be structured such that NHII will assist the Company to enter into the Washington Agreement with Mt. Baker. Upon the completion of the Pueblo Joint Venture (as defined below), the Company will issue to NHII, 400,000 common shares, as partial consideration for NHII's introduction of Mt. Baker to the Company.

(iii) The Proposed Transaction will also include the Company entering into a joint venture (the "Pueblo JV") with NHII and Palo Verde by entering into a series of agreements with NHII and Palo Verde in connection with the expansion of a marijuana facility located in Pueblo. Upon completion of the Pueblo JV, the Company will issue to NHII, 100,000 common share, as partial consideration for providing consulting services in preparation for entering into the Pueblo JV. The completion date for the proposed Pueblo JV has been scheduled for December 31, 2018.

(iv) NHII will enter into a put option agreement (the "Put Option Agreement") pursuant to which, in the event of default by the Company under the Convertible Debentures, NHII would be obligated, at the election of the agent for the holders, to purchase the Convertible Debentures at a price equal to the amount of all principal and accrued interest outstanding thereon.

(v) NHII has agreed to enter into the Put Option Agreement in exchange for:

1. Issuance of 1,250,000 common shares of the Company (issued on March 7, 2018);
2. $75,000 cash paid in the form of 5% royalty on all revenue of the Company paid on an installment basis with any balance outstanding by October 16, 2019, to be paid in a lump sum (paid on January 25, 2019); and
3. Should the Company acquire any dispensary in a state in which NHII's products are sold, the Company shall purchase NHII's products to stock at least 20% of the dispensary's shelf space per product category at a price equal to NHII's best regular whole sale price to NHII's customers in the state, subject to availability of supply.

(Expressed in Canadian Dollars)

20. COMMITMENTS AND CONTINGENCIES (continued)

Nutritional High International Inc. (continued)

On March 7, 2018, the Company issued 1,650,000 common shares valued at $254,606, to NHII as partial consideration for NHII's introduction of Mt. Baker, and for entering into the Put Option Agreement. The fair value of these common shares was expensed as share-based payments in the consolidated statements of loss and comprehensive loss.

Put Option Agreement

Pursuant to the Put Option Agreement, the following triggering events would constitute default by the Company under the Convertible Debentures:

(i) Failure of the Company to list its common shares on the CSE by February 28, 2018;

(ii) The Company's common shares trading at a price per share equal to less than 50% of the conversion price of the Convertible Debentures for 60 consecutive trading days after being listed on a stock exchange; or

(iii) Failure by the Company to either acquire an operating marijuana business or assisting Mt. Baker in commencing marijuana cultivation operations by June 30, 2018.

On June 25, 2018, with the consent of the debenture holders, the Company entered into an amended Put Option Agreement to amend the definition of the triggering event, related to the timeline the Company has to either acquire an operating marijuana business or assisting Mt. Baker in commencing marijuana cultivation operations, from June 30, 2018 to August 31, 2018.

On January 25, 2019, the Company terminated the LOI with NHII, and issued 454,545 Common shares to settle the $75,000 lump-sum cash payment stipulated in the LOI.

Mt. Baker

On January 31, 2018, the Company entered into definitive agreements (the "Mt. Baker Agreements") with Mt. Baker, a Tier 2 licensed cannabis producer processor in the State of Washington. An Equipment Lease Agreement was entered into, whereby the Company agrees to lease cultivation equipment to Mt. Baker. A Licensing and Services Agreement was also entered, whereby Mt. Baker will purchase cultivation supplies, license certain trademarks to place on Mt. Baker's packaged products, and license certain technology from the Company, to cultivate the marijuana crops grown at the Mt. Baker Facility. The Company was also to provide services to assist in redesigning Mt. Baker's grow facility, implementing growing methodologies, training of personnel and other advice as requested.

On November 26, 2018, the Company terminated the Mt. Baker Agreements, and notified Mt. Baker of the termination of the Agreements effective as of October 31, 2018.

Lease commitments

The Company entered into two (2) lease agreements for the cannabis retail dispensaries located in Portland and Eugene, California. As at January 31, 2019, the Company is committed to minimum annual lease payments for its Long Beach facility as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	$	$	$	$
Lease obligations	792,474	121,357	376,250	294,868

(Expressed in Canadian Dollars)

21. PROPOSED TRANSACTION

Harborside

On August 12, 2018, the Company and FLRish Inc. ("FLRish"), a California corporation d/b/a Harborside, entered into a letter agreement pursuant to which Harborside will effect a reverse takeover transaction that will result in Lineage acquiring all of the issued and outstanding securities of Harborside in exchange for newly issued common shares of Lineage (the "Harborside Transaction"). Under the terms of the Harborside Transaction, 100% of the outstanding securities of Harborside shall be exchanged for Lineage securities at a deemed price of $0.165, and the final number of Lineage shares issued in exchange for the outstanding Harborside securities shall be determined at the time the Harborside Transaction closes and will be subject to adjustments based on the anticipated Harborside securities offering and additional near-term acquisitions.

On February 11, 2019, the Company and FLRish entered into a definitive merger agreement (the "Definitive Agreement") (see Note 23 for details).

22. SEGMENTED INFORMATION

As at January 31, 2019, the Company's operations comprise of a single reporting operating segment engaged in the cultivation, branding, distribution and retail management of cannabis in states throughout the US. As at and for the year ended January 31, 2019, the breakdown between operations in Canada and the US are as follows:

Statement of Financial Position	**Canada**	**US**	**Total**
	$	**$**	**$**
Current assets	620,900	451,469	1,072,369
Non-current assets	2,041,335	2,179,552	4,220,887
Total Assets	**2,662,235**	**2,631,021**	**5,293,256**
Current liabilities	2,754,111	150,608	2,904,719
Long-term liabilities	-	1,218,183	1,218,183
Total Liabilities	**2,754,111**	**1,368,791**	**4,122,902**

Statement of Loss	**Canada**	**US**	**Total**
	$	**$**	**$**
Revenue	-	679,449	679,449
Cost of goods sold	-	(548,001)	(548,001)
Operating expenses	(3,333,245)	(833,497)	(4,166,742)
Other expenses	(494,852)	(1,798,313)	(2,293,165)
Net Loss	**(3,828,097)**	**(2,500,362)**	**(6,328,459)**

23. SUBSEQUENT EVENTS

Harborside Transaction

On February 11, 2019, Lineage and FLRish entered into the Definitive Agreement, whereby the Harborside Transaction is being structured as a three-cornered merger (the "Merger"), whereby Harborside will merge with a newly incorporated company under the laws of Delaware (and a direct, wholly-owned subsidiary of Lineage) to form a merged corporation. Immediately prior to the Merger taking effect, Lineage will consolidate its outstanding common shares on the basis of 41.82 common shares into one (1) new Consolidated Common Share, exchange the Consolidation Common Shares for subordinate voting shares (the "Subordinate Voting Shares") on a 1 for 1 basis.

23. SUBSEQUENT EVENTS (continued)

Harborside Transaction (continued)

On April 30, 2019, Lineage received conditional approval from the CSE for the Harborside Transaction which will result in a reverse takeover of the Company by FLRish, and the listing for trading of the Subordinate Voting Shares of the resulting issuer to be renamed "Harborside Inc." (the "Resulting Issuer") on the CSE.

Listing of the Resulting Issuer securities will be subject to satisfaction of all conditions of the CSE, including completion of any and all outstanding CSE application documentation and payment of fees pursuant to the Policies, completion of the Business Combination, filing an updated final listing statement, and no material adverse changes reflected in the final listing statement from the draft listing statement.

The Harborside Transaction is subject to satisfaction or waiver of terms and conditions, customary or otherwise, including completion of due diligence, execution of a definitive agreement and all required approvals and consents, including the approval of the CSE and shareholders of Lineage.

Special shares

On May 24, 2019, Lineage's board approved and paid a stock dividend to holders of common shares of record on May 23, 2019. The following shares were authorized and issued:

- 44,775,010 Series A Special Shares;
- 11,513,533 Series B Special Shares; and
- 14,072,120 Series C Special Shares.

Options, warrants and convertible debentures

Subsequent to January 31, 2019, 354,384 common shares of the Company were issued as a result of the conversion of the SIDEX Debentures at the conversion price of $0.20.

Subsequent to January 31, 2019, 333,333 warrants exercisable at $0.20 and 10,400,000 warrants exercisable at $0.25 expired unexercised, respectively.