Nutritional High International Inc.

Consolidated Financial Statements
For the years ended July 31, 2018 and 2017

(expressed in Canadian Dollars, unless otherwise noted)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Nutritional High International Inc.

We have audited the accompanying consolidated financial statements of Nutritional High International Inc., which comprise the consolidated statement of financial position as at July 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Nutritional High International Inc. as at July 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Nutritional High International Inc.'s ability to continue as a going concern.

Other Matters

The consolidated financial statements of Nutritional High International Inc. for the year ended July 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on November 28, 2017.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

November 26, 2018

Nutritional High International Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at July 31,	Notes	**2018**	2017
		$	**$**
Assets			
Current			
Cash		**784,998**	1,924,736
Short-term investment	4	**2,010,360**	-
Accounts receivable	5,23	**1,444,473**	90,479
Prepaids		**557,418**	121,928
Promissory note receivable	6	**761,875**	-
Deposits	7	**57,119**	1,822,810
Inventory	8	**1,293,125**	-
Investments	10	**378,505**	840
Debenture receivable	9	**100,000**	-
		7,387,873	3,960,793
Non-current assets			
Debenture receivable	9	**-**	100,000
Financial guarantee receivable	9	**75,000**	-
Amounts due from Palo Verde LLC	11	**-**	459,172
Investment properties	12	**1,436,793**	1,424,099
Investments in associate and joint ventures	13	**873,873**	931,484
Capital Assets	15,23	**6,397,115**	1,211,282
Intangible Assets	14	**6,388,485**	43,751
Goodwill	14	**4,702,416**	-
		27,261,555	8,130,581
Liabilities			
Current			
Accounts payable and accrued liabilities	16,23	**4,029,618**	585,693
Taxes payable		**169,221**	-
Promissory note payable	17	**1,421,816**	907,698
Finance lease	18	**366,051**	75,921
Consideration payable	3	**2,381,881**	-
		8,368,587	1,569,312
Non-current liabilities			
Finance lease	18	**687,949**	87,413
Promissory note payable	17	**-**	420,042
Consideration payable	3	**2,168,245**	-
Convertible debentures	19	**5,136,061**	-
Put option guarantee liability	9	**173,600**	-
		16,534,442	2,076,767
Shareholders' Equity			
Share capital	20	**22,204,166**	12,218,693
Shares to be issued	14,23	**3,679,924**	52,500
Reserve for share based payments	21	**2,093,669**	1,357,328
Reserve for warrants	22	**2,261,831**	2,447,639
Reserve for foreign currency translation		**(95,736)**	47,541
Equity component of convertible debenture	19	**359,462**	-
Non-controlling interest	24	**(14,750)**	(14,750)
Deficit		**(19,761,453)**	(10,055,137)
		10,727,113	6,053,814
		27,261,555	8,130,581

Nature of Operations and Going concern (Note 1)
Commitments (Note 28)
Subsequent Events (Note 30)

Approved on behalf of the Board:
"Adam Szweras" Director *"Andres Tinajero"* Director

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

Nutritional High International Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Note	2018 $	2017 $
Sales		**5,814,558**	-
Cost of goods sold		**(5,051,418)**	-
Gross profit		**763,140**	-
Interest	11	**40,828**	194,348
License	3	**3,287**	-
Rental	11	**-**	660,222
		807,255	**854,570**
Operating expenses:			
Management and consulting fees	23	**1,218,780**	1,160,109
Professional fees	23	**1,244,623**	500,485
Office and general		**2,781,263**	681,240
Acquisition and project evaluation costs	23	**1,553,537**	-
Share based payments	23	**955,532**	1,198,414
Impairment of intangibles		**-**	345,487
Bad debt expense	5	**105,454**	
Amortization	12, 14, 15	**330,442**	284,948
Allowance for amounts due from Palo Verde LLC	11	**1,576,169**	1,638,801
Total operating expenses		**9,765,800**	5,809,484
Other items:			
Foreign exchange loss		**80,418**	526,146
Change in fair value of derivatives		**-**	132,657
Change in fair value of warrants		**(24,265)**	-
Finance costs	17, 19	**924,693**	274,770
Loss on shares for debt settlement	20	**-**	264,063
Loss on extinguishment of promissory note payable	17	**102,198**	-
Impairment of a joint venture	13	**340,300**	-
Other income	9	**(314,011)**	-
Unrealized loss on FVPL investments	10	**71,100**	5,160
Net gain from deconsolidation of subsidiaries and (gain) loss from investments in associate and joint ventures	13	**(249,585)**	(1,151,635)
Total other items		**930,848**	51,161
Loss before income taxes		**(9,889,393)**	(5,006,075)
Income tax expense (recovery)			
Current	27	**169,221**	-
Deferred	27	**(352,298)**	-
		(183,077)	**-**
Net loss		**(9,706,316)**	(5,006,075)
Other comprehensive loss			
Exchange differences on translating foreign operations		**(143,277)**	57,213
Net loss and comprehensive loss		**(9,849,593)**	(4,948,862)
Net loss attributable to non-controlling interest	24	**-**	-
Net loss attributable to parent company		**(9,706,316)**	(5,006,075)
		(9,706,316)	(5,006,075)
Net loss and comprehensive loss attributable to			
non-controlling interest	24	**-**	-
parent company		**(9,849,593)**	(4,948,862)
		(9,849,593)	(4,948,862)
Weighted average number of common shares outstanding			
Basic and diluted		**268,212,645**	224,039,232
Loss per share			
Basic and diluted		**$ (0.036)**	$ (0.022)

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

Nutritional High International Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital	Shares to be issued	Reserve for Share based payments	Reserve for Warrants	Reserve for foreign currency translation	Equity Component of Convertible Debentures	Accumulated Deficit	Attributable to owners of parent	Non-controlling interest	Total
Balance at July 31, 2016	**$ 4,068,429**	**$ 63,390**	**$ 371,252**	**$ 778,658**	**$ (9,672)**	**$ 167,260**	**$ (5,049,062)**	**$ 390,255**	**$ (14,750)**	**$ 375,505**
Private placements (Note 20)	3,505,636	-	-	2,324,571	-	-	-	5,830,207	-	5,830,207
Shares issued on exercise of warrants (Note 20)	3,086,403	-	-	(918,590)	-	-	-	2,167,813	-	2,167,813
Shares issued on exercise of options (Note 20)	624,163	-	(212,338)	-	-	-	-	411,825	-	411,825
Shares issued pursuant to debenture agreement (Note 20)	313,707	-	-	-	-	(167,260)	-	146,447	-	146,447
Shares to be issued (Note 20)	-	57,500	-	-	-	-	-	57,500	-	57,500
Issued for non-cash consideration:										
Issued for debt settlements	576,605	(68,390)	-	113,000	-	-	-	621,215	-	621,215
Issued for intellectual property	43,750	-	-	-				43,750	-	43,750
Warrants issued pursuant to promissory note (Note 17)	-	-	-	150,000	-	-	-	150,000	-	150,000
Share based payments (Note 21)	-	-	1,198,414	-	-	-	-	1,198,414	-	1,198,414
Foreign exchange translation	-	-	-	-	57,213	-	-	57,213	-	57,213
Net loss for the year	-	-	-	-	-	-	(5,006,075)	(5,006,075)	-	(5,006,075)
Balance at July 31, 2017	**$ 12,218,693**	**$ 52,500**	**$ 1,357,328**	**$ 2,447,639**	**$ 47,541**	**$ -**	**$ (10,055,137)**	**$ 6,068,564**	**$ (14,750)**	**$ 6,053,814**

	Share Capital	Shares to be issued	Reserve for Share based payments	Reserve for Warrants	Reserve for foreign currency translation	Equity Component of Convertible Debentures	Accumulated Deficit	Attributable to owners of parent	Non-controlling interest	Total
Balance at July 31, 2017	**$ 12,218,693**	**$ 52,500**	**$ 1,357,328**	**$ 2,447,639**	**$ 47,541**	**$ -**	**$ (10,055,137)**	**$ 6,068,564**	**$ (14,750)**	**$ 6,053,814**
Convertible debentures (Note 19)	-	-	-	1,578,503	-	933,347	-	2,511,850	-	2,511,850
Deferred tax on convertible debenture (Note 19)	-	-	-	-	-	(352,299)	-	(352,299)	-	(352,299)
Share issue costs (Note 19)	-	-	-	(193,728)	-	(212,689)	-	(406,417)	-	(406,417)
Conversion of debentures (Note 19)	71,973	-	-	-	-	(8,897)	-	63,076	-	63,076
Share based payments (Note 21)	-	-	955,532	-	-	-	-	955,532	-	955,532
Shares issued on exercise of warrants (Note 22)	6,805,987	-	-	(1,791,711)	-	-	-	5,014,276	-	5,014,276
Shares issued on exercise of options (Note 21)	543,957	-	(219,191)	-	-	-	-	324,766	-	324,766
Shares issued pursuant to Calyx acquisition (Note 3)	1,032,960	3,046,120	-	-	-	-	-	4,079,080	-	4,079,080
Shares to be issued (Note 3,14)	-	581,304	-	-	-	-	-	581,304	-	581,304
Shares issued pursuant to Pasa Verde acquisition (Note 3)	1,083,096	-	-	-	-	-	-	1,083,096	-	1,083,096
Shares issued for service (Note 20)	102,500	-	-	-	-	-	-	102,500	-	102,500
Issued for intellectual property (Note 14)	345,000	-	-	-	-	-	-	345,000	-	345,000
Foreign exchange translation	-	-	-	-	(143,277)	-	-	(143,277)	-	(143,277)
Warrants issued pursuant to promissory note extension (Note 17)	-	-	-	167,942	-	-	-	167,942	-	167,942
Warrants modified pursuant to promissory note extension (Note 17)	-	-	-	53,186	-	-	-	53,186	-	53,186
Net loss for the year	-	-	-	-	-	-	(9,706,316)	(9,706,316)	-	(9,706,316)
Balance at July 31, 2018	**$ 22,204,166**	**$ 3,679,924**	**$ 2,093,669**	**$ 2,261,831**	**$ (95,736)**	**$ 359,462**	**$ (19,761,453)**	**$ 10,741,863**	**$ (14,750)**	**$ 10,727,113**

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

Nutritional High International Inc.
Consolidated Statements of Cash Flows
For the years ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018	2017
	$	$
OPERATING ACTIVITIES		
Net Loss	**(9,706,316)**	(5,006,075)
Items not affecting cash		
Deferred income tax recovery	**(352,298)**	-
Current tax expense	**169,222**	-
Interest income	**(40,703)**	-
Foreign exchange	**(23,189)**	
Amortization	**330,442**	284,948
Bad debt expense	**105,454**	-
Impairment of a joint venture	**340,300**	-
Loss on extinguishment of promissory note payable	**102,198**	-
Loss on share for debt settlements	**-**	264,063
Unrealized loss on FVTPL investments	**71,100**	5,160
Change in the fair value of derivative liability	**-**	132,657
Change in fair value of warrants	**(24,265)**	-
Gain from investment in associate and joint venture	**(249,585)**	(1,151,635)
Accretion and finance costs	**924,665**	132,471
Other income	**(313,900)**	-
Shares issued for services	**447,500**	52,500
Share based payments	**955,532**	1,198,414
Allowance for amounts due from Palo Verde LLC	**1,576,169**	1,638,801
Impairment of intangible assets	**-**	345,495
Net change in non-cash working capital:		
Accounts receivable	**(1,137,755)**	(43,529)
Prepaids	**(406,231)**	2,180
Inventory	**(374,482)**	-
Amounts due from Palo Verde LLC	**-**	(818,076)
Accounts payable and accrued liabilities	**2,267,696**	(250,572)
Lease obligation	**-**	163,334
Cash Flow Used in Operating Activities	**(5,338,446)**	(3,049,864)
INVESTING ACTIVITIES		
Refund (Payment) of deposits	**1,730,422**	(1,970,073)
Amounts due from Palo Verde LLC	**(1,184,102)**	(644,691)
Redemption of short-term investments	**500,000**	1,000,000
Purchase of short-term investments	**(2,500,000)**	(1,000,000)
Purchase of debenture receivable	**-**	(100,000)
Purchase of intangibles	**(219,911)**	-
Promissory note receivable	**(753,447)**	-
Additions to investment properties	**(41,755)**	(293,082)
Purchase of capital assets	**(3,992,929)**	(1,134,239)
Acquisition of Calyx Brands Inc.	**(651,600)**	-
Acquisition of Pasa Verde LLC	**(327,199)**	-
Investment in associate and joint venture	**-**	(308,182)
Cash Flow Used in Investing Activities	**(7,440,521)**	(4,450,267)
FINANCING ACTIVITIES		
Issuance of share capital, net of share issue costs	**-**	5,748,817
Issuance of convertible debenture units, net of issue costs	**7,052,044**	99,589
Cash payment on extinguishment of promissory note payable	**(24,912)**	-
Finance lease payments	**(105,559)**	-
Promissory note payable, net of financing costs	**-**	733,939
Interest paid on promissory note	**(149,602)**	(11,489)
Interest paid on debenture	**(284,620)**	-
Shares issued on warrants exercised	**5,014,276**	2,167,813
Share issued on options exercised	**324,766**	411,825
Shares to be issued	**-**	-
Cash Flow From Financing Activities	**11,826,393**	9,150,494
Net (decrease) increase in cash	**(952,574)**	1,650,363
Effects of exchange rate changes on cash	**(187,164)**	162,587
Cash at beginning of year	**1,924,736**	111,786
Cash at end of year	**784,998**	1,924,736

Supplementary information (Note 29)

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

1. Nature of Operations and Going Concern

Nutritional High International Inc. ("Nutritional High" or "the Company" or "NHII") is a publicly traded company incorporated in Canada on July 19, 2004 under the Canada Business Corporations Act. The Company is listed on the Canadian Securities Exchange (CSE) under the symbol "EAT", on the OTCQB Marketplace under US the symbol "SPLIF" and on the Frankfurt Stock Exchange (FRANKFURT) under the symbol "2NU". The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1. The Company is focused on developing, manufacturing and distributing products and recognized brands in the hemp and marijuana-infused products industries, including edibles and oil extractions for nutritional, medical and adult recreation use in the Unites States. The Company works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by US state law.

The Company has been incurring operating losses and cash flow deficits since its inception, as it executes on its business plan to capitalize on the opportunity that is emerging in the United States on the cannabis sector, a sector that has been legalized by certain U.S. states but remains federally illegal and is subject to legislative uncertainty. The Company's operations are not yet sustaining. As such, the Company has been depleting its invested capital and is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs. There is no assurance that any prospective project in the medical 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.

As at July 31, 2018, the Company had working capital deficiency of $980,714 (2017 – working capital of $2,391,481), spent $5,683,446 (2017 - $3,049,864) of cash for operating activities, had not yet achieved profitable operations, has accumulated losses of $19,761,453 (2017 - $10,055,137) and expects to incur further losses in the development of its business, all of which describes the material uncertainties that 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 business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments as they come due. There is no assurance that the Company will successfully raise this financing. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern, which could be material.

2. Basis of Presentation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended July 31, 2018.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on November 26, 2018.

2.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and acquisition-related contingent consideration which are measured at fair value.

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

2.3 Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and 51% owned subsidiary, Eglinton Medicinal Advisory Ltd. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

Intercompany balances and transactions and unrealized and realized gains or losses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Non-controlling interest is shown as a component of equity on the statement of financial position and the share of the profit or loss attributable to non-controlling interest is shown as a component of profit or loss for the year in the statement of loss and comprehensive loss.

The Company's subsidiaries and investments in associate and joint ventures are listed below:

	Effective ownership		
Subsidiary/Affiliate	**July 31, 2018**	**July 31, 2017**	**Accounting method**
NHII Holdings Ltd. ("NHHL")	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP")	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
NH Medicinal (Minnesota) Inc. ("NHMM")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
Growco Nevada Inc. ("GNI") (1)	-	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL")	100%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC")	100%	-	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	-	Consolidation
NH Distribution California Inc. ("NHDC")	100%	-	Consolidation
Pasa Verde, LLC	100%	-	Consolidation
Nutritional High Group, LLC ("NHG")	100%	-	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH")	100%	100%	Consolidation
NH Medical Dispensaries LLC ("NHMD")	50%	50%	Equity
Small's Mill Holdings Inc. ("SMHI")(1)	-	50%	Equity
Aura Health Inc. ("Aura")	16%	16%	Equity

(1) GrowCo Nevada Inc. ("GNI") and Small's Mill Holdings Inc. ("SMHI") were dissolved on July 31 and July 13, 2018, respectively.

2. Basis of Presentation (continued)

2.4 Functional and presentation of foreign currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of the Company, NHII Holdings Ltd., NHC IP Holdings Corp. and Eglinton Medical Advisory Ltd. is the Canadian dollar. The functional currency of the remaining subsidiaries is the US dollar.

2.5 Significant accounting estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant estimates

Estimated useful lives and amortization of capital assets and intangible assets
Depreciation of capital assets and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgments. The assessment of any impairment of these assets is dependent upon estimates recoverable amounts that take into account factors such as economic and market conditions and the useful lies of the assets.

Business combination
In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Standards on Auditing ("IAS") 39, *Financial Instruments: Recognition and Measurement*, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. 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 the assets concerned and any changes in the discount rate applied. See *Note 3 – Acquisitions*.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

2. Basis of Presentation (continued)

Share-based payments and brokers' warrants
The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Fair value of financial instruments
The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, convertible debentures, and promissory notes are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Impairment
Long-lived assets, including capital assets, investment properties and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). 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.

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 cash-generating unit 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.

Deferred tax
The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

<u>Significant judgments</u>

Going concern
Each reporting period, management exercises judgment in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations.

2. Basis of Presentation (continued)

Business combination
The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisitions of Calyx and Pasa Verde were determined to be business combinations

Judgement is also required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making; financing of the investee; the appointment, remuneration and termination of key management personnel; and when decisions in relation to those activities are under the control of the Company. Difficulties surrounding the control of acquired entities exists within the cannabis industry, due to certain state legislative requirements to structure cannabis license holders.

Functional currency
The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

2.6 Significant accounting policies

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed. Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Revenue recognition

Sale of goods
Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of the consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable.

License income
The Company recognizes license income based on the total revenue earned and reported by the third party for the respective reporting period. If the collection of royalties is doubtful, the income may not be recorded.

2. Basis of Presentation (continued)

Accounts receivable

The Company reviews all outstanding accounts receivable for collectability on a quarterly basis. An allowance for doubtful accounts is recorded for any amounts deemed uncollectible. There was no allowance as of July 31, 2018 and 2017.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell.

On acquisition, raw materials are recorded at their replacement cost at the date of acquisition. The cost of finished goods is marked up such that the acquirer will only recognize the benefit of the selling effort of a product.

The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Investment property

Investment property earns lease income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses. Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Amortization is provided at rates as follows:

Building	4% Declining balance
Leasehold improvements	Straight-line over the lease term

Capital assets

Capital assets are carried at cost less any residual value, accumulated depreciation and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When capital assets include significant components with different useful lives, they are recorded and amortized separately. Depreciation is computed using the straight-line method based on the estimated useful life of the assets. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of capital assets have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Building	4% Declining balance
Leasehold improvements	Straight-line over 10 years
Vehicles	5 years
Furniture and equipment	3 years
Manufacturing Equipment	25%-40% Declining balance
Computer and software	25%-33% Declining balance

2. Basis of Presentation (continued)

Investment in associates and joint ventures

A joint venture is a type of joint arrangement in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed an arrangement, only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies. The Company accounts for associates using the equity method of accounting.

The considerations made in determining joint control or significant influences are similar to those necessary to determine control over subsidiaries. Investments in joint ventures are accounted for using the equity method, whereby the investment is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of the profit and loss of the investee. When the Company's share of losses of a joint venture or associate exceeds the Company's carrying value of the investment, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

The consolidated statement of loss and comprehensive loss reflects the Company's share of the results of operations of the joint venture or associate. Where there has been a change recognized directly in the other comprehensive income of the joint venture or associate, the Company recognizes its share of any changes and discloses this, when applicable, in other comprehensive income. When there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes, when applicable, its share of any changes in the statement of changes in equity.

The financial statements of the joint venture or associate are prepared for the same reporting period as the Company except when the joint venture or associate does not have coterminous year-ends and quarter-ends with the Company, in which case the most recent period-end available in a quarter is used.

When necessary, adjustments are made to bring the accounting policies of the joint venture or associate in line with those of the Company.

After the initial application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the joint venture or associate is impaired and consequently whether it is necessary to recognize an impairment loss with respect to the Company's investment. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the impairment in the consolidated statement of loss and comprehensive loss.

Upon loss of significant influence over an associate, the Company measures and recognizes any retained investment at its fair value. Upon loss of joint control over a joint venture, the Company considers whether it has significant influence, in which case the retained investment is accounted as an associate using the equity method, otherwise the Company measures and recognizes any retained investment as a portfolio investment at its fair value. Any difference between the carrying amount of the investment and the fair value of the retained investment or proceeds from disposal of the investment is recognized in profit or loss.

2. Basis of Presentation (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the lessee obtains ownership of the asset at the end of the lease term. All other leases are classified as operating leases.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Loss per share

Basic loss per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. Total shares issuable from stock options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive from the years ended July 31, 2018 and 2017.

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 cash-generating unit ("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 is determined for goodwill 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 goodwill impairment loss is recognized in the consolidated statement of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company's most recent goodwill impairment test during the second quarter did not result in the recognition of any impairment losses.

Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate there may be impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the goodwill, the impairment loss is first allocated to reduce the amount of goodwill and to the other assets of the unit on pro-rata, based on the carrying amount of each asset in the unit. 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.

2. Basis of Presentation (continued)

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 end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

License and management agreement	Indefinite
Trade name	5 years
Proprietary data	5 years
Customer relationships	2 years

Related party transactions

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Basis of Presentation (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and investments are classified as FVTPL. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest rate method, less impairment. The Company's accounts receivable, promissory note receivable, amounts due from Palo Verde LLC, debentures receivable and financial guarantee receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At July 31, 2018, the Company has not classified any financial assets as available for sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

2. Basis of Presentation (continued)

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, finance lease, convertible debenture, promissory note payable and consideration payable are classified as other financial liabilities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of loss and comprehensive loss. Where a modification to an existing liability is not substantial, there is no re-recognition, and any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Financial liabilities classified at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified at FVTPL are recognized through the statement of loss and comprehensive loss. At July 31, 2018, the Company has not classified any financial liabilities at FVTPL.

Impairment of financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

2. Basis of Presentation (continued)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within equity.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or less. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

Foreign currency translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date.
Nonmonetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in loss and comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period end;
- Income and expenses are translated at average exchange rates (unless the 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 on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange translation.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

2. Basis of Presentation (continued)

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 the reserve for foreign exchange.

Share-based Payments

Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are retained in share-based payment reserve. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Restricted Share Units ("RSU")

RSUs are measured at fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and is recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital. As of July 31, 2018, the Company has not issued any RSUs.

2.7 New and revised standards and interpretations to be adopted in the future

New accounting standards, amendments and interpretations issued but only effective for the Company beginning on or after August 1, 2018 are as follows:

- IFRS 2, *Share-based payment* ("IFRS 2")

  In June 2016, the IASB issued amendments to IFRS 2, which introduces new requirements for the classification and measurement of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018 with prospective application. The Company does not expect any material impact on its consolidated financial statements from the adoption of this new standard.

- IFRS 9, *Financial Instruments ("IFRS 9")*

  In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company does not expect any material impact on its consolidated financial statements from the adoption of this new standard.

2. Basis of Presentation (continued)

- IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

  IFRS 15 Revenue from contracts with customers, replaces IAS 18 Revenue, in its entirety. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. IFRS is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

  The Company intends to adopt IFRS 15 on August 1, 2018 using the modified retrospective approach where any cumulative impact of adoption will be recognized in deficit as of August 1, 2018 and comparatives will not be restated.

  The Company has completed its assessment of the impact from this new standard. Under IFRS 15, revenue from the sale of product would be recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's current revenue recognition policy under IAS 18.

  Service revenues earned from the Company's management service agreements are recognized monthly as services are performed over a period of time and no other commitments are required to earn the fees due, which is consistent with the Company's current revenue recognition policy under IAS 18.

  Based on the Company's assessment, the adoption of this new standard will not have a material impact on its consolidated financial statements.

- IFRS 16, *Leases* ("IFRS 16")

  In January 2016, the IASB issued IFRS 16, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 on August 1, 2019 and is assessing the impact of this new standard on its consolidated financial statements.

- IFRIC 23, *Uncertainly over Income Tax Treatments* ("IFRIC 23")

  IFRIC 23 was issued in June 2017. IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 and permits early adoption. The Company is currently assessing the potential impact of these new standards.

(Expressed in Canadian dollars)

3. Business Acquisitions

Calyx Brands Inc.

On March 15, 2018, the Company acquired all assets of Calyx Brands Inc. ("Calyx"), a California-based distributor of cannabis products for a large network of dispensaries ("the Acquisition"). The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, *Business Combinations* ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the Company being the accounting acquirer on the acquisition date of March 15, 2018 ("the Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

The following table summarizes the preliminary purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

Total purchase price consideration	**$**
Cash (i)	651,600
Issued shares (ii)	1,032,960
Settlement of pre-existing working capital advances (iii)	514,290
Deferred consideration payable (iv)	1,146,208
Contingent consideration payable (v)	781,920
	4,126,978
Identified tangible assets and liabilities assumed	
Cash	207,414
Prepaids	29,259
Accounts receivable	285,992
Inventory	466,713
Capital assets	22,963
Accounts payable and accrued liabilities	(962,166)
Identified Intangible assets	
Management agreement	1,146,088
Trade name	400,110
Proprietary data	77,881
Customer relationships	903,552
Goodwill	1,549,172
	4,126,978

(i) Total cash consideration of $651,600 (US$500,000) were settled in November 2017 and on the Acquisition date.
(ii) The Company issued 2,025,411 shares on the Acquisition date. The fair value of the shares was determined based on the share price on the Acquisition date.
(iii) The Company advanced a total of $514,290 (US$394,637) to Calyx for working capital prior to the Acquisition date. These advances were effectively settled through the Acquisition.
(iv) The Company issued a promissory note of US$950,000 ("the Note") which was subject to the working capital adjustment on the Acquisition date and due on September 15, 2018. On September 1, 2018, the settlement of the note was amended to issuance of 486,500 shares and US$595,041 in cash due on September 15, 2018 and US$172,500 in cash due on September 15, 2019.

(Expressed in Canadian dollars)

3. Business Acquisitions (continued)

Calyx Brands Inc. (continued)

(v) The Company is committed to a payment of up to $781,920 (US$600,000) based on the achievement of sales targets of up to US$12,000,000 within 24 months after the Acquisition date which will be payable 50% in cash and 50% in shares.

As at July 31, 2018, $1,165,075 was recorded as a current contingent payable, $224,543 was included as long-term contingent payable and $536,460 was included in shares to be issued.

The Company has incurred $299,166 in expenditures related to this acquisition. These costs have been recorded in acquisition and project evaluation costs in the year ended July 31, 2018. On closing, the Company and Calyx entered into a management agreement whereby the Company will be compensated for services through assignment of Calyx's results of operation.

Pasa Verde, LLC

On July 26, 2018, the Company, through its wholly-owned subsidiary, NH Nevada, LLC, acquired a 100% membership interest in Pasa Verde, LLC ("Pasa Verde"). Pasa Verde is a California limited liability company which operates a licensed cannabis extraction facility which provides toll manufacturing services and develops, acquires and designs products for brands in the cannabis infused edible and oil extracts sectors of the medical and adult use cannabis markets in the State of California.

The acquisition of the 100% membership interest of Pasa Verde, LLC has been accounted for in accordance with IFRS 3 using the acquisition method. The results of operations are included in the consolidated statements of loss and comprehensive loss from the date of acquisition, which was July 26, 2018. The following table summarizes the preliminary estimated fair values of the identifiable assets and liabilities acquired at the date of acquisition:

Total purchase price consideration	**$**
Cash – paid (i)	327,200
Deferred cash consideration (ii)	654,400
Settlement of pre-closing advances on working capital(iii)	96,851
Shares issued (iv)	1,083,096
Contingent consideration payable (v)	5,046,696
	7,208,243
Assets acquired, and liabilities assumed	
Cash	146
Accounts receivable	35,701
Inventory	451,930
Deposits	23,035
Capital assets	1,462,814
Accounts payable and accrued liabilities	(214,062)
Finance lease liability	(1,021,992)
Identified Intangible assets	
License	2,447,788
Trade name	466,744
Customer relationship	389,456
Goodwill	3,166,683
	7,208,243

3. Business Acquisitions (continued)

Acquisition of Pasa Verde, LLC (continued)

If the acquisition had occurred on August 1, 2017, Pasa Verde would have contributed $491,165 (US$385,742) to consolidated revenues and decrease the net loss by $142,870 (US$112,205). Since the date of acquisition, Pasa Verde has contributed $Nil to consolidated revenues and increased consolidated net loss by $27,566 (US$21,138).

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

(i) Total cash consideration paid on closing was $327,200 (US$250,000).
(ii) The Company will pay $654,400 (US$500,000) (the "Permitting Payment") upon Pasa Verde providing documentation of receipt of local authorization approval from the City of Sacramento which is subject to working capital adjustment on closing.
(iii) The Company advanced a total of $96,851 (US$78,000) to Pasa Verde for working capital prior to the Acquisition date. These advances were effectively settled through the Acquisition.
(iv) The Company issued 3,094,560 shares on the date of acquisition. The fair value of the shares was determined based on the share price on the date of acquisition.
(v) The Company will pay $6,899,010 (US$5,300,000) ("Earn-out payment") at certain intervals between 12 months to 24 months from closing date which will be payable contingent on achieving adjusted gross revenue ("gross revenue") targets and settled 50% in cash and 50% in shares as follows:

12-month Earn-out payment

The Company shall pay US$1,000,000 provided gross revenue equals or exceeds US$2,000,000 for 12-month following the closing date. If the gross revenue is less than US$2,000,000, the Company shall pay the lesser of: (i) US$750,000 and (ii) 50% of the gross revenue.

18- month Earn-out payment

US$1,500,000 provided gross revenue equals or exceeds US$2,750,000 for 18-month following the closing date. If the gross revenue is less than US$2,750,000, the Company shall pay the lesser of: (i) US$1,000,000 and (ii) 50% of the gross revenue.

24-month Earn out payment

US$2,600,000 provided adjusted gross revenue equals or exceeds US$3,500,000 for the 24 months following the closing date. If the gross revenue is less than US$3,500,000 for the 24-month period immediately following the closing date, the Company shall pay the lesser of: (i) US$1,500,000 and (ii) 50% of the adjusted gross revenue.

Bonus Earn out payment

In the event the Seller is eligible for the 12,18, and 24-month Earn Out payment, the Company will pay an additional US$200,000 within 10 days of the end of the 24- month from closing date.

The fair value of the Earn Out payment is recorded as contingent consideration payable and was calculated by assessing the amount expected to be paid out for each distinct Earn Out period, assessing the probability as to the likelihood of the payout occurring and using a 20% discount rate, equivalent to the market rate of interest expected to be incurred by the Company to finance the obligation in the case of early payment.

As at July 31, 2018, $1,216,806 was recorded as a current contingent payable, $1,943,702 was recorded as a long-term contingent payable and $2,509,659 was included in shares to be issued.

In connection with the acquisition, the Company incurred $36,776 of legal fees and 4% of transaction value in finders' fee to FMI Capital Advisory (Note 23).

(Expressed in Canadian dollars)

4. Short-term investment

Short-term investment consists of a $2,000,000 one-year term deposit, redeemable after 60 days, bearing interest at 1.25% payable at maturity. The balance includes accrued interest of $10,360.

5. Accounts Receivable

The breakdown of the accounts receivable balance is as follows:

	July 31, 2018	July 31, 2017
	$	**$**
Trade accounts receivable	**1,314,768**	**-**
Harmonized Sales Tax (“HST”) recoverable	**36,923**	27,863
Other receivable	**92,782**	62,616
Balance	**1,444,473**	90,479

During the year ended July 31, 2018, the Company written off a total of $105,454 (2017 - $nil) of trade accounts receivable as it was determined to be uncollectable.

6. Promissory Note Receivable

Promissory note receivable consists of $761,875 (US$585,292) of advances to TKO Products LLC (“TKO”) as per the terms of the letter of intent (“LOI”) entered into on November 14, 2017 and amended on December 28, 2017. The LOI provided the Company the ability to purchase certain assets of TKO for US$3,025,000 and to pay earn-out payments, up to US$4,000,000 upon achieving certain revenue targets payable in a combination of cash and common shares. In July 2018, the Company decided to terminate the LOI with TKO as it has decided to pursue other opportunities. The promissory note receivable has a one-year term with the earliest note due in January 2019 and is secured by certain properties and personal guaranty of TKO’s shareholders.

7. Deposits

	July 31, 2018	July 31, 2017
	$	$
License acquisition (i)	**-**	1,498,200
Property acquisition (ii)	**-**	324,610
Security deposits	**57,119**	**-**
Balance	**57,119**	1,822,810

(i) On January 24, 2017, the Company entered into a definitive agreement to acquire provisional cultivation and production licenses in Nevada and made a deposit of $1,248,500 (US$1,000,000) of which US$950,000 was refunded after the agreement was terminated in November 2017.

On March 17, 2017, the Company paid a total of $262,185 (US$210,000) as initial permit application fees to grow and process medical cannabis in Pennsylvania, of which $249,700 (US$200,000) was refunded in October 2017 after the permit was not awarded to the Company.

(ii) On February 17, 2017, the Company entered into an agreement to acquire a real estate property in Henderson, Nevada of which the Henderson licenses (Note 7 (i)) were attached to. The Company advanced $199,760 (US$160,000) as a deposit in escrow which agreement was terminated on November 11, 2017 and the entire deposit was refunded in December 2017.

(Expressed in Canadian dollars)

7. Deposits (continued)

On March 14, 2017, the Company paid $124,850 (US$100,000) as a deposit to purchase a real estate property in Nevada which agreement was terminated and the deposit was refunded in October 2017.

8. Inventory

The breakdown of inventory was as follows:

	July 31, 2018	July 31, 2017
	$	$
Raw materials	**470,077**	-
Finished goods	**823,048**	-
Total inventory	**1,293,125**	-

Inventories recognized as an expense during the year was $4,985,359 (2017 - $nil). As of July 31, 2018, the Company adjusted down the inventory by approximately $63,000 to reflect inventory that is no longer compliant with California cannabis law.

9. Lineage Grow Company ("Lineage")

Debenture receivable

On May 12, 2017, the Company purchased 100 units from Lineage at a price of $1,000 per unit for an aggregate price of $100,000. Each unit consists of $1,000 in principal amount of secured convertible debentures and 4,000 warrants ("Lineage warrants"). The debentures bear interest at 12%, mature in 24 months from the date of purchase and are convertible into common shares of Lineage at any time prior to maturity date at a price equal to $0.25 per share ("Conversion Price"). Interest is payable semi-annually in advance in cash, or at the election of Lineage, in shares at price of $0.25 per share. The Conversion Price is subject to adjustments for certain events.

Each Lineage warrant is exercisable into one common share of Lineage at a price of $0.325 ("Exercise price") with an expiry date of May 12, 2019. If Lineage completes an equity financing at any time at an

Equity Financing Price of less than $0.25 per share, the exercise price shall be adjusted to a price equal to such Equity Financing Price.

On January 29, 2018, Lineage completed its first tranche of private placement of units for $0.25 per unit. Each unit consists of one (1) common share and one (1) common share purchase warrant with an exercise price of $0.325 per common shares, exercisable for a 24-month period until January 24, 2020. Pursuant to the debenture agreement, the Conversion Price was adjusted to $0.20.

Restated Letter of Intent

On February 1, 2018 the Company amended and restated the letter or intent (the "LOI") dated February 22, 2017, as amended on June 30, 2017, with Lineage as follows:

1. The proposed transactions set out in the Restated LOI will be structured such that the Company will assist Lineage to enter into a strategic partnership with Mt. Baker Greeneries LLC ("Mt. Baker"), in the State of Washington. As partial consideration for introducing Mt. Baker to Lineage, the Company received 400,000 common shares of Lineage in April 2018 with a fair value of $100,000.

9. Lineage Grow Company ("Lineage") (continued)

2. Lineage will enter into a joint venture (the "Pueblo Joint Venture") with the Company and Palo Verde, LLC ("Palo Verde") by entering into a series of agreements with the Company and Palo Verde in connection with the expansion of the Company's cannabis facility located in Pueblo, Colorado, which is currently leased to Palo Verde, and the provision of loan facility and services by Lineage to Palo Verde. Upon the completion of the Pueblo Joint Venture, Lineage will issue to the Company 100,000 Lineage Shares at $0.25 per share as partial consideration for providing consulting services to Lineage in preparation for entering into the Pueblo Joint Venture. The target completion date for the proposed Pueblo Joint Venture have been postponed to December 31, 2018.

3. The Company will enter into a put option agreement (the "Put Option Agreement") to purchase up to $2.5 million of principal amount of Convertible Debentures of Lineage ("Convertible Debentures") issued in May 2017.

Put Option agreement

Pursuant to the restated letter of intent, the Company entered into a Put Option Agreement with KW Capital Partners Ltd. ("KW"), as agent for the holders of the Convertible Debentures, and Lineage, pursuant to which, in certain circumstances (set out below), the Company would be obligated, at the election of KW, to purchase the convertible debentures at a price equal to the amount of all principal and accrued interest outstanding thereon. The Company has agreed to enter into the Put Option Agreement in consideration for:

1. The issuance of 1,250,000 Lineage Shares at $0.25 per share to the Company with a total fair value of $312,500 (Note 10);

2. $75,000 cash paid to the Company in the form of a 5% royalty on all revenue of Lineage paid on an installment basis with the balance of any amount owing and not yet paid by October 16, 2019, to be paid in a lump sum; and

3. If Lineage acquires any dispensary in a state in which the Company's products are sold, Lineage shall purchase the Company's products to stock at least 20% of the dispensary's shelf space per product category at a price equal to the Company's best regular wholesale price to the Company's customers in the state, subject to availability of supply.

Pursuant to the Put Option Agreement, KW shall be entitled to exercise the put right after a trigger event, which are defined as the following:

1. Failure of Lineage to list the Lineage Shares on the CSE by February 28, 2018 (Lineage was listed on February 28, 2018);

2. The Lineage 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

3. Failure by Lineage to either acquire an operating cannabis business or assisting Mt. Baker in commencing cannabis cultivation operations by June 30, 2018 ("commencement date"). On June 25, 2018, the Company and KW amended the put option agreement to change the commencement date to August 31, 2018.

On initial recognition, the Company recorded a put option guarantee liability of $387,500 which was the equivalent of the premium receivable on the financial guarantee. As of July 31, 2018, a total of $1.38 million of Lineage's convertible debentures had been converted and the Company's obligation subject to the Put Option Agreement was reduced by 55% to $1.12 million. As a result of the conversion, the Company's put option guarantee liability was reduced down to $173,600 and the reduction of $213,900 was recognized in other income. As of July 31, 2018, the Company's financial guarantee receivable of $75,000 (2017 - $Nil) remained outstanding.

(Expressed in Canadian dollars)

10. Investments

The Company's investments are comprised of the following:

	July 31, 2018	July 31, 2017
FVTPL	**$**	$
Lineage Grow Company Ltd.		
1,728,000 Shares (2017 – 24,000 shares)	**354,240**	840
400,000 Warrants (2017 – 400,000 warrants)	**24,265**	-
Balance	**378,505**	840

For the year ended July 31, 2018, the Company recognized an unrealized loss of $71,100 (2017 - $5,160) on the change in fair value of its investments.

11. Amounts due from Palo Verde LLC

The Company has lent Palo Verde LLC ("Palo Verde") monies pursuant to a credit agreement and has leased property to Palo Verde, as disclosed below.

	Lease(i)	Revolving loan(ii)	Proprietary packaging(iii)	Promissory note(iv)	Total
	$	**$**	**$**	**$**	**$**
Balance at July 31, 2016	**429,188**	**163,810**	-	-	**592,998**
Additions	860,284	644,691	-	-	1,504,975
Provision (v)	(1,289,472)	(349,329)	-	-	(1,638,801)
Balance at July 31, 2017	-	**459,172**	-	-	**459,172**
Additions	-	706,996	326,451	150,655	1,184,102
Effect of movement in exchange rates	-	(76,105)	-	-	(76,105)
Provision (v)	-	(1,090,063)	(326,451)	(150,655)	(1,567,169)
Balance at July 31, 2018	**-**	**-**	**-**	**-**	**-**

(i) The Company leased Pueblo property and equipment in Colorado to Palo Verde (Notes 12 & 15). On April 18, 2017, the lease agreement was amended to extend the term to April 17, 2027 and defer payment ("deferred lease") until Palo Verde attains certain gross sales targets. The agreement was further amended on June 1, 2018 to modify monthly lease rates and 10% per interest per annum will be applied on deferred lease. In addition, Palo Verde shall make agreed upon monthly payments towards deferred lease up to June 1, 2021 with the remaining balance due and payable on the same date.

(ii) The revolving loan agreement is unsecured, bears interest at 10% per annum effective June 1, 2018 (12% prior to June 1, 2018). The loan matures on June 1, 2023 and Palo Verde shall make agreed upon monthly payments towards deferred lease up to June 1, 2023 with the remaining balance due and payable on the same date.

(iii) Recoverable expenses related to the proprietary packaging materials for Palo Verde.

(iv) On June 1, 2018, the Company issued a one-year, 10% commercial promissory note to fund up to US$300,000. During the year ended July 31, 2018, the Company advanced $150,655 (US$114,506).

(Expressed in Canadian dollars)

11. Amounts due from Palo Verde LLC (continued)

(v) An allowance was recorded for July 31, 2018 and 2017 on account of uncertainties surrounding the Company's recoverability of the loan, lease and other receivable due to the timing and unexpected financing delays. During the year ended July 31, 2018, the Company recorded a provision on the revolving loan and promissory loan to Palo Verde of $1,576,169 (2017 - $1,638,801).

Future minimum lease payments receivable on the investment property are as follows:

	$
Less than 1 year	**317,179**
1-5 years	**3,829,369**
5 years and over	**590,709**
	4,737,257

12. Investment properties

	Land	Building	Leasehold Improvement	Total
	$	**$**	**$**	**$**
Balance at July 31, 2016	**221,584**	**1,406,662**	**273,908**	**1,902,154**
Additions	-	-	293,082	293,082
De-consolidated (ii)	(7,242)	(39,022)	(125,700)	(171,964)
Effect of movement in exchange rates	(6,177)	(36,774)	(23,119)	(66,070)
Balance at July 31, 2017	**208,165**	**1,330,866**	**418,171**	**1,957,202**
Additions	-	-	41,755	41,755
Effect of movement in exchange rates	6,650	40,432	22,160	69,242
Balance at July 31, 2018	**214,815**	**1,371,298**	**482,086**	**2,068,199**

Accumulated Amortization and Accumulated impairment	Land	Building	Leasehold Improvement	Total
	$	**$**	**$**	**$**
Balance at July 31, 2016	**51,424**	**444,917**	**-**	**496,341**
Amortization	-	35,715	-	35,715
Effect of movement in exchange rates	678	369	-	1,047
Balance at July 31, 2017	**52,102**	**481,001**	**-**	**533,103**
Amortization	-	34,110	58,284	92,394
Effect of movement in exchange rates	-	4,909	1,000	5,909
Balance at July 31, 2018	**52,102**	**520,020**	**59,284**	**631,406**

Carrying Amounts	Land	Building	Leasehold Improvement	Total
	$	**$**	**$**	**$**
Balance at July 31, 2016	170,160	961,745	273,908	1,405,813
Balance at July 31, 2017	156,063	849,865	418,171	1,424,099
Balance at July 31, 2018	**162,713**	**851,278**	**422,802**	**1,436,793**

(i) The Pueblo property is located in Pueblo West, Colorado ("Pueblo") and is leased to Palo Verde LLC (Note 11). The fair value of the Pueblo West investment property as at July 31, 2018 and 2017 exceeds the carrying value.

12. Investment properties (continued)

(ii) The Lawrenceville property was owned by the Company, through its former wholly-owned subsidiary, SMHI, with the intention of being used to open a dispensary in Illinois. In September 2016, ILDISP LLC earned in 50% interest in SMHI and as a result, the Company ceased control on SMHI and the Lawrenceville property was de-consolidated (Note 13) from the consolidated statement of financial position. During the year ended July 31, 2018, SMHI was dissolved (Note 13).

13. Investments in associate and joint ventures

NHMD and SMHI

On April 4, 2016, the Company through its wholly-owned subsidiaries, NHMD and SMHI, entered into a restated letter agreement whereby the Company agreed to a work plan and earn-in with ILDISP, LLC ("ILDISP") whereby ILDISP shall fund up to US$300,000 of the expenses necessary to complete the Company's dispensary in Illinois acceptable and approved by the Illinois Department of Financial and Professional Regulation ("IDFPR") to earn 50% interest in each NHMD and SMHI.

On September 17, 2016, ILDISP satisfied all the conditions to earn a 50% interest and equal control in NHMD and SMHI. Consequently, effective September 17, 2016, NHMD and SMHI are accounted for as joint ventures using the equity method. The Company obtained the approval from IDFPR to operate the Clinic Effingham dispensary in Effingham, Illinois ("TCE") on August 23, 2016 and commenced its operation in September 2016.

The Company and ILDISP had taken steps to wind up SMHI during the year ended July 31, 2018 and consequently the Company identified this as an impairment indicator and wrote off its investments in SMHI from $340,300 to $Nil.

During the year ended July 31, 2018, the Company recorded income from NHMD of $324,642 (2017 – loss of $2,526) and a loss from SMHI of $76 (2017 – income of $10,400). As at July 31, 2018, the carrying value of the Company's investments in NHMD and SMHI were $873,873 (2017 - $538,950) and $Nil (2017 - $336,296), respectively.

Subsequent to July 31, 2018, the Company sold its interest in NHMD (Note 30).

Aura

Aura is engaged in the development and acquisition of medical cannabis certification clinics in the United States. The medical health clinics test prospective patients and issue medical-use certificates to qualified patients in the United States.

On November 14, 2016, Aura Health Corp. issued a promissory note of US$120,000 to the Company, bearing interest at 12% per annum, maturing 24 months from the date of issue ("Maturity date"). At the option of the Company, on or after November 14, 2017, and prior to the Maturity date, the promissory note together with accrued and unpaid interest shall be convertible into Aura's units at the conversion price of $0.05. Each of Aura's units comprise of one Aura common share and one-half Aura warrant exercisable, until the earlier of 5 years from the date of issuance or 2 years from the date of listing of Aura's shares on the CSE, into one Aura's common share at the exercise price of $0.075.

As consideration for the promissory note, Aura issued 4,000,000 common shares to the Company, representing 40% ownership interest in Aura.

In December 2016, Aura closed a private placement which diluted the Company's ownership to approximately 24% and resulted in a gain on dilution of $102,312. The Company's ownership was further reduced to approximately 16% when the Company transferred 1,000,000 shares of Aura to a director of the Company as a bonus, and 289,293 shares to FMI Capital Advisory Inc.as consulting fee on May 1, 2017.

During the year ended July 31, 2018, the Company recorded a loss from Aura of $74,981 (2017 – loss of $171,042). The carrying value of the Company's investment in Aura as at July 31, 2018, was $Nil (2017 - $56,238).

(Expressed in Canadian dollars)

13. Investments in associate and joint ventures (continued)

The following is a breakdown of the components of net gain (loss) from investments for the year ended July 31, 2018 and 2017:

	2018	2017
	$	**$**
Gain from deconsolidation	**-**	1,132,966
Gain on dilution and share transfer	**-**	181,837
Share of Aura loss	**(74,981)**	(171,042)
Share of NHMD income (loss)	**324,642**	(2,526)
Share of SMHI (loss) income	**(76)**	10,400
Total	**249,585**	1,151,635

The following table summarizes the financial information of the associate and joint ventures as at July 31, 2018 and 2017:

	NHMD	**Aura**
	2018	
	$	$
Cash	632,760	236,683
Current assets (excluding cash)	268,861	55,825
Non-current assets	455,230	296,178
Current liabilities	345,193	960,240
Non-current liabilities	607,874	621,198
Revenue for the period*	3,393,931	-
Profit (loss) for the period*	649,285	(617,772)

** For the twelve months ended July 31, 2018 and 2017 for NHMD and SMHI and the eleven months ended June 30, 2018 and 2017 for Aura.*

The following table summarizes the financial information of the associate and joint ventures as at July 31, 2017:

	NHMD	**SMHI**	**Aura**
	$	$	$
Cash	224,758	-	166,028
Current assets	135,384	-	434,308
Non-current assets	427,627	-	-
Current liabilities	241,223	237,150	255,260
Non-current liabilities	674,307	136,115	369,705
Revenue for the year*	1,364,411	-	-
Profit (loss) for the year*	(5,052)	20,800	(702,623)

** NHMD's SMHI's results are from September 17, 2016 to July 31, 2017; Aura's results are from November 14, 2016 to July 31, 2017*

14. Intangible assets and Goodwill

Purple Haze

On June 5, 2015, the Company entered into the agreement with Purple Haze Properties LLC ("PHP") for the exclusive right to manufacture and distribute cannabis and hemp oil-infused products, and non-exclusive rights to manufacture and distribute certain apparel and accessories in the United States and Canada ("Licensing Agreement").

The agreement provides for annual exclusivity fees and royalties ("annual fees") of no less than US$1,000,000 over five years (US$200,000 for license and US$50,000 for royalty per year) with an additional renewal option for an additional five years.

The Company was informed by PHP that a complaint was filed with the United States District Court, Southern District of New York ("Complaint") alleging that PHP and parties related to PHP attempted to improperly exploit the intellectual property rights contained in the Licensing Agreement and are seeking equitable relief and damages. Due to the uncertainties on the outcome of the complaint, the Company had written the license and prepaid royalty down to $1 on July 31, 2017.

On January 25, 2018, the parties entered into a license agreement addendum ("Addendum") whereby, the second (2017) and third (2018) annual fees are to be satisfied through the payment of $340,869 (US$265,000) (paid) in cash and issuance of 750,000 shares of the Company (issued), respectively.

The payments were expensed and recorded in the consolidated statement of loss and comprehensive loss. As per the terms of the addendum, one-half (50%) of all shares issuances and 100% of monetary royalties shall be placed in a litigation escrow account ("Escrow account") for contingencies until the sum of $2,572,600 (US$2,000,000) is reached. The addendum also includes two one-year options to extend the Licensing Agreement at the Company's sole discretion.

As of July 31, 2018, no actions have been brought against the Company in relation to the Licensing Agreement with PHP. During the year ended July 31, 2018, the Company amortized $Nil (2017 - $174,985) of the license, and $Nil (2017 - $43,741) prepaid expenses for the advance on royalty pertaining to the first two years of the five-year term.

Dab Stick

On January 30, 2017, the Company entered into an IP assignment and option agreement to acquire a dispenser for viscous liquid substances (the "Dab Stick") and the technology and the intellectual property and rights for the purpose of allowing the Company to make, have made, use, sell and market products using such technology and intellectual property rights. As consideration, the Company shall issue common shares to the vendors as follows:

(i) Upon confirmation, to the Company's satisfaction, that the Dab Stick product satisfactorily functions for its intended purpose, the Company shall issue an aggregate of 416,667 common shares at a deemed price of $0.24 per share (issued on July 14, 2017 with a fair value of $43,751);
(ii) Upon the commercial sale at fair market value of the first 100 Dab Stick products, an aggregate of $100,000 worth of common shares;
(iii) Upon the commercial sale at fair market value of the next 500 Dab Stick products, an aggregate of $100,000 worth of common shares; and
(iv) Upon the grant of a patent by the United States Patent and Trademark Office ("USPTO") for a provisional patent application filed in October 2016, an aggregate of $200,000 worth of common shares. Should the vendors fail to advance the application which results in application going abandoned, the $200,000 worth of common shares shall become due on the date of abandonment.

(Expressed in Canadian dollars)

14. Intangible assets and Goodwill (continued)

Dab Stick (continued)

As of July 31, 2018, the Company recognized the remaining obligation of $400,000 as shares to be issued as outlined in (ii) to (iv) because they are likely to occur in the near future and the vendors have no further service obligation to the Company to receive the shares.

On May 4, 2018, the Company entered into a binding agreement with KMG International Limited ("KMG") for the development and manufacture of Dab Sticks (the "Products"). The development and manufacturing of the Products will take place in four phases, namely: Industrial Design, Product Engineering, Product Prototyping, and Mass Production. As of July 31, 2018, the Company has paid US$128,500 for the development phases. Upon the Company successfully achieving 500,000 units of Products shipped, KMG shall credit back tooling costs of US$100,000 in increments of 20% of future orders until the total amount of US$100,000 has been returned.

	Licenses, Management agreement and IP	Trade name	Proprietary data	Customer relationships	Goodwill	Total
	$	**$**	**$**	**$**	**$**	**$**
Cost						
Balance at July 31, 2016	201,652	-	-	-	-	201,652
Additions	43,751	-	-	-	-	43,751
Disposal and write-off	(201,652)	-	-	-	-	(201,652)
Balance at July 31, 2017	43,751	-	-	-	-	43,751
Additions	619,911	-	-	-	-	619,911
Additions from business acquisitions	3,593,876	866,854	77,881	1,293,008	4,715,855	10,547,474
Effect of movement in exchange rate	(44)	777	554	2,494	(13,439)	(9,658)
Balance at July 31, 2018	**4,257,494**	**867,631**	**78,435**	**1,295,502**	**4,702,416**	**11,201,478**

Accumulated Amortization	Licenses, Management agreement and IP	Brand	Proprietary data	Customer relationships	Goodwill	Total
	$	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2016	-	-	-	-	-	-
Additions	201,652	-	-	-	-	201,652
Disposal and write-off	(201,652)	-	-	-	-	(201,652)
Balance at July 31, 2017	-	-	-	-	-	-
Additions	2,577	31,278	6,088	70,634	-	110,577
Effect of movement in exchange rate	-	-	-	-	-	-
Balance at July 31, 2018	**2,577**	**31,278**	**6,088**	**70,634**	**-**	**110,577**

(Expressed in Canadian dollars)

14. Intangible assets and Goodwill (continued)

Carrying Amounts	Licenses, Management agreement and IP	Brand	Proprietary data	Customer relationships	Goodwill	Total
	$	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2016	201,652	-	-	-	-	201,652
Balance at July 31, 2017	43,751	-	-	-	-	43,751
Balance at July 31, 2018	**4,254,917**	**836,353**	**72,347**	**1,224,868**	**4,702,416**	**11,090,901**

15. Capital Assets

Cost	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2016	**-**	**-**	**96,679**	**10,917**	**80,854**	**-**	**-**	**188,450**
Additions	221,929	347,121	81,761	12,556	705,242	-	-	1,368,609
De-consolidated	-	-	(159,119)	(21,163)	-	-	-	(180,282)
Effect of movement in exchange rates	(18,837)	(29,464)	805	186	(51,337)	-	-	(98,647)
Balance, July 31, 2017	**203,092**	**317,657**	**20,126**	**2,496**	**734,759**	**-**	**-**	**1,278,130**
Additions	-	1,011,584	607,603	237,105	1,773,740	136,468	-	3,766,500
Additions from business acquisitions	-	-	246,781	-	1,216,768	-	22,963	1,486,512
Effect of movement in exchange rates	8,654	13,536	21,048	106	32,356	-	(9,735)	65,965
Balance, July 31, 2018	211,746	1,342,777	895,558	239,707	3,757,623	136,468	13,228	6,597,107

Accumulated Amortization	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2016	**-**	**-**	**704**	**538**	**337**	**-**	**-**	**1,579**
Additions	-	-	1,783	2,094	69,187	-	-	73,064
De-consolidated	-	-	(2,505)	(2,270)	-	-	-	(4,775)
Effect of movement in exchange rates	-	-	18	1	(3,039)	-	-	(3,020)
Balance, July 31, 2017	**-**	**-**	**-**	**363**	**66,485**	**-**	**-**	**66,848**
Additions	-	-	-	7,027	113,147	5,610	2,075	127,859
Effect of movement in exchange rates	-	-	-	204	5,081	-	-	5,285
Balance, July 31, 2018	-	-	-	7,594	184,713	5,610	2,075	199,992

Carrying amounts	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2016	-	-	95,975	10,379	80,517	-	-	186,871
Balance, July 31, 2017	203,092	317,657	20,126	2,133	668,274	-	-	1,211,282
Balance, July 31, 2018	**211,746**	**1,342,777**	**895,558**	**232,112**	**3,572,910**	**130,858**	**11,153**	**6,397,115**

(Expressed in Canadian dollars)

15. Capital Assets (continued)

On March 24, 2017, the Company acquired a real estate property in the City of La Pine ("La Pine") located in Deschutes County, Oregon for $498,152 (US$399,000). The Company is completing the construction of the property and amortization will be taken once the construction is completed and ready for operation. The property is the security for the financing arrangement closed on June 5, 2017 (Note 17).

On June 24, 2018, the Company acquired a 9,000 square foot real estate property located in Sacramento, California for $1,031,215 (US$775,000). Subsequent to year-end the Company sold the property (Note 30).

As at July 31, 2018, capital assets include $1,206,321 (2017 - $234,370) of equipment subject to finance lease.

On May 1, 2018, the Company entered an equipment sale leaseback line of credit agreement with a lender for up to US$2,000,000 for a three years lease term with fixed monthly lease rental payments. The Company may extend the lease term for a minimum of twelve months. At the end of the lease term, the Company has the option to purchase all equipment for the then fair market value which shall not exceed 20% of the cost.

16. Accounts payable and accrued liabilities

The breakdown of the accounts payable balance is as follows:

	July 31, 2018	July 31, 2017
	$	**$**
Trade accounts payable	**3,528,029**	585,693
Sales tax payable	**459,825**	-
Other payable	**41,764**	-
Balance	**4,029,618**	585,693

17. Promissory Note Payable

Lawrenceville, Illinois

On November 4, 2015, the vendor of the Lawrenceville property in Illinois (Note 12) provided a buyer take-back mortgage in the amount of US$250,000. The mortgage had a 15-year amortization period, bearing interest at the rate of 6%, payable US$2,110 monthly including interest and due in two years from the date of issuance as a balloon payment. On September 17, 2016, ILDISP LLC earned in their 50% interest in SMHI and the Company lost control on SMHI. As a result, the promissory note payable was de-consolidated (Note 13).

Pueblo, Colorado

On April 19, 2016, the Company entered into a refinancing arrangement of its Pueblo, Colorado property in the amount of US$800,000 in the form of a promissory note which had a twelve-month term bearing interest at 13% per annum payable monthly. As part of the agreement, the Company issued 3,333,334 warrants with exercise price of $0.06 and expiry date of October 14, 2017 valued at $29,000. Under the terms of the refinancing, the lender provided an initial advance of $756,840 (US$600,000) on April 26, 2016 and $266,760 (US$200,000) on December 1, 2016. The loan was due in full on April 26, 2017 with an option to extend for up to twelve months provided that all conditions necessary for extension are satisfied.

(Expressed in Canadian dollars)

17. Promissory Note Payable (continued)

Pueblo, Colorado (continued)
On April 18, 2017, the lender amended and restated the loan note to extend the US$800,000 loan to April 18, 2018. As consideration for the extension, the Company paid a 1% renewal fee plus a 1% extension fee of the principal amount, from 1,000,000 warrants with exercise price of $0.15 and expiry date of October 18, 2018 valued at $62,000 and extended the expiry date of 3,333,334 warrants issued on April 19, 2015 from April 26, 2017 to October 18, 2018, which resulted in an increased value from $29,000 to $69,000.

On April 18, 2018, the lender further amended and restated the loan note of US$800,000 for an additional twelve months to April 18, 2019, with an option to extend for a further six months. As consideration for the extension, the Company paid the lender a renewal fee of $20,182 (US$16,000), issued 750,000 warrants at an exercise price of $0.70 per share, expiring on October 18, 2019, valued at $167,942 and extended the expiry of the previously issued 3,333,334 warrants and 1,000,000 warrants to October 18, 2019. The extension resulted in a fair value increase of these warrants of $53,186. The Company recorded a loss on extinguishment of promissory note of $102,198.

La Pine, Oregon
On June 5, 2017, the Company closed a financing arrangement secured against its real estate property in La Pine, Oregon (Note 15) in the amount of US$400,000 in the form of a promissory note which has an eighteen-month term bearing interest at 13% per annum payable monthly. As part of the agreement, the Company issued 1,217,391 warrants with exercise price of $0.165 and expiry date of June 6, 2019 valued at $48,000 to the lender. The loan is due on December 31, 2018 with option to extend for six months provided that all the conditions necessary for extension are satisfied.

For the year ended July 31, 2018, the Company recorded accretion expense of $387,520 (2017- $274,770) which is included within finance costs.

Equipment
On July 2, 2018, the Company entered into a Conditional Lease Commitment with a lender for up to US$2,000,000 to fund various new extraction and lab processing equipment and ancillary items.

The lease will be structured under a three-year Master Lease Agreement ("MLA") with fixed monthly lease rental payments based on a monthly lease rate factor of 3.3694% of the Lessor's capital cost. The Company has the option to purchase all (but not less than all) of the Equipment under the MLA for the then Fair Market Value which shall not exceed 14% of the Lessor's capital cost. The Company may return all but not less than all of the equipment at the end of the lease subject to a 5% re-stocking fee.

The lease will be secured by the extraction and lab processing equipment. As at July 31, 2018, no amounts have been drawn down from the facility.

The breakdown of the promissory note balance is as follows:

	July 31, 2018	July 31, 2017
	$	$
Opening balance	**1,327,740**	1,004,999
Advances	**-**	795,120
Extinguishment of promissory note	**102,198**	-
Loss on extinguishment of promissory note	**(1,009,120)**	-
Issuance of new promissory note (discounted)	**1,133,014**	-
Deferred financing costs	**(246,040)**	(211,180)
Finance costs	**387,520**	135,080
Repayment	**(208,761)**	(11,489)
De-consolidated on the joint venture (Note 13)	**-**	(322,079)
Effect of movement in exchange rates	**(64,735)**	(62,711)
	1,421,816	1,327,740
Current	**1,421,816**	907,698
Long-term	**-**	420,042

(Expressed in Canadian dollars)

18. Finance lease

On February 15, 2017, the Company entered into a lease agreement in relation to equipment at the Pueblo facility (Note 15) for $5,949 (US$4,635) per month for 30 months, expiring August 15, 2019.

Pursuant to the acquisition of Pasa Verde (Note 3), the Company entered into a lease agreement for extraction equipment for US$26,573 per month, expiring June 29, 2021.

Future minimum lease payable are as follows:

	July 31, 2018	July 31, 2017
	$	$
Less than 1 year	**493,520**	69,442
1-5 years	**795,580**	104,162
More than 5 years	**-**	-
Total future minimum lease payments	**1,289,100**	173,604
Less: amount representing interest	**(235,100)**	(10,270)
Present value of minimum lease payments	**1,054,000**	163,334
Less: non-current portion	**687,949**	87,413
	366,051	75,921

19. Convertible debentures

On March 15, 2018, the Company issued 8,000 Convertible Debentures Units (the “Units”) for $8,000,000. Each Unit consists of $1,000 principal amount of 10% senior unsecured convertible debentures and 1,667 common share purchase warrants of the Company payable semi-annually. The debentures mature on March 15, 2021.

The debentures are convertible into common shares of the Company at a conversion price of $0.60 per share. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of $0.70 per share.

Beginning July 16, 2018, the Company may force the conversion of all the principal amount of the then outstanding debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of the common shares be greater than $1.20 for any 20 consecutive trading days.

The Company paid cash fees of $947,956 and issued 190 Units. In addition, the Agents received 1,066,666 warrant units (“Agents’ Units”) Each Agents’ Unit shall be exercisable into one Agents’ Unit at a price of $0.60 per Agents’ Unit. Each Agents’ Unit consists of one common share and one warrant. Each warrant exercisable for a period of 2 years following Closing at an exercise price of $0.70 per share.

The convertible debentures are compound financial instruments. On initial recognition, the residual method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as $6,406,521 using a discount rate of 20%. The residual proceeds of $1,783,479 were allocated between warrants and conversion option on a pro-rata basis relative to their fair values. Total financing costs of $1,866,327 have been allocated proportionately to the equity and liability components.

In July 2018, holders converted $100,000 principal amount of convertible debentures resulting in the issuance of 166,666 common shares of the Company. The Company paid accrued interest of $521 upon conversion. On conversion, the Company reduced the present value of the liability by $63,076 and related equity component by $8,897.

For the year ended July 31, 2018, the Company recorded accretion expense on the convertible debentures of $537,173 (2017 - $Nil) which is included within finance costs, of which $41,765 is outstanding in accounts payable and accrued liabilities as at July 31, 2018 (Note 16).

(Expressed in Canadian dollars)

19. Convertible debentures (continued)

The following is a summary of the convertible debenture liability activity for the year ended July 31:

	July 31, 2018	July 31, 2017
	$	$
Balance, beginning of year	**-**	-
Issuance of convertible debenture	**8,190,000**	-
Conversion of principal debenture	**(100,000)**	-
Unamortized present value discount and transaction costs	**(3,206,465)**	-
Discount amortized	**252,526**	-
Balance, end of year	**5,136,061**	-

20. Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

	Number of Shares	**Amount**
Balance, July 31, 2016	**142,192,514**	**$4,068,429**
Issued on private placements, net of share issue costs (i)(ii)(v)(vi)(vii)	59,348,095	3,505,636
Issued on exercise of warrants (Note 22)	33,504,950	3,086,403
Issued on exercise of options (Note 21)	3,932,500	624,163
Issued for intangible asset (viii)	416,667	43,750
Issued for convertible debentures (iv)	2,934,830	313,707
Issued for debt settlements (iii)	8,870,844	576,605
Balance, July 31, 2017	**251,200,400**	**$12,218,693**
Issued on exercise of warrants	31,610,858	6,805,987
Issued for services (ix)	228,571	102,500
Issued on exercise of options	1,996,272	543,957
Issued pursuant to Calyx acquisition (x)	2,025,411	1,032,960
Issued pursuant to Pasa Verde acquisition (xii)	3,094,560	1,083,096
Issued for intangible assets (xi)	750,000	345,000
Issued on conversion of debentures (Note 19)	166,666	71,973
Balance, July 31, 2018	**291,072,738**	**$22,204,166**

(i) On August 26, 2016, 11,432,580 units were issued in the first tranche of a private placement at $0.035 per unit for aggregate gross proceeds of $400,140. Each unit comprised of one common share and one half of a warrant with an exercise price of $0.05 for 18 months from closing. In connection with the private placement, the Company paid transaction cost of $5,460 and issued 22,857 finder's units valued at $Nil. Each finder's unit is exercisable at $0.035 for 18 months from closing and each finder's unit comprised of one common share and one half of a warrant with an exercise price of $0.05 expiring 18 months from closing.

(ii) On September 9, 2016, the Company completed the second and final private placement consisting of 11,445,960 units at a price of $0.035 per unit for aggregate gross proceeds of $400,609. Each unit comprised of one common share and one half of a warrant with an exercise price of $0.05 for 18 months. In connection with the private placement, the Company incurred $12,591 of transaction and commission costs and issued 133,143 finder's warrants valued at $5,000. Each warrant is exercisable at $0.035 for 18 months after closing.

20. Share Capital (continued)

(iii) On September 12, 2016, the Company issued 8,870,844 units to settle $443,542 of debt at a price of $0.05 per unit valued at $707,605. Each unit is comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase one common share at price of $0.07 per common share for a period of 18 months after the closing date. A loss of $264,063 is recognized because of this debt settlement. A total of 6,665,174 units were issued to non-arms' length parties to settle the debts in the amount of $333,258.

(iv) On October 6, 2016, subordinate convertible debentures of $150,000 together with interest owing of $26,090 were converted to 2,934,830 common shares at the price of $0.06 per share.

(v) On November 8, 2016, the Company completed the first tranche of the non-brokered private placement, consisting of 7,658,710 units at a price of $0.15 per unit for aggregate gross proceeds of $1,148,807. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at $0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred $113,996 of transaction and commission costs and issued 611,897 finder's units valued at $218,000. Each finder's unit is exercisable at $0.15 for 24 months and each finder's unit comprised of one common share and one half of a warrant with an exercise price of $0.22 expiring 24 months from closing.

(vi) On November 18, 2016, the Company completed the second tranche of the non-brokered private placement, consisting of 25,615,880 units at a price of $0.15 per unit for aggregate gross proceeds of $3,842,382. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at $0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred $379,277 of transaction and commission costs and issued 1,933,540 finder's units valued at $711,000. Each finder's unit is exercisable at $0.15 for 24 months and each finder's unit comprised of one common share and one half of a warrant with an exercise price of $0.22 expiring 24 months from closing.

(vii) On November 24, 2016, the Company completed the final tranche of the non-brokered private placement, consisting of 3,194,965 units at a price of $0.15 per unit for aggregate gross proceeds of $479,245. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at $0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred $51,555 of transaction and commission costs and issued 312,128 finder's units valued at $97,000. Each finder's unit is exercisable at $0.15 for 24 months and each finder's unit is comprised of one common share and one half of a warrant with an exercise price of $0.22 expiring 24 months from closing.

(viii) On July 14, 2017, the Company issued 416,667 shares valued at $43,750 as the first instalment of an IP assignment and option agreement to acquire Dab Sticks (Note 14).

(ix) On January 17, 2018, the Company issued 178,571 shares valued at $75,000 as compensation for services where the fair value of the shares was determined based on the value of services received. The Company also issued 50,000 shares valued at $27,500 to an employee of the Company pursuant to an employment agreement, where the fair value of the shares was based on the share price on the date of issuance.

(x) On March 15, 2018, the Company issued 2,025,411 shares to Calyx Brands Inc. (Note 3), valued at $1,032,960 based on the share price on the date of issuance.

(Expressed in Canadian dollars)

20. Share Capital (continued)

(xi) On June 5, 2018, the Company issued 750,000 shares to Purple Haze Properties, LLC valued at $345,000 based on the share price on the date of issuance pursuant to the amended Purple Haze agreement (Note 14).

(xii) On July 26, 2018, the Company issued 3,094,560 shares to Pasa Verde, LLC, (Note 3), valued at $1,083,096 based on the share price on the date of issuance.

21. Reserve for Share Based Payments

The Company has a stock option plan, and effective July 11, 2018, an RSU plan (‘RSU”) to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs (the “Plan”). The maximum number of common shares reserved for issuance for RSUs that may be granted under the Plan is 5% of the total issued and outstanding Common shares. The maximum number of common shares reserved for issuance for options and RSU that may be granted under the Plan is 10% of the total issued and outstanding Common shares which was 29,107,274 at July 31, 2018. As of July 31, 2018, the Company has not issued any RSUs.

The following table reflects the continuity of Options:

	Number of Options		Amount
Balance, July 31, 2016	**11,240,000**	**$**	**371,252**
Granted (i)(ii)(iii)(iv)(v)(vi)(vii)(viii)	10,485,000		1,198,414*
Exercised	(3,932,500)		(212,338)
Forfeited	(1,150,000)		-
Balance, July 31, 2017	**16,642,500**	**$**	**1,357,328**
Granted (ix)(x)(xi)(xii)(xii)(xiv)	6,500,000		955,532*
Exercised	(1,996,272)		(219,191)
Forfeited	(950,000)		-
Expired	(250,000)		-
Balance, July 31, 2018	**19,946,228**	**$**	**2,093,669**

* Amount includes share-based payments for stock options granted in the prior years and vested during the year.

(i) On October 14, 2016, the Company granted 170,000 stock options valued at $13,000 to Soar Financial Partners, a provider of Investor Relations and Public Relations services to purchase common shares of the Company at the exercise price of $0.13 exercisable from time to time up to October 14, 2018.

(ii) On October 17, 2016, the Company granted 500,000 stock options valued at $77,797 to Boom Capital Partners Inc. a provider of Investor Relations and Public Relations services, and 2,450,000 stock options valued at $381,203 to the Company’s Directors, Officers, and Consultant to purchase common shares of the Company at the exercise price of $0.135 exercisable from time to time for a period of five years from the date of issuance.

(iii) On November 29, 2016, the Company granted 315,000 stock options valued at $50,000 to four arm’s length consultants. The options are exercisable into Common Share of the Company at a price of $0.30 per Common Share for a period of two years from the date of issuance.

(iv) On February 8, 2017, 850,000 options valued at $95,000 were granted to a consultant as part of service fees. The options are exercisable into common shares of the Company at a price of $0.205 per Common Share for a period of two years from the date of issuance.

21. Reserve for Share Based Payments (continued)

(v) On February 16, 2017, 500,000 options valued at $54,000 were granted to a consulting company as part of service fee. The options are exercisable into common shares of the Company at a price of $0.20 per Common Share for a period of two years from the date of issuance. The options vest in equal quarterly instalments over 2 years. On May 9, 2017, the service agreement was terminated and consequently, all 500,000 options were cancelled immediately.

(vi) On April 17, 2017, 3,100,000 options valued at $388,000 were granted to board of directors of the Company. The options are exercisable to Common Share of the Company at a price of $0.15 per Common Share for a period of five years from the date of issuance. The options vest 25% immediately and 25% vest every six months until fully vested.

(vii) On April 17, 2017, 2,200,000 options valued at $275,000 were granted to consultants of the Company. The options are exercisable to Common Share of the Company at a price of $0.15 per Common Share for a period of five years from the date of issuance.

(viii) On July 10, 2017, 400,000 options valued at $43,000 were granted to a director of the Company. The options are exercisable into Common Share of the Company at a price of $0.12 per Common Share for a period of 5 years from the date of issuance. The options vest 25% immediately and 25% every 6 months thereafter.

(ix) On October 30, 2017, 500,000 options valued at $58,000 were granted to a consultant of the Company. The options are exercisable into Common Shares of the Company at a price of $0.13 per Common Share for a period of 5 years from the date of issuance. A total of 150,000 options vest immediately, and the remaining 350,000 options shall vest every six months in equal amount over eighteen months.

(x) On January 17, 2018, 500,000 options valued at $230,401 were granted to an employee of the Company. The options are exercisable into Common Shares of the Company at a price of $0.58 per Common Share for a period of 5 years, vesting one-third per year over three years.

(xi) On February 21, 2018, 500,000 options valued at $220,152 were granted to an officer of the Company. The options are exercisable at a price of $0.50 per Common Share for a period of 5 years from the date of issuance. A total of 140,000 options vested immediately, and the remaining 360,000 options vest every 6 months in equal amount over thirty-six months.

(xii) On March 15, 2018, 900,000 options valued at $402,580 were granted to employees. The options are exercisable at a price of $0.51 per Common Share for a period of 5 years from the date of issuance. The options vest 25% immediately and 25% every 8 months thereafter.

(xiii) On May 7, 2018, 400,000 options valued at $118,311 were granted to a consultant. The options are exercisable at a price of $0.40 per Common Share for a period of 5 years from the date of issuance. The options vest 25% every three months from date of issuance.

(xiv) On May 8, 2018, 3,700,000 options valued at $1,137,393 were granted to directors and consultants of the Company. The options are exercisable at a price of $0.36 per Common Share, for a period of 5 years from issuance. The options vest every six months over 18 months, in equal amount until fully vested.

In connection to the options granted to consultants during the years ended July 31, 2018 and 2017, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of common shares of the Company as a reference on grant date.

(Expressed in Canadian dollars)

21. Reserve for Share Based Payments (continued)

The estimated fair value of options granted during the years ended July 31, 2018 and 2017 were determined using the Black-Scholes option pricing model with the following assumptions:

	2018	2017
Risk-Free Interest Rate	**1.63%-2.16%**	0.61%-1.58%
Expected Dividend Yield	**0%**	0%
Expected Stock Price Volatility	**131%-140%**	104%-165%
Expected Life of Options	**5 years**	2 – 5 years
Forfeiture Rate	**0%**	0%

Option pricing models require the input of highly subjective assumptions and changes in the input assumptions can materially affect the fair value estimated. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon government of Canada bonds with a remaining term equal to the expected life of the options.

As at July 31, 2018, the following stock options were outstanding:

Expiry Date	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
November 29, 2018	$0.30	315,000	315,000
July 7, 2019	$0.10	1,600,000	1,600,000
March 18, 2020	$0.10	2,150,000	2,150,000
April 1, 2020	$0.10	250,000	250,000
June 10, 2020	$0.10	400,000	400,000
December 21, 2020	$0.075	350,000	291,667
April 21, 2021	$0.07	2,500,000	1,666,667
October 17, 2021	$0.135	1,700,000	1,700,000
April 17, 2022	$0.15	3,100,000	2,287,500
April 17, 2022	$0.15	1,600,000	1,600,000
July 10, 2022	$0.12	200,000	200,000
October 30, 2022	$0.13	381,228	266,667
February 21, 2023	$0.50	500,000	140,000
March 15, 2023	$0.51	800,000	200,000
May 7, 2023	$0.40	400,000	-
May 8, 2023	$0.36	3,700,000	-
		19,946,228	**13,067,501**

As at July 31, 2018, the weighted average exercise price of options exercisable was $0.131 (2017 - $ 0.121), the weighted average exercise price of options outstanding was $0.195 (2017 - $0.121) and the weighted average remaining contractual life of stock options was 3.25 years (2017 – 3.59 years). For the year ended July 31, 2018, the weighted average exercise price of stock options exercised was $0.163 (2017 - $0.105).

(Expressed in Canadian dollars)

22. Reserve for Warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2016	**31,358,772**	**$ 778,658**
Warrants pursuant to private placements (Note 20)	33,912,313	2,306,571
Warrants issued pursuant to debt settlement (Note 20)	4,435,422	131,000
Warrants issued pursuant to promissory note (Note 17)	2,217,391	150,000
Warrants expired	(667,400)	-
Warrants exercised	(33,504,950)	(918,590)
Balance, July 31, 2017	**37,751,548**	**$ 2,447,639**
Warrants pursuant to convertible debenture (Note 19)	14,719,396	1,384,775
Warrants issued and modified pursuant to promissory note (Note 17)	750,000	221,128
Warrants issued	1,005,486	-
Warrants expired	(492,346)	-
Warrants exercised	(31,610,858)	(1,791,711)
Balance, July 31, 2018	**22,123,226**	**$ 2,261,831**

The estimated fair value of warrants granted during the years ended July 31, 2018 and 2017 was determined using the Black-Scholes option pricing model with the following assumptions:

	2018	2017
Risk-Free Interest Rate	**1-75%-1.88%**	0.68%-0.70%
Expected Dividend Yield	**0%**	0%
Expected Stock Price Volatility	**141%-147%**	94%-111%
Expected Life of Options	**1.5 – 3 years**	1.5 – 2 years

As at July 31, 2018, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
November 8, 2018	$0.15	1,062,605
November 18, 2018	$0.22	40,500
June 6, 2019	$0.165	1,217,391
October 18, 2019	$0.15	1,000,000
October 18, 2019	$0.06	3,333,334
October 18, 2019	$0.70	750,000
March 15, 2020	$0.60	13,336,000
March 15, 2020	$0.60	1,066,666
March 15, 2020	$0.70	316,730
		22,123,226

As at July 31, 2018, the weighted average exercise price of the warrants was $0.462 (2017 - $ 0.149) and the weighted average remaining contractual life of the warrants was 1.42 years (2017 – 0.85 years). For the year ended July 31, 2018, the weighted average exercise price of the warrants exercised was $0.159 (2017 - $0.068).

23. Related Parties and Key Management

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.

The following is a summary of the related party transactions, including the key management compensation for the years ended July 31, 2018 and 2017:

a. Incurred professional fees of $204,166 (2017 - $130,300) from Branson Corporate Services, a company in which a company with a related director, Adam Szweras, has a 49% ownership interest in. As at July 31, 2018, $Nil (2017 - $Nil) was due to Branson Corporate Services.

b. Incurred consulting fees of $216,000 (2017 - $198,451) from FMI Capital Advisory Inc. ("FMI"), a company with a related director, Adam Szweras. In connection to acquisition of Pasa Verde (Note 3), the Company is obligated to pay up to $315,014 (US$242,000) to FMI, representing a 4% finders' fees, payable in cash and shares, due at the same date as payments to shareholder of Pasa Verde. As at July 31, 2018, $56,341 (2017 - $393) was due to FMI and $6,662 (2017 - $6,327) was due from FMI. Additionally, the Company has recorded 123,782 shares to be issued valued at $181,305 to FMI as at July 31, 2018.

c. Incurred marketing expenses of $139,216 (2017 - $50,175) and software costs of $51,537 (2017 - $Nil) from Plexus Cybermedia Ltd, a company in which a director, Brian Presement, has a 33% ownership interest in. As at July 31, 2018, $15,620 (2017 - $Nil) was due to Plexus Cybermedia Ltd.

d. Incurred professional fees of $445,926 (2017 - $189,907) from Fogler Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner. As at July 31, 2018, $141,304 (2017 - $17,778) was due to Fogler Rubinoff, LLP.

e. Incurred management compensation to key management and directors of $479,139 (2017 – $296,751) in cash and $730,258 (2017 - $524,702) in stock-based payments. As at July 31, 2018, $52,500 (2017 - $52,500) is included in shares to be issued to an officer of the Company.

f. Incurred professional fees of $198,537 (2017 - $Nil) from JRG Attorneys, a law firm in which a director, Aaron Johnson, is a partner. Aaron Johnson was appointed to the board on Feb 20, 2018. As at July 31, 2018, $55,997 (2017 - $Nil) was due to JRG Attorneys.

g. As of July 31, 2018, the Company had $40,680 (2017 - $Nil) due to officers and/or directors of the Company. The Company advanced $210,639 (2018 - $Nil) to an officer and director of the Company which subsequently used to pay various project evaluation expenses.

h. On May 1, 2017, the Company transferred 1,000,000 shares of Aura valued at $100,000 to a director of the Company, David Posner, as a bonus, and 289,293 shares of Aura $28,929 to FMI Capital Advisory Inc.as consulting fee.

i. In connection with the IP assignment and option agreement of Dab Sticks (Note 14), a director of the Company, Billy Morrison, is one of the vendors.

24. Non-controlling interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's consolidated financial statements. The 49% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' equity on the consolidated statements of financial position. For the year ended July 31, 2018, the Company recorded $Nil (2017 - $Nil) of the net loss and comprehensive loss related to EMAL.

25. Management of Capital

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended July 31, 2018. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, shares to be issued, reserve for warrants, reserve for share-based payments, reserve for foreign currency translation, equity component of convertible debentures, non-controlling interest, and deficit, which as at July 31, 2018 totaled $10,727,113 (2017 - $6,053,814).

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements, initial public offering and issuance of convertible debentures. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

26. Financial Instruments

Fair Value of Financial Instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based on observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company designated its cash and short-term investments as fair value through profit and loss, which is measured at fair value and is classified as Level 1. The Company designated its investments as fair value through profit and loss, which is measured at fair value and is classified as Level 2.

The recorded value of the Company's accounts receivable, promissory note receivable, debenture receivable, financial guarantee receivable, amounts due from Palo Verde LLC, accounts payable and accrued liabilities, finance lease, promissory note payable, consideration payable and put option guarantee approximate their fair value.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

26. Financial Instruments (continued)

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable, promissory note receivable, debenture receivable, financial guarantee receivable. Collection of the amounts due from Mt. Baker Greeneries LLC and Palo Verde LLC is contingent on the success of their operations. The Company has no other significant concentration of credit risk arising from operations. Cash and short-term investments are held with a reputable Canadian credit union which is closely monitored by management. Accounts receivable consists of trade accounts receivable, harmonized sales tax due from the Canadian government and other receivable from third parties. Management has considered the credit risk concentration with respect to amounts due from Palo Verde LLC and Mt. Baker Greeneries LLC and other receivable and mitigated the risk by managing and monitoring the underlying the business relationships and when appropriate, has provisioned the balance accordingly.

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. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

As at July 31, 2018, the Company had working capital deficiency of $980,714 (2017 – working capital of $2,391,481), current assets of $7,387,873 (2017 - $3,960,793) and current liabilities of $8,368,587 (2017 - $1,569,312). All the Company's financial liabilities and receivables, excluding amounts due from Palo Verde LLC (Note 11), finance lease (Note 18), promissory note payable (Note 17), contingent consideration (Note 3), put option guarantee premium (Note 9), put option guarantee (Note 9), and convertible debenture (Note 19) have contractual maturities of less than 90 days and are subject to normal trade terms.

Foreign currency exchange risk

The Company conducts a portion of its purchases in US dollars which results in the foreign currency exchange risk. The Company does not consider its exposure to foreign currency exchange risk to be material.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by $239,613 (2017 - $5,268) as a result of the Company's exposure to currency exchange rate fluctuations.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with fixed interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt.

Net earnings are sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year.

An increase (decrease) of 25 basis points would have impacted net loss by $3,040 (2017 - $2,171) because of the Company's exposure to interest rate fluctuations.

(Expressed in Canadian dollars)

27. Income tax

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

	2018	2017
	$	$
Loss before income taxes	**(9,889,393)**	(5,006,075)
Expected income tax (recovery)	**(2,621,000)**	(1,327,000)
Change in statutory, foreign tax, foreign exchange and other	**975,221**	(364,000)
Permanent differences	**1,642,000**	174,000
Share issue cost	**(351,000)**	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	**(23,000)**	-
Expiry of non-capital losses and application of NCL in current year	**(14,000)**	-
Change in unrecognized deductible temporary differences	**208,702**	-
Income tax expense	**(183,077)**	-

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of the product for US tax purposes. Although proper deductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the operations of the Company's US subsidiaries may be subject to United States federal tax, without the benefit of certain deductions or credits.

The significant components of the Company’s deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2018	2017
Deferred tax assets (liabilities)	**$**	$
Property and equipment	**-**	(101,000)
Share issue costs	**402,000**	157,000
Marketable securities	**9,000**	-
Debt with accretion	**(806,000)**	-
Intangible assets	**148,051**	-
Allowable capital losses	**387,000**	-
Non-capital losses available for future period	**2,693,702**	2,569,000
	2,833,753	2,625,000
Less: Deferred taxes not recognized	**(2,833,753)**	(2,625,000)
Net deferred tax assets	**-**	-

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

	2018	**Expiry**	**2017**	**Expiry**
Temporary differences	$		$	
Property and equipment	400,000	No expiry date	(251,000)	No expiry date
Share issue costs	1,516,000	2019 to 2023	592,000	2037 to 2040
Marketable securities	71,000	No expiry date	-	No expiry date
Debt with accretion	(3,041,000)	No expiry date	-	No expiry date
Intangible assets	553,000	No expiry date	-	No expiry date
Allowable capital losses	109,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	11,272,000	2036 to 2038	8,192,000	2036 to 2037
Canada	8,921,000	2036 to 2038	5,243,000	2036 to 2037
USA	2,351,000	2034 to 2038	2,949,000	2034 to 2037

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

28. Commitments and Contingencies

Abba Medix Corp.

On October 11, 2017, the Company entered into an Agreement ("the Agreement") with Canada House Wellness Group Inc.'s wholly owned subsidiary, Abba Medix Corp. ("Abba") to create a joint venture ("Joint Venture") to manufacture cannabis oil extracts and cannabis-infused products in Canada under the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). On November 9, 2017, the parties amended the Agreement as binding. The Joint Venture will focus on two main product lines: (i) a line of products offered exclusively to existing Abba patients; and (ii) a line of FLI-branded products that will be offered to eligible patients across Canada and to the adult-use market, when permitted by regulation.

Bellingham, Washington

On October 16, 2017, the Company, through its subsidiary, NH Bellingham Property Holdings LLC, entered into a commercial lease with option to purchase a tier two cannabis cultivation and processing facility ("Property") for a base rent of US$12,000 ("Base rent") per month. The lease commenced on October 1, 2017 expiring on September 30, 2020 with the option to renew for a two-year term ("Renewal Term").

For and in exchange for the sum of $72,000 ("Option fee"), which the Company paid on October 17, 2017, the Company has the sole and exclusive right to purchase the Property for US$1,200,000 ("Purchase price") on the final day of the initial three-year term ("Option Date"). If the Company renews the lease for the Renewal Term, the Company may extend the Option Date to the final day of the Renewal Term, for an additional $50,000 option fee ("Option Fee Extension").

If the Company exercises the option to purchase the property, the following amounts will be credited to the Purchase Price:

(i) US$50,000 of Option fee;
(ii) US$6,000 of each months' Base Rent paid under the lease; and
(iii) US$50,000 of Option Extension Fee.

On October 27, 2017, the Company, through its subsidiaries, entered the following agreements with Mt. Baker Greeneries LLC ("Mt. Baker"):

(i) Sub-lease agreement for base rent of US$10,000 per month effective October 7, 2017 expiring on September 30, 2020;

(ii) Equipment purchase and leaseback agreement whereby the Company bought certain equipment for US$25,350 from Mt. Baker and leased it back for a period of two years at US$1,181 per month; and

(iii) Equipment, technology, exclusive license, materials and packaging agreement expiring December 31, 2022, to supply certain materials and packaging, equipment and technology to Mt. Baker. In consideration for an exclusive license to use the technology, Mt. Baker shall pay $61,465 (US$50,000) no later than 18 months from the date of the agreement.

Xanthic Biopharma Inc.

On May 1, 2018, the Company entered into a binding letter of intent ("LOI") with Xanthic Biopharma Inc. ("Xanthic") for the production and distribution of Xanthic branded water-soluble cannabis infused powders in California. Subject to the negotiations of a definitive agreement, Xanthic will partner with Pasa Verde LLC to distribute its patent-pending water-soluble cannabis-infused powder products.

(Expressed in Canadian dollars)

28. Commitments and Contingencies

NeutriSci International Corp. ("NeutriSci")
On May 29, 2018, the Company entered into a binding Memorandum of Understanding ("MOU") with NeutriSci to jointly develop THC and/or CBD products. NeutriSci shall supply product ingredients for production and will fund US$5,000 for the roll-out of the Products in the State of California and ongoing product promotion of up to US$5,000 per quarter thereafter, based on a promotion plan to be developed and approved jointly. The Company shall be the exclusive manufacturer and distributor of the products. The agreement has a term of 5 years, with an option to renew for an additional 5 years.

Office and Operating Leases

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2021 and contain certain renewal provisions.

Future minimum lease payments under non-cancellable operating leases having an initial or remaining term of more than one year are as follows:

	$
2019	462,364
2020	416,554
2021	31,241
Total	**910,159**

29. Supplemental Information for consolidated statements of cash flows

	2018	2017
	$	$
Shares issued pursuant to convertible debenture	**71,973**	176,090
Reversal of fair value on the exercise of warrants	**1,791,711**	
Reversal of fair value on the exercise of options	**219,191**	
Allocation of non-cash share issuance costs	**918,370**	
Convertible debt units issued to agents	**190,000**	
Warrants issued on extinguishment of debt	**221,126**	-
Shares issued for intangible assets	**400,000**	-
Consideration for put option guarantee	**387,500**	-
Shares issued for settlement of debt	**-**	443,542

30. Subsequent events

Private Placement

On August 7, 2018, the Company issued 4,200 Convertible Debentures Units (the "Units") for $4,200,000. Each Unit consists of $1,000 principal amount of 10% senior secured convertible debentures and 1,429 common share purchase warrants of the Company payable semi-annually. The debentures mature on August 7, 2021.

30. Subsequent events (continued)

Private Placement (continued)

The debentures are convertible into common shares of the Company at a conversion price of $0.70 per share. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of $0.80 per share.

The interest can be payable in cash or by issuing common shares against the amount due at the sole option of the Company. If the Company elects to issue the common shares as interest payment, the price per common share shall equal the 20-day volume-weighted average price, and the effective interest rate shall be increased to 12% from 10%.

The Convertible Debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations. The Company has paid registered finders a finders' fee equal to 8% of the gross proceeds of the Offering and has issued finder's options to acquire finder units equal to 8% of the number of Common Shares underlying the convertible debentures, exercisable at a price of $0.80 per Finder Unit for a term of 24 months following the closing date. Each Finder Unit will be comprised of one common share and one finder warrant, with each Finder Unit Warrant entitling the holder to acquire one additional common share at 0.80 per share.

If the Company undertakes an equity financing at a price per common shares of less than $0.45 per Common Share while the Convertible Debentures are outstanding, the Conversion Price of the Convertible Debentures will be reduced to the new financing price and the Warrant Exercise Price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable stock exchange and securities laws. If the Common Shares trade at a VWAP under $0.25 for a period of 50 consecutive trading days while the Convertible Debentures are outstanding, the Conversion Price shall be reduced to $0.30.

Aura Health Inc.

On August 9, 2018, the Company subscribed for 200,000 units at $0.49 per unit issued by Aura Health Inc. Each Unit is comprised of one common share and one common share purchase warrant with exercise price of $0.75 per share for a period of 24 months from the completion of Aura's financing. The Company's interest was reduced to 11.97% (18.90% diluted) following the completion of Aura's financing.

Washington

On August 10, 2018, the Company entered into a binding letter of intent ("LOI") with a Washington limited liability company ("the seller") to purchase certain assets, assume certain liabilities and license certain IP brands for US$3,750,000 (the "Purchase Price"). The purchase price will be settled US$750,000 in cash and US$3,000,000 in shares. Subsequent to year-end, the Company funded US$150,000 to the seller, which will be offset against the Purchase Price on closing.

Green Therapeutics, LLC

On September 30, 2018, the company entered into an agreement to acquire 75% of Green Therapeutics LLC ("GTL"), a Nevada limited liability company, for US$18 million, to be paid as follows:

(i) US$2,000,000 in cash and US$4,000,000 in shares to be issued at a price which is the lesser of (i) US$0.27 per share, or (ii) the 20-day volume weighted average price ("VWAP") due upon closing;

(ii) US$4,600,000 in cash due on a mutually agreed time but no later than within 18 months post-closing; and

(iii) US$7,400,000 in promissory note (the "Note") with US$3,400,000 of which shall mature 12 months from closing, and $4,000,000 of which shall mature 24 months from closing.

30. Subsequent events (continued)

Green Therapeutics, LLC (continued)

At any time after the date the secured notes have been satisfied and paid in full and then upon fifteen days prior written notice (“Option Notice”) to the Vendor, the Company has an option to acquire the remaining 25% of GTL at any time after the payment or conversion of the Note for (i) $7,500,000 if the Option Notice is sent on or before the second anniversary of the Closing; or thereafter (ii) the greater of (a) $7,500,000 or (b) a multiple based on the 12-month EBITDA. The purchase price will be paid in cash, or at the election of the Vendors, 50% in shares of Nutritional High.

GTL has an option to require the Company to buy their 25% remaining interest in GTL at any time after the second anniversary after the Closing at a price equal to a multiple based on the 12-month EBITDA. If the option is exercised, the purchase price will be paid half in cash and shares.

Concurrent with the closing of the Acquisition, the Company will purchase a property for US$1,519,000 consisting of cultivation facilities and parcels of land for cultivation expansion utilized by GTL.

NH Medicinal Dispensaries LLC

On October 30, 2018, the Company sold its 50% membership interest in NH Medicinal Dispensaries LLC, an entity which operates the Clinic Effingham dispensary in Effingham, Illinois, to its joint venture partner, ILDISP, LLC (“ILDISP”) for a purchase price of US$3,500,000 subject to working capital adjustment.

Equipment lease

In November, the Company drew down a total of US$1,179,534 from equipment sale leaseback line of credit (Note 15). Pursuant to the agreement, the Company issued 421,263 common share purchase warrants to the Buyers. Each warrant entitles the Buyer to purchase one common share at a price of $0.70 per share for a period of 24 months from the date of issuance.

Lineage

On September 14, 2018, the Company converted $100,000 of secured convertible debentures (Note 9) and was issued 500,000 shares of Lineage.

JMEDS

On November 21, 2018 the Company entered into an asset purchase agreement with Bright Green Lights LLC (“JMEDS”), a California-based corporation that produces high quality cannabis-infused strain specific lozenges and sugar-free mints and holds certain patents for extraction and formulation for US$714,000.

The purchase price is payable US$200,000 in cash and US$400,000 in common shares of the Company. The remaining US$114,000 will be paid in cash upon successful revenue generation of US$250,000 per month for three consecutive months.

The Company also entered into a licensed patent and patent rights with Jeffrey Kolsky, founder and director of JMEDS, as well as option to purchase all of the licensed patents, know-how and derivative rights.

30. Subsequent events (continued)

Sacramento Property

On November 21, 2018, the Company sold its 9,000 square foot real estate property located in Sacramento, California (Note 15), acquired for US$775,000 (Note 15), for gross proceeds of US$1,400,000 and the Company paid US$84,000 in commission.

Options

Subsequent to year-end, the Company granted 830,000 options to certain consultants and employees exercisable at $0.35 per share, vesting one-third every six months over 18 months expiring on August 14, 2023. A total of 250,000 options were exercised for gross proceeds of $25,000 and 800,000 options cancelled.

Warrants

Subsequent to year end up to the date of the statements, 1,385,129 warrants were exercised for gross proceeds of $233,161, 303,881 underlying warrants were issued through exercised of brokers' units, and 40,200 warrants expired.