Nutritional High International Inc.

Consolidated Financial Statements

Years ended July 31, 2019 and 2018

(Expressed in Canadian Dollars, unless otherwise noted)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nutritional High International Inc.

Opinion

We have audited the accompanying consolidated financial statements of Nutritional High International Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficit) for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had a working capital deficiency of $3,973,933, spent $12,144,629 of cash for operating activities, had not yet achieved profitable operations, has accumulated losses of $47,457,587, had shareholders' deficit of $5,346,079 and expects to incur further losses in the development of its business. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Grant P. Block.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

November 28, 2019

Nutritional High International Inc.
Consolidated Statements of Financial Position
Years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
ASSETS			
Current			
Cash		**$ 1,492,233**	$ 784,998
Short-term investment		**-**	2,010,360
Amounts receivable	5	**4,328,102**	2,206,348
Prepaid expenses		**387,614**	557,418
Deposits	6	**201,588**	57,119
Inventory	7	**2,562,996**	1,293,125
Investments	9	**933,146**	378,505
Debenture receivable	8	**-**	100,000
		9,905,679	7,387,873
Non-current assets			
Financial guarantee receivable	8	**-**	75,000
Investment property	11	**1,368,142**	1,436,793
Investments in associates and joint ventures	12	**-**	873,873
Capital assets	14	**4,735,024**	6,397,115
Intangible assets	13	**1,894,404**	6,388,485
Goodwill	13	**1,573,638**	4,702,416
		$ 19,476,887	$ 27,261,555
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13, 15, 27	**$ 10,145,459**	$ 4,029,618
Income taxes payable	26	**915,902**	169,221
Promissory note payable	16	**525,920**	1,421,816
Finance lease	17	**946,128**	366,051
Convertible debentures advances	22,31	**462,000**	-
Consideration payable	3,4	**884,203**	2,381,881
		13,879,612	8,368,587
Non-current liabilities			
Finance lease	17	**1,323,170**	687,949
Consideration payable	3,4	**-**	2,168,245
Convertible debentures	18	**7,547,996**	5,136,061
Derivative liabilities	18	**1,909,910**	-
Deferred gain on sale and leaseback	17	**162,278**	-
Put option guarantee liability	8	**-**	173,600
		$ 24,822,966	$ 16,534,442
Shareholders' Equity (Deficit)			
Share capital	19	**$ 34,022,041**	$ 22,204,166
Shares to be issued	3,13,22	**52,501**	3,679,924
Reserve for share based payments	20	**3,358,075**	2,093,669
Reserve for warrants	21	**4,101,867**	2,261,831
Reserve for foreign currency translation		**242,217**	(95,736)
Equity component of convertible debenture	18	**349,548**	359,462
Non-controlling interest	23	**(14,750)**	(14,750)
Deficit		**(47,457,578)**	(19,761,453)
		$ (5,346,079)	$ 10,727,113
		$ 19,476,887	$ 27,261,555

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 27)
Subsequent events (Note 31)

Approved by 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
Years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
Sales		**$ 23,608,410**	$ 5,814,558
Cost of goods sold		**(18,127,382)**	(5,051,418)
Gross margin		**5,481,028**	763,140
Interest	5	**68,237**	40,828
License		**-**	3,287
Rental	10	**50,709**	-
		5,599,974	807,255
Operating expenses:			
Salaries, benefits and consulting fees	22	**9,575,801**	1,218,780
Professional fees	13,22	**1,541,854**	1,244,623
General and administrative	29	**4,996,144**	2,220,551
Acquisition and project evaluation costs	22	**497,139**	1,553,537
Share based payments	20	**1,323,062**	955,532
Sales, marketing and promotion	22	**1,680,265**	560,712
Loss and reserve on inventory	7	**3,091,100**	-
Depreciation and amortization	11,13,14	**2,137,418**	330,442
Allowance for amounts receivable	5	**600,542**	105,454
Allowance for amounts due from Palo Verde LLC	10	**505,574**	1,576,169
Total operating expenses		**25,948,899**	9,765,800
Other items:			
Foreign exchange loss	16,18	**2,763**	80,418
Finance costs	16,17,18	**3,690,710**	924,693
Impairment of a joint venture	12	**-**	340,300
Gain on sale and leaseback	17	**(41,287)**	-
Other income	8	**(173,600)**	(314,011)
Unrealized loss (gain) on FVTPL investments	9	**(706,594)**	71,100
Gain on sale of interest in a joint venture	12	**(3,706,003)**	-
Gain on sale of property	14	**(699,449)**	-
Gain on sale of investment	9	**(30,604)**	-
Change in fair value of derivative liability	18	**(810,695)**	-
Gain on debt settlement	19	**(143,387)**	-
Gain on settlement of Pasa Verde consideration payable	3	**(4,885,297)**	-
Change in fair value of warrants		-	(24,265)
Loss on extinguishment of promissory note payable		-	102,198
Impairment of goodwill	13	**3,202,008**	-
Impairment of capital assets	14	**1,825,770**	-
Impairment of intangible assets	13	**8,593,466**	-
Loss (gain) from investments in associates and joint ventures	12	**85,399**	(249,585)
Total other items		**6,203,200**	930,848
Loss before income taxes		**(26,552,125)**	(9,889,393)
Income tax expense (recovery)			
Current	26	**657,000**	169,221
Deferred	26	**487,000**	(352,298)
		1,144,000	(183,077)
Net loss		**(27,696,125)**	(9,706,316)
Other comprehensive loss			
Exchange differences on translating foreign operations		**337,953**	(143,277)
Net loss and comprehensive loss		**$(27,358,172)**	$ (9,849,593)
Net loss attributable to:			
Non-controlling interest	23	**-**	-
Parent company		**(27,696,125)**	(9,706,316)
		$(27,696,125)	$ (9,706,316)
Net loss and comprehensive loss attributable to:			
Non-controlling interest	23	**-**	-
Parent company		**(27,358,172)**	(9,849,593)
		$(27,358,172)	$ (9,849,593)

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

Nutritional High International Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
Weighted average number of common shares outstanding			
Basic		**310,366,789**	268,212,645
Diluted		**310,366,789**	268,212,645
Net loss per share			
Basic		**$ (0.09)**	$ (0.04)
Diluted		**$ (0.09)**	$ (0.04)

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

Nutritional High International Inc.
Consolidated Statements of Cash Flow
Years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
Cash provided by (used in)			
Operating activities:			
Net loss		**$(27,696,125)**	$ (9,706,316)
Items not affecting cash:			
Interest income		**(64,407)**	(40,703)
Deferred income tax recovery		**-**	(352,298)
Amortization of capital assets and intangible assets		**2,045,275**	330,442
Current tax expense		**-**	169,222
Impairment of capital assets		**1,852,770**	-
Shares issued for services		**235,000**	447,500
Foreign exchange		**-**	(23,189)
Impairment of a joint venture		**-**	340,300
Bad debt expense		**-**	105,454
Unrealized loss on FVTPL investments		**(706,594)**	71,100
Loss on extinguishment of promissory note payable		**-**	102,198
Gain on sale of interest in joint venture		**(3,706,003)**	-
Impairment of intangible assets		**8,593,466**	105,454
Impairment of goodwill		**3,202,008**	102,198
Other income		**(173,600)**	(313,900)
Change in fair value of derivative liabilities		**(810,695)**	-
Change in fair value of warrants		**-**	(24,265)
(Gain) loss from investment in associates and joint ventures		**85,399**	(249,585)
Gain on debt settlement		**(143,387)**	-
Accretion and finance costs		**3,536,370**	924,665
Gain on settlement with Pasa Verde		**(4,885,297)**	-
Share based payments		**1,323,062**	955,532
Gain on sale of property		**(699,449)**	-
Gain on sale of investment		**(35,942)**	-
Allowance for amounts receivable		**600,542**	-
Allowance for amounts due from Palo Verde LLC		**505,574**	1,576,169
Write-down of inventory		**3,091,100**	-
Net change in non-cash working capital:			
Amounts receivable		**(1,014,439)**	(1,137,755)
Prepaid		**169,804**	(406,231)
Inventory		**(1,857,834)**	(374,482)
Deposits		**(144,469)**	-
Income taxes payable		**746,681**	-
Accounts payable and accrued liabilities		**3,674,283**	2,267,696
Deferred gain on sale and leaseback		**162,278**	-
Net cash used in operating activities		**$(12,114,629)**	$ (5,338,446)
Investing activities:			
(Payment) refund of deposits		**-**	1,730,422
Amounts due from Palo Verde LLC		**(505,574)**	(1,184,102)
Redemption of short-term investments		**2,010,360**	500,000
Purchase of short-term investments		**-**	(2,500,000)
Consideration paid pursuant to Calyx acquisition		**(1,162,815)**	-
Proceeds from sale of investments		**362,895**	-
Assets acquisition of Moses Garden LLC		**(912,288)**	-
Proceeds from sale of property		**1,736,225**	-
Purchase of intangible assets		**(65,721)**	(219,911)
Promissory note receivable		**(1,643,360)**	(753,447)
Purchase of investment property		**-**	(41,755)
Purchase of capital assets		**(1,718,324)**	(3,992,929)
Acquisition of Calyx Brands Inc.		**-**	(651,600)
Proceeds on sale of interest in a joint venture		**4,599,700**	-
Acquisition of Pasa Verde LLC		**-**	(327,199)
Cash paid for Pasas Verde (Westfall)		**(945,969)**	-
Additions to investment in associates		**(98,000)**	-
Net cash generated from (used in) investing activities		**$ 1,657,129**	$ (7,440,521)

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

Nutritional High International Inc.
Consolidated Statements of Cash Flow
Years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
Financing activities:			
Issuance of convertible debenture units, net of issue costs		**3,671,276**	7,052,044
Proceeds on sale and leaseback		**1,922,203**	-
Interest paid on promissory note		**(124,909)**	(149,602)
Repayment of promissory note		**(1,051,932)**	(24,912)
Interest paid on convertible debenture		**(807,698)**	(284,620)
Finance lease payments		**(781,574)**	(105,559)
Shares issued on warrants exercised		**233,217**	5,014,276
Shares issued on options exercised		**193,583**	324,766
Convertible debt advances received		**462,000**	-
Proceeds from private placement		**7,133,605**	-
Net cash generated from investing activities		**$ 10,849,771**	$ 11,826,393
Net increase in cash		**$ 392,271**	$ (952,574)
Effects of exchange rate changes on cash		**314,964**	(187,164)
Cash at beginning of year		**784,998**	1,924,736
Cash at end of year		**$ 1,492,233**	$ 784,998

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

Nutritional High International Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(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 - 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	-	-	-	1,578,503	-	933,347	-	2,511,850	-	2,511,850
Deferred tax on convertible debenture	-	-	-	-	-	(352,299)	-	(352,299)	-	(352,299)
Share issue costs	-	-	-	(193,728)	-	(212,689)	-	(406,417)	-	(406,417)
Conversion of debentures	71,973	-	-	-	-	(8,897)	-	63,076	-	63,076
Share based payments (Note 20)	-	-	955,532	-	-	-	-	955,532	-	955,532
Shares issued on exercise of warrants (Note 21)	6,805,987	-	-	(1,791,711)	-	-	-	5,014,276	-	5,014,276
Shares issued on exercise of options (Note 20)	543,957	-	(219,191)	-	-	-	-	324,766	-	324,766
Shares issued pursuant to Calyx acquisition (Note 3)	1,032,960	536,461	-	-	-	-	-	1,569,421	-	1,569,421
Shares to be issued pursuant to Dab Stick IP (Note 13)	-	400,000	-	-	-	-	-	400,000	-	400,000
Shares issued pursuant to Pasa Verde acquisition	1,083,096	2,690,963	-	-	-	-	-	3,774,059	-	3,774,059
Shares issued for service (Note 19)	102,500	-	-	-	-	-	-	102,500	-	102,500
Issued for intellectual property	345,000	-	-	-	-	-	-	345,000	-	345,000
Foreign exchange translation	-	-	-	-	(143,277)	-	-	(143,277)	-	(143,277)
Warrants issued pursuant to promissory note extension (Note 16)	-	-	-	167,942	-	-	-	167,942	-	167,942
Warrants modified pursuant to promissory note extension (Note 16)	-	-	-	53,186	-	-	-	53,186	-	53,186
Not loss for the year	-	-	-	-	-	-	(9,706,316)	(9,706,316)	-	(9,706,316)
Balance - 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**
Balance - 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**
Share based payments (Note 20)	-	-	1,436,308	-	-	-	-	1,436,308	-	1,436,308
Shares issued on exercise of warrants (Note 21)	613,207	-	-	(379,990)	-	-	-	233,217	-	233,217
Shares issued on exercise of options (Note 20)	252,238	-	(58,656)	-	-	-	-	193,582	-	193,582
Forfeiture of stock options (Note 20)	-	-	(113,246)	-	-	-	-	(113,246)	-	(113,246)
Shares issued pursuant to Calyx acquisition (Note 3)	536,460	(536,460)	-	-	-	-	-	-	-	-
Shares issued pursuant to Pasa Verde acquisition (Note 3)	51,631	(2,690,963)	-	-	-	-	-	(2,639,332)	-	(2,639,332)
Shares issued for debt settlement (Note 19)	81,908	-	-	15,024	-	-	-	96,932	-	96,932
Shares issued for service (Note 19)	235,000	-	-	-	-	-	-	235,000	-	235,000
Conversion of debentures (Note 18)	262,059	-	-	-	-	(9,914)	-	252,145	-	252,145
Warrants issued pursuant to sale and leaseback (Note 17)	-	-	-	63,424	-	-	-	63,424	-	63,424
Shares issued for pursuant to Moses Garden acquisition (Note 4)	4,482,198	-	-	-	-	-	-	4,482,198	-	4,482,198
Shares issued for interest on convertible debenture (Note 18)	453,913	-	-	-	-	-	-	453,913	-	453,913
Shares purchased by a third party (Notes 3 and 18)	538,866	-	-	-	-	-	-	538,866	-	538,866
Foreign exchange translation	-	-	-	-	337,953	-	-	337,953	-	337,953
Private placements (net of share issue costs) (Note 19)	4,310,395	-	-	2,141,578	-	-	-	6,451,973	-	6,451,973
Shares to be issued pursuant to Dab Stick IP (Note 13)	-	(400,000)	-	-	-	-	-	(400,000)	-	(400,000)
Net loss for the year	-	-	-	-	-	-	(27,696,125)	(27,696,125)	-	(27,696,125)
Balance - July 31, 2019	**$ 34,022,041**	**$ 52,501**	**$ 3,358,075**	**$ 4,101,867**	**$ 242,217**	**$ 349,548**	**$ (47,457,578)**	**$ (5,331,329)**	**$ (14,750)**	**$ (5,346,079)**

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”, quoted on the OTCQB Marketplace under 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 United States. The Company works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by US state law.

The consolidated financial statements for the year ended July 31, 2019 were approved by the Board of Directors on November 26, 2019.

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 in 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 self 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, 2019, the Company had working capital deficiency of $3,973,933 (July 31, 2018 – $980,714), spent $12,114,629 (2018 - $5,338,446) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $47,457,578 (July 31, 2018 - $19,761,453), had shareholders' deficit of $5,346,079 (July 31, 2018 - shareholders' equity of $10,727,113) 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 ability of the Company to continue as a going concern is dependent on its ability to obtain further funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is a signficant uncertainly whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial statements. These consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessary should the Company note continue as a going concern. 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 preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) in effect for the year ended July 31, 2019.

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.

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 venture are listed below:

	Ownership interest		
Subsidiary/Affiliate	**July 31, 2019**	**July 31, 2018**	**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
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
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%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
NH Distribution California LLC ("NHDC")	100%	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
Nutritional High Group, LLC ("NHG")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH")	100%	100%	Consolidation
NH Medical Dispensaries LLC ("NHMD") (1)	-	50%	Equity
Pharmadrug Inc. ("Pharmadrug")(2)	10.7%	16.0%	FVTPL / Equity

(1) The Company sold its 50% interest in NHMD in October 2018 (Note 12)
(2) The Company has reclassified its investment in Pharmadrug Inc. (formerly Aura Health Inc.) due to the dilution and loss of significant influence on June 24, 2019, from equity to FVTPL investment (Notes 9 and 12).

2.4 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of the Company, NHHL, NHCIP. and EMAL is the Canadian dollar. The functional currency of the remaining subsidiaries is the US dollar.

2.5 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

With the adoption of IFRS 15 *Revenue from Contracts with Customers*, effective August 1, 2018, a single 5-step model for revenue recognition was introduced. The new model for revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, and allocating the transaction price to the individual performance obligations making up the contract. Revenue is then recognized when or as the associated performance obligations are delivered and based on the expected consideration to be received. The Company recognizes revenue in the following areas:

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.

The adoption of IFRS 15 did not have any material impact ot the Company's consolidated financial statements.

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. Depreciation is provided at rates as follows:

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

Interests in equity accounted investees and joint ventures

The Company's interest in equity accounted investees is comprised of its interest in associates and joint ventures.

In accordance with IFRS 10, *Consolidated Financial Statements*, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies. In accordance with IFRS 11 Joint Arrangements; a joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and joint ventures are accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures.* They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income ("OCI") of equity accounted investees until the date on which significant influence or joint control ceases.

Investments in equity instruments without significant influence are recorded are recorded in fair value.

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 depreciated separately. Depreciation is computed 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	Term of lease
Vehicles	5 years
Furniture and equipment	3 years
Manufacturing equipment	25%-40% Declining balance
Computer and software	25%-33% Declining balance

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

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.

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.

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.

Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

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, 2019, the Company has not issued any RSUs.

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, 2019 and 2018.

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.

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 instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issueance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL , are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. The Company has made the following classifications:

Financial Assets / Liabilities	Classification
Cash	FVTPL
Short-term investment	FVTPL
Amounts receivable	Amortized cost
Investments	FVTPL
Debenture receivable	Amortized cost
Financial guarantee receivable	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities
Promissory note payable	Other financial liabilities
Convertible debenture advances	Other financial liabilities
Convertible debentures	Other financial liabilities
Derivative liabilities	FVTPL
Consideration payable	FVTPL

(i) FVTPL financial assets
Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets
Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income (loss) and comprehensive income (loss).

(iv) Financial liabilities and other financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(v) Embedded derivatives
Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amounts receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at July 31, 2019.

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.

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.

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 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.

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.

2.6 Significant accounting estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, 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 amortization of intangible assets are 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 lives 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 Financial Reporting Standards ("IFRS") 9, *Financial Instruments*, 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.

Share-based payments and brokers' warrants
The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and brokers' 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.

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

(Expressed in Canadian Dollars)

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.

Judgment 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.

2.7 Adoption of new accounting pronouncements

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
The IASB replaced IAS 18, Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The standard uses a five-step model for revenue recognition that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which required judgment. The Company adopted IFRS 15 using the modified retrospective approach, where the cumulative impact of adoption was required to be recognized in retained earnings as of August 1, 2018 and comparatives were not required to be restated. The adoption of this new standard had no impact on the amounts recognized in the Company's consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. Under IFRS 9, financial instruments are initially measured at fair value plus, in the case of a financial assets or financial liability not at fair value through profit and loss, transaction costs. Subsequently, all assets within scope of IFRS 9 are measured at:
(i) Amortized cost;
(ii) Fair value through other comprehensive income ("FVOCI"); or
(iii) Fair value through profit of loss ("FVTPL")

The classification is based on whether the contractual cash flows give rise to payments on specified dates that are solely payments of principal and interest (the "SPPI test"), and the objective of the Company's business model is to hold assets only to collect cash flows, or to collect cash flows and to sell (the "Business Model test"). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost, except for financial liabilities, such as derivatives, that are always measured at FVTPL.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

Financial Assets / Liabilities	IAS 39 Classification	IFRS 9 Classification
Cash	FVTPL	FVTPL
Short-term investment	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Investments	FVTPL	FVTPL
Debenture receivable	Loans and receivables	Amortized cost
Financial guarantee receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Promissory note payable	Amortized cost	Other financial liabilities
Convertible debenture advances	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Other financial liabilities
Derivative liabilities	Derivative financial instruments	FVTPL
Consideration payable	FVTPL	FVTPL

IFRS 9 uses an expected credit loss ("ECL") impairment model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model applies to debt instruments recorded at amortized cost or at FVOCI, such as loans, debt, securities and trade receivables, lease receivables and most loan commitments and financial guarantee contracts.

2.8 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 January 1, 2019 are as follows:

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. Effective August 1, 2019, the Company will be adopting IFRS 16 using the modified retrospective method and expects that there will be an increase to right-of-use assets and lease liability of approximately $1,800,000 in its consolidated statement of financial position. Post adoption, the Company expects an increase to finance costs associated with the interest accretion on the lease liability and depreciation expense related to the right-of-use assets and operating costs.

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 IFRIC 23.

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 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.

(Expressed in Canadian Dollars)

The following table summarizes the 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
Prepaid	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) was settled in November 2017 and on the Acquisition date.

(ii) The Company issued 2,025,411 common shares on the Acquisition date. The fair value of the common shares was determined based on the share price on the Acquisition date.

(iii) The Company advanced working capital funds for a total of $514,290 (US$394,637) to Calyx 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 Calyx 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 Calyx Note was amended to issuance of 486,500 common shares and $763,321 (US$595,041) in cash due on September 15, 2018 (issued and paid) and $226,803 (US$172,500) in cash due on September 15, 2019, which was paid subsequent to July 31, 2019 (Note 31).

(v) The Company was committed to a payment of up to $788,640 (US$600,000), payable 50% in cash and 50% in commons shares, based on the achievement of sales targets of up to US$12,000,000 at certain intervals between 12 months to 24 months after the Acquisition date. The maximum sales target was met as of March 15, 2019 and accordingly, the Company paid $339,494 (US$300,000) in cash and a total of 1,482,445 common shares, valued at $390,510, were issued during the year ended July 31, 2019.

The Company incurred $299,166 in expenditures related to this acquisition. On closing, the Company and Calyx entered into a management service agreement whereby the Company will be compensated for services through assignment of Calyx's results of operations.

As at July 31, 2019, $226,803 (July 31, 2018 - $1,165,075) was included in current consideration payable, $Nil (July 31, 2018 - $224,543) was included in long-term consideration payable and $Nil (July 31, 2018 - $536,460) was included in common shares to be issued.

Pasa Verde, LLC

On July 26, 2018, the Company, through its wholly-owned subsidiary, NHNC, acquired a 100% membership interest in 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 edibles and oil extracts sectors of the medical and adult use cannabis markets in the State of California.

(Expressed in Canadian Dollars)

The following table summarizes the 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
Identified tangible assets 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

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) A total cash payment of $654,400 (US$500,000) (the “Permitting Payment”) was due upon Pasa Verde providing documentation of receipt of local authorization approval from the City of Sacramento, California which is subject to a working capital adjustment on closing.
(iii) The Company advanced working capital funds for a total of $96,851 (US$78,000) to Pasa Verde prior to the Closing date. These advances were effectively settled through the Closing date.
(iv) The Company issued 3,094,560 common shares on the date of acquisition. The fair value of the shares was determined based on the share price on the Closing date.
(v) The Company was committed to pay up to $6,899,010 (US$5,300,000) (“the Earn-out payment”) at certain intervals between 12 months to 24 months from the closing date, which will be payable contingent on Pasa Verde achieving adjusted gross revenue (“Gross Revenue”) targets, which will be settled 50% in cash and 50% in shares.

The fair value of the Earn-Out payment was 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.

In connection with the acquisition, the Company incurred $36,776 of legal fees and issued 123,782 common shares valued at $43,324 as finders’ fee to FMI Capital Advisory, a related party (Note 22).

On May 24, 2019, the Company entered into a settlement agreement (the "Settlement Agreement") in connection with the acquisition of Pasa Verde. Pursuant to the terms of the Settlement Agreement, the Company paid an aggregate of US$650,000, US$55,000 for legal fees and issued 39,557 common shares at a fair value of $0.21 per common share, resulting in a gain on settlement of $4,885,297.

Shares previously held in escrow totaling 3,094,560 common shares were returned to the Company and sold to a third party for proceeds of $538,866 resulting in a gain of $nil.

(Expressed in Canadian Dollars)

As at July 31, 2019, $Nil was included in a current consideration payable (July 31, 2018 - $1,216,806), a long-term consideration payable of $Nil (July 31, 2018 - $1,943,702) and $Nil was included in shares to be issued (July 31, 2018 - $2,509,659).

4. Asset acquisition

On January 3, 2019, the Company acquired certain assets of Moses Garden LLC, a Washington-based limited liability company ("Moses Garden"). The Company determined that the transaction being an acquisition of assets in accordance with the definition in IFRS 3, *Business Combinations* ("IFRS 3"), and as such, has accounted for it in accordance with this standard.

Total purchase price consideration	**$**
Cash (i)	905,018
Issued shares (ii)	3,828,148
Consideration payable in shares (iii)	1,350,100
Transaction costs (iv)	7,270
	6,090,536
Identified tangible assets and liabilities assumed	
Equipment	904,393
Identified intangible assets	
Assignment of license and trademark (v)	5,186,143
	6,090,536

(i) Total cash consideration paid was $905,018 (US$675,000).
(ii) The Company issued 13,432,098 common shares valued at $3,828,148 on closing. The fair value of the common shares was determined based on the share price on the closing date.
(iii) The Company issued 3,400,260 shares valued at $654,050, being US$500,000 worth of common shares due six months after closing, on July 8, 2019. The final consideration of US$500,000 in shares due nine months after closing were issued subsequent to July 31, 2019 (Note 31).
(iv) The Company incurred $7,270 in expenditures related to this acquisition.
(v) Assignment of license and trademark is to license a number of well-known brands, including Marley Natural brand, for use in connection with inhalable cannabis products in Washington and Oregon.

As at July 31, 2019, $657,400 (July 31, 2018 - $Nil) was included in current consideration payable.

5. Amounts receivable

The breakdown of the amounts receivable balance is as follows:

	July 31, 2019	July 31, 2018
	$	**$**
Trade accounts receivable (ii) (ii)	**1,889,211**	1,314,768
Harmonized Sales Tax ("HST") recoverable	**241,848**	36,923
Promissory note receivable (i)	**2,135,217**	761,875
Other receivable	**61,826**	92,782
Balance	**4,328,102**	2,206,348

(i) Promissory note receivable is made up of:
- $427,310 (US$325,000) due from from TKO Products LLC ("TKO") pursuant to settlement agreement entered in October 2019. The Company had initially advanced a total of $771,780 (US$585,292) as per the terms of the letter of intent entered on November 14, 2017 and terminated in July 2018. Consequently, the Company recognized a total of $344,470 (US$260,292) in bad debt; and
- $1,576,427 (US$1,198,986) relating to promissory note receivable from Green Therapeutics, LLC ("GTL"). During the year ended July 31, 2019, the Company advanced a total of $1,512,020 (US$1,150,000) (2018 - $Nil) to GTL (Note 27). The promissory notes bear interest of 12% per annum and are due on the earlier of the closing or termination of Membership Interest Purchase Agreement ("MIPA"). The principal of and interest accrued from the promissory notes can also be applied against the purchase price of the MIPA. During the year ended July 31, 2019, the Company accrued interest of $64,407 (US$48,986) (2018 - $Nil).

(Expressed in Canadian Dollars)

- $131,480 (US$100,000) relating to 10% per annum promissory note receivable from Good Vybes LLC ("Good Vybes") (Note 27).

(ii) During the year ended July 31, 2019, the Company recorded a provision for trade accounts receivable of $196,897 (2018 - $nil).

6. Deposits

Deposits consists of $176,025 (US$133,880) (July 31, 2018 - $57,119) of security deposits on leased facilities and $25,563 (US$19,442) (July 31, 2018 - $Nil) of refundable deposits.

7. Inventory

The breakdown of inventory was as follows:

	July 31, 2019	July 31, 2018
	$	$
Raw materials	**174,935**	470,077
Work-in-progress	**2,245**	-
Finished goods	**2,583,036**	823,048
Provision	**(197,220)**	-
Total	**2,562,996**	1,293,125

Inventory recognized as an expense during the year ended July 31, 2019 was $18,127,382 (2018 - $5,051,418). For the year ended July 31, 2019, the Company recorded a loss and reserve on inventory of $3,091,100 (2018 - $Nil), which primarily consisted of $1,755,588 (2018 - $Nil) of inventory loss adjustment, $1,138,292 (2018 - $Nil) destruction of raw materials and expired products, and $197,220 (2018 - $Nil) for slow moving inventory.

8. Debenture receivable

On May 12, 2017, the Company purchased 100 units from Lineage Grow Company Ltd. ("Lineage") at a price of $1,000 per unit for aggregate proceeds of $100,000. Each unit consists of $1,000 principal amount of secured convertible debentures and 4,000 warrants (“Lineage warrants”). The debentures bore interest at 12%, matured 24 months from the date of issuance and were convertible into common shares of Lineage at $0.25 per share, adjusted to $0.20 per share on July 29, 2018. Each Lineage warrant is exercisable into one common share of Lineage at a price of $0.325 and expire on May 12, 2019. On September 5, 2018, the Company converted the full amount of its debenture receivable into 500,000 Lineage shares.

On February 1, 2018, the Company amended and restated the letter of intent (the “LOI”) dated February 22, 2017, as amended on June 30, 2017, to 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. In addition, Lineage would 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. Upon the completion of the Pueblo Joint Venture, Lineage would 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. Lastly, the Company would enter into a put option agreement (the “Put Option Agreement”) to purchase up to $2.5 million principal of Convertible Debentures of Lineage (“Lineage Debentures”) issued in May 2017.

Pursuant to the LOI, the Company entered into a Put Option Agreement with KW Capital Partners Ltd. (“KW”), pursuant to which, in certain circumstances (set out below), the Company would be obligated, at the election of KW, to purchase the Lineage 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 9);
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 (the “Royalty payment”); and

(Expressed in Canadian Dollars)

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 (the "Shelf Space Commitment").

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. During the year ended July 31, 2019, a total of $2.5 million (July 31, 2018 - $1.38 million) of Lineage Debentures had been converted and the Company's obligation subject to the Put Option Agreement was reduced to $Nil (July 31, 2018 - $1.12 million). As a result of the conversion, the Company's put option guarantee liability was reduced to $Nil, (July 31, 2018 - $173,600) and the reduction of $173,600 was recognized on the statement of loss and comprehensive loss as other income.

On January 25, 2019, the Company and Lineage agreed to terminate the LOI upon full and final completion of the following:

(i) Settlement of the Royalty payment of $75,000 was satisfied through the issuance of 454,545 common shares in the capital of Lineage at a value of $0.165 per common share; and
(ii) The Company waiving the Shelf Space Commitment by Lineage in April 2019.

9. Investments

The Company's investments are comprised of the following:

	July 31, 2019	July 31, 2018
FVTPL	**$**	**$**
Harborside Inc.		
26,639 shares (2018 - 1,728,000 shares)	**82,581**	354,240
Nil warrants (2018 - 400,000 warants)	**-**	24,265
Pharmadrug Inc.		
8,953,115 shares (2018 - 2,710,707 shares)	**850,565**	-
200,000 warrants (2018 - 200,000 warrants)	**-**	-
Balance	**933,146**	378,505

For the year ended July 31, 2019, the Company recognized a net unrealized gain of $706,594 (2018 – loss of $(71,100)) in the change in fair value of investments.

Harborside Inc. ("Harborside")

On September 5, 2018, the Company converted the full amount of its debenture receivable in Lineage into 500,000 Lineage shares valued at $100,000 (Note 8), and pursuant to the settlement of Royalty payment (Note 8), the Company was issued 454,545 of Lineage shares valued at $75,000 on January 25, 2019 (Note 8).

On May 30, 2019, Lineage completed the Reverse Take-Over ("RTO") Transaction with FLRish. The Resulting Issuer changed its name to Harborside Inc.and consolidated its shares. The Company's total shares in Lineage of 2,682,545 were consolidated and as a result, the Company held 101,939 Harborside shares.

During the year ended July 31, 2019, the Company sold a total of 75,300 Harborside shares for a gross proceeds of $361,492, resulting in a realized gain of $35,942.

The fair value of Harborside shares held as of July 31, 2019 and 2018 was determined using the share price of Harborside as of July 31, 2019 and 2018, respectively.

Pharmadrug Inc. ("Pharmadrug")

On June 24, 2019, due to the loss of significant influence in Pharmadrug, the Company reclassified its investments in Pharmadrug to investments carried at FVTPL (Note 12), which resulted in an unrealized gain of $850,565. On the date of remeasurement, the Company held 8,953,115 Pharmadrug shares valued at $850,565 and 200,000 Pharmadrug warrants valued at $nil.

(Expressed in Canadian Dollars)

10. Amounts due from Palo Verde LLC

	Revolving loan(i)	Proprietary packaging(ii)	Promissory note(iii)	Total
	$	$	$	$
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 (iv)	(1,090,063)	(326,451)	(150,655)	(1,567,169)
Balance at July 31, 2018	-	-	-	-
Additions	-	247,304	243,888	491,192
Effect of movement in exchange rates	-	7,241	7,141	14,382
Provision (iv)	-	(254,545)	(251,029)	(505,574)
Balance at July 31, 2019	**-**	**-**	**-**	**-**

(i) 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.

(ii) Proprietary packaging materials purchased for Palo Verde.

(iii) On June 1, 2018, the Company issued a one-year, 10% commercial promissory note to fund up to US$300,000. For the year ended July 31, 2019, the Company advanced a total of $243,888 (2018 - $150,655).

(iv) An allowance was recorded on account of uncertainties surrounding the Company's recoverability of the amount due to Palo Verde due to the timing and unexpected financing delays. For the year ended July 31, 2019, the Company recorded a provision on the amounts due from Palo Verde of $505,574 (2018 - $1,576,169).

On April 12, 2019, the Company entered into assignment and assumption agreements with High Pita Corporation to sell and assign the balances due on the revolving loan and promissory note of US$1,384,356 and US$300,000, respectively, for US$100 each.

The Company leased the Pueblo property and equipment in Colorado to Palo Verde (Notes 11 & 14). 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 the deferred lease. In addition, Palo Verde shall make agreed upon monthly payments towards the deferred lease up to June 1, 2021 with the remaining balance due and payable on the same date.

For the year ended July 31, 2019, the Company received $50,709 (US$38,318) (2018 - $Nil) of lease payments from Palo Verde, and as a result, the Company recognized $50,709 (2018 - $Nil) of rental income.

11. Investment property

Cost	Land	Building	Leasehold Improvement	Total
	$	$	$	$
Balance at July 31, 2017	**156,063**	**948,860**	**418,171**	**1,523,094**
Additions	-	-	41,755	41,755
Effect of movement in exchange rates	6,650	40,432	22,160	69,242
Balance at July 31, 2018	**162,713**	**989,292**	**482,086**	**1,634,091**
Effect of movement in exchange rates	1,638	9,956	4,852	16,446
Balance at July 31, 2019	**164,351**	**999,248**	**486,938**	**1,650,537**

(Expressed in Canadian Dollars)

Accumulated Depreciation	Land	Building	Leasehold Improvement	Total
	$	$	$	$
Balance at July 31, 2017	**-**	**98,995**	**-**	**98,995**
Depreciation	-	34,110	58,284	92,394
Effect of movement in exchange rates	-	4,909	1,000	5,909
Balance at July 31, 2018	**-**	**138,014**	**59,284**	**197,298**
Depreciation	-	33,960	49,572	83,532
Effect of movement in exchange rates	-	1,199	366	1,565
Balance at July 31, 2019	**-**	**173,173**	**109,222**	**282,395**

Net Book Value	Land	Building	Leasehold Improvement	Total
	$	$	$	$
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**
Balance at July 31, 2019	**164,351**	**826,075**	**377,716**	**1,368,142**

The Pueblo property is located in Pueblo West, Colorado ("Pueblo") and is leased to Palo Verde (Note 10). The fair value of the investment property as at July 31, 2019 and July 31, 2018 exceeded its carrying value.

12. Investments in associate and joint venture

NHMD and Small's Mill Holdings Inc. ("SMHI")
Pursuant to the restated joint venture letter agreement entered on April 4, 2016 between the Company and ILDISP, LLC ("ILDISP"), ILDISP acquired a 50% interest and equal control in NHMD and SMHI, formerly wholly-owned subsidiaries of the Company, on September 17, 2016. The Company had accounted for its investment in both joint ventures using the equity method.

SMHI was dissolved in 2018, and the Company wrote off its investments in SMHI from $340,300 to $Nil in October 2017.

Since September 2016, NHMD operates The Clinic Effingham, a retail medical cannabis dispensary, in Effingham, Illinois. During the year ended July 31, 2019, the Company received its first distribution of income from NHMD of $147,492 (US$111,500). The Company sold its 50% membership interest in NHMD to ILDISP in October 2018 for gross proceeds of $4,599,700 (US$3,500,000) and as a result, the Company recognized a gain on the sale of $3,706,003.

For the year ended July 31, 2019, the Company recognized its share of NHMD's income up to the date of sale of $163,661 (2018 – profit from NHMD of $324,642 and loss from SMHI of $76). As at July 31, 2019, the carrying value of the Company's investment in NHMD was $Nil (July 31, 2018 - $873,873).

Pharmadrug Inc.
Pharmadrug is engaged in the building of an international network of vertically integrated cannabis assets and is targeting a downstream business in the legalized medical marijuana sector in the European and Israeli markets.

On November 14, 2016, Pharmadrug 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 Pharmadrug's units at the conversion price of $0.05. Each of Pharmadrug's units comprise of one Pharmadrug common share and one-half Pharmadrug warrant, with each full warrant exercisable, until the earlier of 5 years from the date of issuance or 2 years from the date of listing of Pharmadrug shares on the CSE, into one Pharmadrug's common share at the exercise price of $0.075. As consideration for the promissory note, Pharmadrug issued 4,000,000 common shares to the Company.

On August 9, 2018, the Company invested $98,000 for 200,000 units of Pharmadrug. Each unit comprises one common share and one warrant exercisable at $0.75 for a period of 24 months from closing.

On December 3, 2018, the Company converted US$120,000 of the promissory note and the interest accrued into 4,028,272 Pharmadrug units which are comprised of 4,028,272 Pharmadrug common shares and 2,014,136 Pharmadrug warrants. Following the conversion, the Company exercised the 2,014,136 warrants at the exercise price of $0.075.

The Company recorded a loss from investment in Pharmadrug of $249,060 (2018 – $70,164) for the year ended July 31, 2019. On June 24, 2019, as a result of loss of significant influence in Pharmadrug, the Company discontinued the use of the equity method and reclassified its investment as FVTPL investments. Consequently, the Company recognized $850,565, the difference between the fair value and carrying value of the Company's investments in Pharmadrug on the reclassification date, as unrealized gain on FVTPL investments.

13. Intangible assets and goodwill

Purple Haze

On June 5, 2015, the Company entered into an 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 of the outcome of the Complaint, the Company had written the license and prepaid royalty down to $1 in 2017. On January 25, 2018, the parties entered into a license agreement addendum (“Addendum”) whereby, the third (2017) and fourth (2018) annual fees are to be satisfied through the payment of $340,869 (US$265,000) (paid) in cash and issuance of 750,000 common shares (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 common share 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 at July 31, 2019, no actions have been brought against the Company in relation to the Licensing Agreement with PHP.

As at July 31, 2019, the Company has included the fifth and final license and royalty fee ("final fee") of $328,700 (US$250,000) in the account payable and accrued liabilities. Due to the license and legal concerns, the Company is in disagreement and disputing the payment of the final fee.

Dab Stick

On January 30, 2017, the Company entered into an Intellectual Property ("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 a 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 issued an aggregate of 416,667 common shares at 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)

In July 2018, the Company recognized the remaining $400,000 obligation as noted in (ii) to (iv) as shares to be issued, due to the Company's assessment of their likelihood of occurrence in the near future. In April 2019, the Company became aware of possible defects in the Dab Stick which may bring viability into question. The Company is investigating the concerns and exploring ways to resolve the issues. Due to the delay and uncertainty as to the timing of the commercialization of Dab Stick, the Company has determined to de-recognize the $400,000 obligation to the vendors and the corresponding intangible assets. In addition, the Company recognized impairment losses of trade mark and IP of $212,123 (2018 - $Nil) and inventory related to Dab Stick of $384,951 (2018 - $Nil) in the statements of loss and comprehensive loss.

Pasa Verde

In February 2019, the City of Sacramento, California Department of Cannabis Policy & Enforcement rescinded local authorization for cannabis manufacturing for Pasa Verde. Without the local authorization in place, the California Department of Public Health was required to revoke Pasa Verde's state temporary manufacturing license and all production and commercial activity have since been suspended. As a result, the Company recognized impairment losses of intangible assets (license, trade name and customer relationship) and goodwill acquired through acquisition of Pasa Verde (Note 3) of $3,195,200 (2018 - $Nil) and $3,202,008 respectively (2018 - $Nil) in the consolidated statements of loss and comprehensive loss.

Moses Garden and Marley License Trademark

The management assessed that due to the changes to the market and increasing competitive pressures in Oregon and Washington, the marketability of the licensed Marley products is in question and it is likely that a termination or non-renewal of the license agreement will occur on December 31, 2019. Given the current and future outlook for the Marley license and trademark, the Company has determined to write off the associated assignment of license and trademark of $5,186,143 to $nil as of July 31, 2019.

Cost	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total Intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2017	**43,751**	**-**	**-**	**-**	**43,751**	**-**	**43,751**
Additions	619,911	-	-	-	619,911	-	619,911
Additions from business acquisitions	3,593,876	866,854	77,881	1,293,008	5,831,619	4,715,855	10,547,474
Effect of movement in exchange rate	(44)	777	554	2,494	3,781	(13,439)	(9,658)
Balance at July 31, 2018	**4,257,494**	**867,631**	**78,435**	**1,295,502**	**6,499,062**	**4,702,416**	**11,201,478**
Additions	5,251,864	-	-	-	5,251,864	-	5,251,864
Reversal	(400,000)	-	-	-	(400,000)	-	(400,000)
Impairment	(7,873,361)	(471,951)	-	(393,800)	(8,739,112)	(3,202,008)	(11,941,120)
Effect of movement in exchange rate	51,345	3,556	(7,422)	7,334	54,813	73,230	128,043
Balance at July 31, 2019	**1,287,342**	**399,236**	**71,013**	**909,036**	**2,666,627**	**1,573,638**	**4,240,265**

(Expressed in Canadian Dollars)

Accumulated Amortization	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total Intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance at July 31, 2017	-	-	-	-	-	-	-
Additions	2,577	31,278	6,088	70,634	110,577	-	110,577
Effect of movement in exchange rate	-	-	-	-	-	-	-
Balance at July 31, 2018	**2,577**	**31,278**	**6,088**	**70,634**	**110,577**	**-**	**110,577**
Additions	10,307	126,680	15,822	553,596	706,405	-	706,405
Impairment	-	(47,196)	-	(98,450)	(145,646)	-	(145,646)
Effect of movement in exchange rate	-	33,940	(49)	66,996	100,887	-	100,887
Balance at July 31, 2019	**12,884**	**144,702**	**21,861**	**592,776**	**772,223**	**-**	**772,223**

Net Book Value	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total Intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance at July 31, 2017	**43,751**	**-**	**-**	**-**	**43,751**	**-**	**43,751**
Balance at July 31, 2018	**4,254,917**	**836,353**	**72,347**	**1,224,868**	**6,388,485**	**4,702,416**	**11,090,901**
Balance at July 31, 2019	**1,274,458**	**254,534**	**49,152**	**316,260**	**1,894,404**	**1,573,638**	**3,468,042**

14. Capital Assets

Cost	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	$	$	$	$	$	$	$
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**
Additions	-	2,600	716,874	13,344	1,258,097	196,345	10,462	2,197,722
Additions – sale and leaseback	-	-	-	-	2,082,817	-	-	2,082,817
Dispositions – sale and leaseback	-	-	-	-	(2,153,760)	-	-	(2,153,760)
Disposition – sale of property	-	(1,036,776)	-	-	-	-	-	(1,036,776)
Impairment	-	-	-	-	(2,089,722)	-	-	(2,089,722)
Effect of movement in exchange rates	2,131	25,925	(4,648)	2,359	56,243	(1,177)	15	80,847
Balance, July 31, 2019	**213,877**	**334,526**	**1,607,784**	**255,410**	**2,911,298**	**331,636**	**23,705**	**5,678,236**

(Expressed in Canadian Dollars)

Accumulated Depreciation	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	$	$	$	$	$	$	$
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**
Additions	-	11,076	350,333	70,363	779,254	39,764	4,492	1,255,282
Dispositions – sale and leaseback	-	-	-	-	(209,643)	-	-	(209,643)
Impairment	-	-	-	-	(263,952)	-	-	(263,952)
Effect of movement in exchange rates	-	(91)	(3,023)	(290)	(35,045)	(132)	114	(38,467)
Balance, July 31, 2019	-	**10,985**	**347,310**	**77,667**	**455,327**	**45,242**	**6,681**	**943,212**

Net Book Value	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	$	$	$	$	$	$	$	$
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**	**232,113**	**3,572,910**	**130,858**	**11,153**	**6,397,115**
Balance, July 31, 2019	**213,877**	**323,541**	**1,260,474**	**177,743**	**2,455,971**	**286,394**	**17,024**	**4,735,024**

On November 14, 2018, the Company sold a property in Sacramento, California with a carrying value of $1,036,776 (US$779,000) for net proceeds of $1,736,225 (US$1,308,000), resulting in a gain on sale of property of $699,449 (US$529,000).

During the year ended July 31, 2019, the Company performed assessments on the future benefits of certain manufacturing equipment and determined to impair a total of $1,825,770 (2018 - $nil) manufacturing equipment.

As at July 31, 2019, capital assets include $1,616,627 (July 31, 2018 - $1,206,321) of equipment subject to a finance lease.

15. Accounts payable and accrued liabilities

The breakdown of the accounts payable balance is as follows:

	July 31, 2019	July 31, 2018
	$	**$**
Trade accounts payable	**3,757,010**	3,528,029
Payroll tax payable	**825,819**	-
Excise tax payable	**2,778,900**	459,825
Other payable and accrued liabilities	**2,783,730**	41,764
Balance	**10,145,459**	4,029,618

16. Promissory Note Payable

Pueblo, Colorado
On April 18, 2018, the Company amended the refinancing arrangement of its Pueblo, Colorado property in the amount of US$800,000 entered initially in April 2016, and amended in April 2017, to extend for an additional twelve months to April 18, 2019. 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.

(Expressed in Canadian Dollars)

On April 18, 2019, the Company amended the terms of the loan to extend US$400,000 of the loan, for an additional 6 months to October 18, 2019 for an extension fee of $16,108 (US$12,000), bearing interest at 16% per annum payable monthly and to extend the remaining US$400,000 of the loan, for 30 days along with a fee of US$40,000 (paid). The loan was fully repaid subsequent to July 31, 2019.

La Pine, Oregon
On June 5, 2017, the Company closed a financing arrangement secured against its real estate property in La Pine, Oregon (Note 14) in the amount of US$400,000 in the form of an eighteen-month promissory note. The note bore interest at 13% per annum payable monthly. As part of the arrangement, the Company issued 1,217,391 warrants at an exercise price of $0.165 expiring on June 6, 2019, valued at $48,000. The loan was due and repaid on December 31, 2018.

For the year ended July 31, 2019, the Company recorded accretion expense of $243,760 (2018- $387,520) which is included within finance costs.

The breakdown of the promissory note balance is as follows:

	July 31, 2019	July 31, 2018
	$	$
Opening balance	**1,421,816**	1,327,740
Extinguishment of promissory note	**(1,051,932)**	102,198
Loss on extinguishment of promissory note	**-**	(1,009,120)
Issuance of new promissory note (discounted)	**-**	1,133,014
Deferred financing costs	**23,440**	(246,040)
Finance costs	**243,760**	387,520
Interest paid	**(124,909)**	(208,761)
Effect of movement in exchange rates	**13,745**	(64,735)
	525,920	1,421,816
Current	**525,920**	1,421,816
Long-term	**-**	-

17. Finance lease

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

On July 26, 2018, 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.

On August 1, 2018, the Company entered into an equipment sale leaseback line of credit agreement (the “sale leaseback agreement”) with a lender for up to US$2,000,000 for a three-year 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. During the year ended July 31, 2019, the Company paid a total lease payments of $561,478 and recorded a total interest expense of $196,497.

For the year ended July 31, 2019, the Company drew down a total of $1,922,203 (US$1,550,104) from the equipment sale leaseback line of credit. Pursuant to the agreement, the Company issued a total of 553,609 common share purchase warrants to the lender. Each warrant entitles the lender to purchase one common share at a price of $0.70 per share for a period of 24 months from the date of issuance.

(Expressed in Canadian Dollars)

Future minimum lease payments payable are as follows:

	July 31, 2019	July 31, 2018
	$	$
Less than 1 year	**1,249,196**	493,520
1-5 years	**1,471,358**	795,580
More than 5 years	**-**	-
Total future minimum lease payments	**2,720,554**	1,289,100
Less: amount representing interest	**451,256**	(235,100)
Present value of minimum lease payments	**2,269,298**	1,054,000
Less: current portion	**946,128**	366,051
Non-current portion	**1,323,170**	687,949

18. Convertible debentures

March 2018 Convertible debentures

On March 15, 2018, the Company issued 8,000 Convertible Debentures Units (the “CD Units”) for gross proceeds of $8,000,000. Each CD Unit consists of $1,000 principal amount of 10% senior unsecured convertible debentures payable semi-annually and 1,667 common share purchase warrants of the Company. The convertible 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 an additional 190 Units. In addition, the Agents received 1,066,666 warrant units (“Agents’ Units”). Each Agents’ Unit is 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 is 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 value 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.

For the year ended July 31, 2019, holders converted a combined total of $197,000 principal amount of convertible debentures resulting in the issuance of 328,332 common shares. On conversions, the Company reduced the present value of the liability by $99,921 and related equity component by $9,914.

For the year ended July 31, 2019, the Company recorded accretion expense on the convertible debentures of $888,070 (2018 - $Nil) which is included within finance costs, of which $67,036 is outstanding in accounts payable and accrued liabilities as at July 31, 2019 (Note 15).

August 2018 Convertible debentures

On August 3, 2018, the Company issued 4,200 Convertible Debentures Units (the “Units”) for aggregate proceeds of $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 convertible debentures mature on August 7, 2021.

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

The interest is 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 (VWAP), 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 paid finder’s a cash commission of $336,000, of which $42,000 was paid to FMI Capital Advisory Inc., a related party (Note 22). Additionally, the Company issued 480,000 finder's options, valued at $162,696, to acquire finder units exercisable at a price of $0.70 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 share 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 securities laws and stock exchange rules. 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. In accordance with IFRS, the conversion feature of the convertible debenture and warrants meet the definition of a derivative liability as certain events will result in adjustment to the conversion price. As of July 31, 2019, the conversion price of the convertible debentures and warrants exercise price were $0.20 and $0.24, respectively.

Consequently, on issuance, the convertible debentures were split amongst the financial liability, the conversion feature and warrants. The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature and warrants from the principal of the debentures. The fair value of the equity conversion feature and warrants are calculated using the Black-Scholes pricing model and re-measured each reporting period with changes between periods recognized in the consolidated statements of loss and comprehensive loss. Expected volatility used is based on the Company’s share price volatility over the relevant period to expiry. The financial liability portion is measured at amortized cost and accreted such that the carrying amount of the convertible debentures will equal the face value of the convertible debenture at maturity.

On initial recognition, the fair value of the derivative liability components was valued first at $2,600,979 and the residual of $1,599,021 was allocated to the non-derivative host debenture. Total transaction costs of $691,420 have been allocated proportionately to the derivative liability and debenture components. Transaction costs allocated to the derivative liability of $428,183 was immediately expensed in the statement of loss and comprehensive loss. Changes in the fair value of the derivative liability are recognized at fair value through profit and loss. For the year ended July 31, 2019, the Company recognized an unrealized loss on the change in fair value of the derivative liabilities of $810,695.

In March and April 2019, holders converted a combined total of $178,470 principal amount of convertible debentures resulting in the issuance of 661,000 common shares at a conversion price of $0.27 per share since the Company undertook an equity financing at a price per common shares of less than $0.45 per common share and the conversion price of the convertible debentures was reduced to the new financing price of $0.27 (Note 19). The Company paid accrued interest of $Nil upon conversions. On conversions, the Company reduced the present value of the liability by $68,637 and derivative liabilities by $43,071.

For the year ended July 31, 2019, the Company recorded accretion expense on the convertible debentures of $563,551 (2018 - $Nil) which is included within finance costs.

(Expressed in Canadian Dollars)

The following is a summary of the convertible debenture liability activity:

	July 31, 2019	July 31, 2018
	$	$
Balance, beginning of year	**5,136,061**	-
Issuance of convertible debentures	**4,200,000**	8,190,000
Conversion of principal debenture	**(375,470)**	(100,000)
Unamortized present value discount and transaction costs	**(263,237)**	(3,206,465)
Estimated fair value of derivative liability on date of issuance	**(2,600,979)**	-
Discount amortized	**1,451,621**	252,526
Balance, end of year	**7,547,996**	5,136,061

The changes to the embedded derivative liabilities are as follows:

	$
Balance, July 31, 2018	**-**
Estimated fair value of derivative liability on date of issuance	**2,763,676**
Derecognition of derivative liabilities on conversion	**(43,071)**
Estimated fair value changes of derivative liabilities during the year	**(810,695)**
Balance, July 31, 2019	**1,909,910**

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

	July 31, 2019	August 2, 2018
Risk-free interest rate	**1.57%-2.34%**	2.08%-2.12%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**94-135%**	136%-137%
Expected life of debentures	**1-3 years**	2-3 years
Forfeiture Rate	**0%**	0%

(Expressed in Canadian Dollars)

19. Share capital

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

	Number of Shares	Amount
Balance, July 31, 2017	**251,200,400**	**$ 12,218,693**
Issued on exercise of warrants	31,610,858	6,805,987
Issued for services (i)	228,571	102,500
Issued on exercise of options	1,996,272	543,957
Issued pursuant to Calyx acquisition (ii)	2,025,411	1,032,960
Issued pursuant to Pasa Verde acquisition (iv)	3,094,560	1,083,096
Issued for intangible assets (iii)	750,000	345,000
Issued on conversion of debentures (Note 18)	166,666	71,973
Balance, July 31, 2018	**291,072,738**	**$ 22,204,166**
Issued on exercise of warrants	1,689,476	613,207
Issued on exercise of options	1,898,711	252,238
Issued pursuant to Calyx acquisition (vi)	1,968,945	536,460
Issued pursuant to Pasa Verde acquisition (v) (xiii)	163,339	51,631
Shares for debt settlement (vii)	364,035	81,908
Issued for services (viii)	883,334	235,000
Issued on conversion of debentures (ix)	989,332	262,059
Shares issued pursuant to Moses Garden acquisition (x)	16,832,358	4,482,198
Shares issued as interest payment on convertible debentures (xi)	2,362,046	453,913
Shares purchased by a third party (xiii)	3,094,560	538,866
Private placements (xii) (xiv)	33,882,650	4,310,395
Balance, July 31, 2019	**355,201,524**	**$ 34,022,041**

Year ended July 31, 2018

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

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

(iii) On June 5, 2018, the Company issued 750,000 common 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 13).

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

Year ended July 31, 2019

(v) On August 10, 2018, the Company issued 123,782 common shares to FMI Capital Advisory Inc., a related party, valued at $43,324 as a finders' fee pursuant to the acquisition of Pasa Verde (Note 3).

(vi) On September 28, 2018, the Company issued 486,500 common shares to shareholders of Calyx (Note 3), valued at $145,960 based on the share price on the date of issuance. On April 22, 2019, 1,482,445 common shares valued at $390,510 (US$300,000) were issued to Calyx's shareholders.

(vii) On November 21, 2018, the Company issued 364,035 units valued at $96,932 to settle outstanding debt owing to a vendor in the amount of $216,319 (US$163,816). Each unit is comprised of one common share and one-half warrant. Each whole warrant is exercisable into one common share at an exercise price of $0.80 per share for a period of 24 months from issuance. A gain of $119,387 was recognized on the settlement of this debt. The 364,035 common shares were valued at $81,908 based on the share price on the date of issuance. The 182,018 warrants were issued on December 6, 2018, and valued at $15,024 using the Black-Scholes Model with the folllowing assumptions: share price of $0.225, expected dividend yield of 0%, expected volatility of 123%, risk-free interest rate of 2.24%, and an expected life of 2 years;

(viii) During the year ended July 31, 2019, the Company issued the following common shares as compensation for services received:

- On December 12, 2018, 50,000 common shares valued at $10,000;
- On February 28, 2019, 133,334 common shares valued at $36,000; and
- On March 14, 2019, 700,000 common shares valued at $189,000

The common shares were valued using the Company's share price on the date of issuance.

(ix) For the year ended July 31, 2019, March 2018 convertible debentures of $197,000 (Note 18) were converted to 328,332 common shares at a price of $0.60 per share.

For the year ended July 31, 2019, August 2018 convertible debentures of $178,470 (Note 18) were converted to 661,000 common shares at a price of $0.27 per share.

(x) On January 4, 2019, the Company issued 13,432,098 common shares to Moses Garden LLC (Note 4), valued at $3,828,148. Additionally, on July 9, 2019, the Company issued an additional 3,400,260 common shares to Moses Garden, valued at $650,050 representing the purchase payment due six months after closing date. the common shares were valued using the Company's share price on the date of issuance.

(xi) The Company issued a total of 2,362,046 common shares to the holders of the August 2018 convertible debentures (Note 18) in January and July 2019, representing the 12% interest payment from August 3, 2018 to June 30, 2019.

(xii) On March 14, 2019, the Company issued 5,000,000 common shares at $0.27 per share for gross proceeds of $1,350,000 through a non-brokered private placement. A referral fee of $27,000 and 100,000 common shares, valued at $27,000, was paid to a third party in connection with the completion of the private placement.

(xiii) On May 21, 2019, the Company issued 3,134,117 common shares pursuant to the settlement agreement in connection with acquisition of Pasa Verde (Note 3), in exchange for the return of 3,094,560 common shares previously issued and held in escrow. The net additional shares of 39,557 issued were valued at $8,307 based on the share price on the date of issuance. A third party purchased the returned 3,094,560 common shares for gross proceeds of $538,866.

(xiv) On May 29, 2019, the Company closed a brokered private placement pursuant to which the Company issued 18,117,000 units of the Company at a price of $0.20 per Unit, for gross proceeds of $3,623,400 (the "Brokered Offering"). Concurrently with the Brokered Offering, the Company closed the first tranche of non-brokered private placement of 7,670,000 Units at a price of $0.20 per unit, for gross proceeds of $1,534,000.

On July 24, 2019, the Company closed the second tranche of the non-brokered private placement of 2,995,650 units of the Company at a price of $0.20 per Unit, for gross proceeds of $599,130.

Each Unit consists of one common share of the Company, and one Warrant . Each Warrant entitles the holder thereof to purchase one Unit, at a price per of $0.30 per Unit, for a period of 36 months after May 29, 2019 (the "Closing Date"). In connection with the Brokered Offering, the Agents received (i) an aggregate cash commission of $289,872, (ii) compensation options to purchase up to 1,449,360 Units, at a price of $0.20 per Unit, for a period of 36 months following the Closing Date and (iii) 145,000 advisory warrants to purchase up to 145,000 Units at a price of $0.20 per Unit, for a period of 36 months following the Closing Date. The Company paid a finder a cash fee of $100,300 and issued a finder's warrant to purchase up to 501,500 Units at a price of $0.20 per Unit, for a period of 36 months following the Closing Date.

(Expressed in Canadian Dollars)

20. 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 ("Option 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 RSUs that may be granted under the Plan is 10% of the total issued and outstanding common shares. As of July 31, 2019, the Company has a total of 17,132,635 available common shares reserved for options and RSUs. As at July 31, 2019, the Company has not issued any RSUs.

The following table reflects the continuity of options:

	Number of Options	Amount
Balance, July 31, 2017	**16,642,500**	**$ 1,357,328**
Granted (i)(ii)(iii)(iv)(v)(vi)	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**
Granted (vii)(viii)(ix)(x)(xi)(xii)(xiii)(xiv)	3,930,000	1,436,308
Exercised	(1,898,711)	(58,656)
Forfeited	(1,958,333)	(113,246)
Expired	(1,631,667)	-
Balance, July 31, 2019	**18,387,517**	**$ 3,358,075**

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

Year ended July 31, 2018

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

Year ended July 31, 2018

(vii) On August 14, 2018, 730,000 options valued at $57,695 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.35 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(Expressed in Canadian Dollars)

(viii) On August 14, 2018, 100,000 options valued at $25,085 were granted to a consultant of the Company. The options are exercisable at a price of $0.35 per common share, for a period of 5 years from issuance. The options vest 50% every six months from the date of issuance.

(ix) On December 6, 2018, 750,000 options valued at $94,763 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(x) On December 6, 2018, 650,000 options valued at $51,224 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.

(xi) On January 7, 2019, 300,000 options were issued to a former officer of the Company to replace 300,000 options granted on February 21, 2019 and an additional value of $6,997 was recognized on issuance. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance and vest immediately.

(xii) On January 30, 2019, 500,000 options valued at $89,339 were granted to an employee and a consultant of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.

(xiii) On March 14, 2019, 650,000 options valued at $146,520 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(xiv) On April 12, 2019, 250,000 options valued at $33,142 were granted to a consultant of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 1.5 years from issuance. The options vest immediately upon granting.

In connection to the options granted to employees, directors and consultants during the years ended July 31, 2019 and July 31, 2018, 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.

The estimated fair value of options granted during the years ended July 31, 2019 and July 31, 2018 were determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2019	July 31, 2018
Risk-Free Interest Rate	**1.63%-2.23%**	1.63%-2.16%
Expected Dividend Yield	**0%**	0%
Expected Stock Price Volatility	**122%-144%**	131%-140%
Expected Life of Options	**1.5-5 years**	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 the Company where sufficient historical data exists or that 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.

(Expressed in Canadian Dollars)

As at July 31, 2019, the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
March 18, 2020	$0.10	1,000,000	1,000,000
June 10, 2020	$0.10	400,000	400,000
October 12, 2020	$0.30	250,000	250,000
December 6, 2020	$0.30	650,000	216,667
December 21, 2020	$0.075	350,000	350,000
January 7, 2021	$0.30	300,000	300,000
January 30, 2021	$0.30	450,000	150,000
April 21, 2021	$0.07	2,500,000	2,500,000
October 17, 2021	$0.135	1,500,000	1,500,000
April 17, 2022	$0.15	2,900,000	2,900,000
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	257,517	257,517
February 21, 2023	$0.50	200,000	200,000
March 15, 2023	$0.51	650,000	487,500
May 7, 2023	$0.40	200,000	200,000
May 8, 2023	$0.36	3,500,000	2,333,333
August 14, 2023	$0.35	80,000	26,667
December 6, 2023	$0.30	750,000	250,000
March 14, 2024	$0.30	650,000	-
		18,387,517	**15,121,684**

As at July 31, 2019, the weighted average exercise price of options exercisable was $0.192 (July 31, 2018 - $0.131), the weighted average exercise price of options outstanding was $0.217 (July 31, 2018 - $0.195) and the weighted average remaining contractual life of stock options was 2.65 years (July 31, 2018 – 3.25 years). For the year ended July 31, 2019, the weighted average exercise price of stock options exercised was $0.102 (July 31, 2018 - $0.163).

21. Reserve for warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2017	**37,751,548**	**$ 2,447,639**
Warrants issued pursuant to convertible debenture (Note 18)	14,719,396	1,384,775
Warrants issued and modified pursuant to promissory note (Note 16)	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**
Warrants pursuant to convertible debenture (Note 18)	6,481,800	-
Warrants pursuant to sale and leaseback (Note 17)	553,609	63,424
Warrants pursuant to debt settlement (Note 19 (vii))	182,018	15,024
Warrants issued pursuant to private placements (Note 19)	30,878,510	2,141,578
Warrants issued	511,180	-
Warrants exercised	(2,602,519)	(379,990)
Warrants expired	(229,157)	-
Balance, July 31, 2019	**57,898,667**	**$ 4,101,867**

The estimated fair value of warrants granted during the year ended July 31, 2019 and year-ended July 31, 2018 was determined using the Black-Scholes option pricing model with the following assumptions:

(Expressed in Canadian Dollars)

	July 31, 2019	July 31, 2018
Risk-Free Interest Rate	**1.41%-2.35%**	1-75%-1.88%
Expected Dividend Yield	**0%**	0%
Expected Stock Price Volatility	**123-135%**	141%-147%
Expected Life of Warrants	**2 – 3 years**	1.5 – 3 years

As at July 31, 2019, the following warrants were outstanding:

Expiry Date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
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
August 3, 2021	$0.80	6,001,800
August 3, 2020	$0.80	480,000
November 7, 2020	$0.70	264,689
November 12, 2020	$0.70	156,574
December 6, 2020	$0.80	182,018
January 24, 2022	$0.70	132,346
May 29, 2022	$0.30	25,787,000
May 29, 2022	$0.30	2,033,860
July 24, 2022	$0.30	2,995,650
July 24, 2022	$0.20	62,000
		57,898,667

As at July 31, 2019, the weighted average exercise price of the warrants was $0.372 (July 31, 2018 - $0.462) and the weighted average remaining contractual life of the warrants was 1.931 years (July 31, 2018 – 1.42 years). For the year ended July 31, 2019, the weighted average exercise price of the warrants exercised was $0.167 (July 31, 2018 - $0.159).

22. 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 year ended July 31, 2019 and 2018:

a. Incurred professional fees of $156,919 (2018 - $204,166) from Branson Corporate Services ("BCS") and consulting fees of $302,580 (2018 - $216,000) from FMI Capital Advisory Inc. ("FMICA"). BCS is a company in which Foundation Financial Holdings Corp.("FFHC") and Adam Szweras have a 60% and 15% ownership interest respectively. FMICA is a subsidiary of FFHC, an entity in which Adam Szweras is a director and whereas his children hold an indirect interest. The Company issued 123,782 shares pursuant to the Pasa Verde acquisition (Note 3) as finders’ fees valued at $43,324 to FMICA. In connection with the August 2018 Convertible debentures (Note 18), the Company paid FMICA a cash finder’s fee of $42,000.

   As at July 31, 2019, $22,600 (2018 - $Nil) was due to BCS, $144,640 (2018 - $56,341) was due to FMI and $211 (2018 - $6,662) was due from FMICA.

b. Incurred marketing expenses of $365,369 (2018 - $139,216) and share-based payments of $61,107 (2018 - $nil) from Plexus Cybermedia Ltd., a company in which a director, Brian Presement, has a 33% ownership interest in. As at July 31, 2019, $90,124 (2018 - $15,620) was due to Plexus Cybermedia Ltd.

c. Incurred professional fees of $314,807 (2018 - $445,926) from Fogler, Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner. As at July 31, 2019, $260,877 (2018 - $141,304) was due to Fogler Rubinoff, LLP.

d Incurred management compensation to key management of $712,470 and directors of $64,000 (2018 – $479,139) in cash and $773,642 (2018 - $730,258) in stock-based payments. As at July 31, 2019, $52,500 (2018 - $52,500) is included in shares to be issued to a director of the Company and $81,619 (2018 - $40,680) is owed to an officer/director of the Company.

e. Included in professional fees and acquisition and project evaluation costs is a total of $346,556 (2018 - $198,537) fees charged from JRG Attorneys, a law firm in which a director, Aaron Johnson, is a partner. Aaron Johnson was appointed to the board on February 20, 2018. As at July 31, 2019, $238,192 (2018 - $55,997) was due to JRG Attorneys.

f. During the year ended July 31, 2019, the Company received an advance of $40,554 (2018 - $Nil) from an officer/director of the Company, which was paid subsequent to July 31, 2019.

g. Included in the convertible debenture advances is $350,000 received from a director and an officer of the Company.

h. In connection with the IP assignment and option agreement of Dab Sticks (Note 13), a director of the Company, Billy Morrison, is one of the vendors.

23. 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, 2019, the Company recorded $Nil (2018 - $Nil) of the net loss and comprehensive loss related to EMAL.

24. 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, 2019. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity (deficit), 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, 2019 totaled $(5,346,079) (July 31, 2018 - $10,727,113).

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.

25. 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 the fair value 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 investments as fair value through profit and loss, which is measured at fair value and is classified as Level 1. The Company designated derivative liability and consideration payable as fair value through profit and loss, which is measured at fair value and classified as Level 2.

The recorded value of the Company's amounts receivable, deposits, accounts payable and accrued liabilities, income taxes payable, promissory note payable, finance lease, convertible debenture advances and consideration payable 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:

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 amounts receivable. The Company has no other significant concentration of credit risk arising from operations. Cash are held with a reputable credit union which is closely monitored by management. Amounts receivable consists of trade amounts receivable, harmonized sales tax due from the Canadian government, promissory note receivable and other receivable from third parties.

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 ability of the Company to continue as a going concern is dependent on its ability to obtain funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is significant uncertainty whether the company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

In the short term, the continued operations of the Company may be dependent upon its ability to obtain additional financing. Without this additional financing, the Company may be unable to meet its obligations as they come due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost.

As at July 31, 2019, the Company had working capital deficiency of $3,973,933 (2018 – $980,714), current assets of $9,905,679 (July 31, 2018 - $7,387,873) and current liabilities of $13,879,612 (July 31, 2018 - $8,368,587).

Foreign currency exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

(Expressed in Canadian Dollars)

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by $616,862 (2018 – $239,613) as a result of the Company's exposure to currency exchange rate fluctuations.

Concentration risk
During the year ended July 31, 2019, line of products produced by one supplier represented approximately 80% (2018 - 70%) of total sales.

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 $30,079 (2018 - $3,040) because of the Company's exposure to interest rate fluctuations.

26. Income tax

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

	2019	2018
	$	$
Loss before income taxes	**(26,552,125)**	(9,889,393)
Expected income tax (recovery)	**(7,036,000)**	(2,621,000)
Change in statutory, foreign tax, foreign exchange and other	**642,000**	975,221
Permanent differences	**3,811,000**	1,642,000
Share issue cost	**(181,000)**	(351,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	**535,000**	(23,000)
Expiry of non-capital losses and application of NCL in current year	**-**	(14,000)
Change in unrecognized deductible temporary differences	**3,373,000**	208,702
Income tax expense	**1,144,000**	(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 favourable 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 and liabilities are as follows:

	2019	2018
Deferred tax assets (liabilities)	**$**	$
Marketable securities	**(43,000)**	-
Intangible assets	**(487,000)**	-
Debt with accretion	**(1,165,000)**	(806,000)
Non-capital losses	**1,208,000**	806,000
Net deferred tax liability	**(487,000)**	**-**

(Expressed in Canadian Dollars)

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:

	2019	2018
Deferred tax assets (liabilities)	**$**	$
Property and equipment	**609,000**	-
Share issue costs	**424,000**	402,000
Marketable securities	**-**	9,000
Intangible assets	**1,442,000**	148,000
Allowable capital losses	**-**	387,000
Derivative liability	**506,000**	-
Non-capital losses available for future period	**3,578,000**	2,240,000
	6,559,000	3,186,000
Less: Deferred taxes not recognized	**(6,559,000)**	(3,186,000)
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:

	2019	Expiry	2018	Expiry
Temporary differences	**$**		**$**	
Property and equipment	**2,594,000**	**No expiry date**	400,000	No expiry date
Share issue costs	**1,601,000**	**2040 to 2043**	1,516,000	2039 to 2043
Marketable securities	**-**	**No expiry date**	71,000	No expiry date
Dereivative liability	**1,910,000**	**No expiry date**	-	No expiry date
Intangible assets	**6,789,000**	**No expiry date**	553,000	No expiry date
Allowable capital losses	**-**	**No expiry date**	109,000	No expiry date
Non-capital losses available for future periods	**13,473,000**	**2036 to Indefinite**	9,608,000	2034 to 2038
Canada	**11,600,000**	**2036 to 2039**	7,257,000	2036 to 2038
USA	**1,873,000**	**2037 to Indefinite**	2,351,000	2034 to 2038

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

27. Commitments and contingencies

Abba Medix Corp.

On October 11, 2017, the Company entered into an Agreement ("the Abba 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 Abba 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, NHBH, 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 ("Bellingham lease"). 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.

The Company has decided that it is no longer proceeding with Mt. Baker and has terminated all agreements with Mt. Baker and Bellingham lease in 2019.

Green Therapeutics, LLC
On September 30, 2018, and amended on May 21, 2019, the company entered into a membership interest purchase agreement ("MIPA") to acquire 75% of Green Therapeutics LLC ("GTL"), a Nevada limited liability company, with its founding members ("the sellers"), for US$9 million, to be paid as follows:

(i) US$3,000,000 due and payable on or before 18 months after closing to GTL;
(ii) US$4,000,000 in shares to be issued to the sellers at a price which is the lesser of (i) US$0.27 per share, or (ii) the 20-day volume VWAP due upon closing;
(iii) US$2,000,000 of in promissory note (the "Amended Notes") to the sellers with US$1,000,000 of which shall mature 12 months from closing, and $1,000,000 of which shall mature 24 months from closing.

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 GTL, 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) US$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) US$7,500,000 or (b) the trailing 12-month EBITDA multiplied by seven (7), multiplied by 25%. The purchase price will be paid in cash, or at the election of the sellers, 50% in common shares.

GTL has a put 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 the trailing 12-month EBITDA multiplied by seven (7), multiplied by 25%. If the put option is exercised, the purchase price will be paid half in cash and common shares.

The Company has agreed to advance US$500,000, which is due earlier of the closing (offset against cash due on closing) or due on termination of the MIPA. The Company has advanced US$250,000 out of the US$500,000 in June 2019.

During the year ended July 31, 2019, the Company advanced US$1,150,000 (Note 5) to GTL, which is due earlier of the closing or termination of the MIPA.

(Expressed in Canadian Dollars)

Good Vybes LLC

On May 23, 2019, the Company entered into a non-binding letter of intent ("LOI") with Good Vybes LLC ("GV") and Hannah Ashby ("Ashby") to provide a Southern California base of operations for Calyx. Ashby holds a temporary distribution license issued by the BCC to operate a cannabis distribution business at a property located in Chatsworth, California ("Chatsworth Licensed Premises") leased by GV.

The Company has funded the completion of the build-out of the Chatsworth Licensed Premises, and the LOI provides for the parties to enter into services and other ancillary agreements (the **"**Definitive Agreements**")** whereby Calyx and Ashby will service Calyx's Southern California clients on an exclusive basis. Services offered to clients will include management of laboratory testing, sales and marketing support, packaging, warehousing, tax collection, transportation and fulfillment. The Company will provide GV with an operating line of credit in an amount to be approved by the Company from time-to-time, and certain other financial support of loans and milestone-based payments on meeting licensing milestones of up to US$330,000.

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-cancelable operating leases having an initial or remaining term of more than one year are as follows:

	$
2020	783,237
2021	431,253
2022	219,462
Total	**1,433,952**

28. Supplemental information for consolidated statements of cash flows

	2019	2018
	$	$
Interest paid	**932,607**	97,803
Shares issued for Moses Garden acquisition	**4,482,198**	-
Shares issued for settlement of debt	**81,908**	-
Conversion of Aura debenture	**100,000**	-
Shares received for settlement of put option	**173,600**	-
Shares issued pursuant to Calyx acquisition	**536,460**	516,480
Shares issued for debenture interest	**453,913**	-

(Expressed in Canadian Dollars)

29. General and administrative

	2019	2018
	$	$
Bad debts, uncollectible accounts and theft	**445,868**	-
Bank charges	**79,527**	18,730
Dues and subscriptions	**31,407**	-
Insurance	**453,377**	121,296
Listing and investor relations	**284,519**	124,013
Office and administrative	**1,170,785**	1,186,076
Permit and licenses	**123,358**	27,062
Rent and property taxes	**694,956**	300,110
Repair and maintenance	**102,771**	15,805
Security	**556,152**	-
Supplies, maintenance and utilities	**21,565**	28,859
Transportation	**482,586**	128,079
Travel	**549,273**	270,521
Total	**4,996,144**	2,220,551

30. Segmented information

The Company manufactures and processes cannabis-based vaping, concentrate and infused edible products and manages a distributor of cannabis products. The Company consolidates the financial results of the operations in Calyx, Pasa Verde and Oregon (La Pine). Sales revenue and cost of goods sold of Pasa Verde did not exist as of the year ended July 31, 2018 as this segment was not controlled by the Company until July 26, 2018. Oregon (La Pine) commenced sales in the third quarter of current fiscal year.

Pasa Verde did not have any commercial activity since February 1, 2019 due to the City of Sacramento rescinding local authorization for cannabis manufacturing for Pasa Verde.

The following represents segmented information for the year ended July 31, 2019.

For the year ended July 31, 2019							
	Calyx (California)	**Pasa Verde (California)**	**Oregon**	**Colorado**	**Nevada**	**Washington**	**Total**
Total sales	$23,408,630	$169,564	$30,216	-	-	-	$23,608,410
Cost of goods sold	$(17,872,915)	$(196,947)	$(57,520)	-	-	-	$(18,127,382)
Gross profit (loss)	$5,535,715	$(27,383)	$(27,304)	-	-	-	$5,481,028
Capital assets	$748,525	$1,329,701	$1,610,421	$672,526	$102,871	$270,980	$4,735,024
Investment property	-	-	-	$1,368,142	-	-	$1,368,142
Intangible assets	$1,855,752	-	-	-	$38,652	-	$1,894,404
Goodwill	$1,573,638	-	-	-	-	-	$1,573,638

For the year ended July 31, 2018							
	Calyx (California)	**Pasa Verde (California)**	**Oregon**	**Colorado**	**Nevada**	**Washington**	**Total**
Total sales	$5,814,558	-	-	-	-	-	$5,814,558
Cost of goods sold	$(5,051,418)	-	-	-	-	-	$(5,051,418)
Gross profit (loss)	$763,140	-	-	-	-	-	$763,140
Capital assets	$373,860	$2,309,867	$1,700,872	$693,360	$131,118	$176,454	$5,385,531
Investment property	-	-	-	$1,436,793	-	-	$1,436,793
Intangible assets	$2,529,057	$3,303,989	-	-	-	-	$5,833,046
Goodwill	$1,552,911	$3,149,505	-	-	-	-	$4,702,416

For the year ended July 31, 2019, the Company recognized sales of $23,608,410 (2018 - $5,814,558) of which approximately 99% were derived from the Company's distribution operation, Calyx Brands, in California. Sales from Pasa Verde and Oregon relate to manufacturing.

31. Subsequent events

Options, warrants and RSUs
Subsequent to July 31, 2019, the Company granted 10,200,000 options and 6,969,742 RSUs to the Company's directors, employees and consultants. A total of 3,333,334 warrants were exercised resulting an issuance of 2,000,000 common shares.

Convertible debenture conversion
Subsequent to July 31, 2019, holders of convertble debentures (Note 18) converted a combined total of $55,000 principal amount of convertible debentures resulting in the issuance of 201,148 common shares.

Private placement
On August 23, 2019, the Company issued a non-brokered private placement comprised of 1,807 secured convertible debenture units at a price of $1,000 per Convertible Debenture Unit for an aggregate principal amount of $1,807,000.

Each Convertible Debenture Unit is comprised of a $1,000 principal amount 9% subordinate secured convertible debenture and 5,000 common share purchase warrants. Each common share purchase warrant is exercisable into a common share of the Company at a price of $0.24 for 36 months from the date of issuance. The Convertible Debentures are convertible into common shares at a price of $0.20 per share at any time prior to Maturity Date.

The interest can be paid in cash or by issuing common shares against the amount due at the sole option of the Company, payable semi-annually in arrears. In connection with the Convertible Debentures, the Company paid a finder a cash fee of C$80,700 and issued 403,500 finder compensation options (each, a "Finder Option"). Each Finder Option entitles the holder thereof to purchase one finder unit (each, a "Finder Unit") consisting of one common share and one Warrant of the Company, such Warrant having the same terms and conditions as the Warrant forming part of the Convertible Debenture Units, at a price of C$0.20 per Finder Unit for a period of 24 months from the date of issuance.

Moses Garden LLC
On September 11, 2019, the Company issued 4,331,711 common shares to Moses Garden as the final consideration of assets acquisition completed on January 3, 2019 (Note 4).

Debt Settlement
On September 12, 2019, the Company issued 921,377 common shares to settle debt owing to vendors in the amount of $184,275.

Golden Triangle Health Company Ltd.
On October 16, 2019, the Company issued 1,050,000 common shares to Golden Triangle Health Company Ltd. (“Golden Triangle”) as consideration of entering into a five-year binding framework agreement (the “Agreement”) to manufacture and distribute branded products in North America with Golden Triangle.

Creditor settlement agreement
On October 16, 2019, the Company issued 942,858 shares to a creditor of the Company pursuant to a settlement agreement entered on September 4, 2019.

TKO Products LLC
In October 2019, the Company entered into a settlement agreement with TKO (Note 5 (i)) in which TKO is to pay US$325,000 ("TKO settlement amount") to the Company. The settlement agreement releases all matters including TKO's counterclaim. Prior to the receipt of the settlement amount from TKO in November 2019, the Company received US$325,000 from certain directors in exchange for reassignment of the proceeds of TKO settlement amount to them.

Calyx Brands Inc.
In October 2019, the Company paid US$172,500 to Calyx as final consideration of Acquisition (Note 3) completed on March 15, 2018. The Company amended its asset purchase agreement, which was previously closed in escrow pending regulatory approval, to recast it as a share purchase agreement to better streamline operations and simplify regulatory compliance. The Company now holds an aggregate of 80% interest in Calyx for no additional consideration, with the option to purchase the remaining 20% for nominal consideration.

Secured promissory note
On November 25, 2019, the Company, through Calyx, entered into revolving secured promissory note agreement (the "Note") with a supplier. Pursuant to the terms of the Note, the sums owed on products received on and after November 25, 2019 shall form the principal amount owed to the supplier (the "Loan Amount"). The Note is secured by a general security interest over assets of Calyx and interest on the Note accrues on the Loan Amount balance at a rate of 1.5% per annum.