# OSOYOOS CANNABIS INC.

**(formerly LKP Solutions Inc.)**

## Consolidated Financial Statements

## April 30, 2019

# OSOYOOS CANNABIS INC.
**(formerly LKP Solutions Inc.)**

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Osoyoos Cannabis Inc. (formerly LKP Solutions Inc.)

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Osoyoos Cannabis Inc. (formerly LKP Solutions Inc.) (the "Company"), which comprise the consolidated statements of financial position as at April 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows, for the year ended April 30, 2019, and for the period from incorporation on August 11, 2017 to April 30, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2019 and 2018, and its financial performance and its cash flows for the year ended April 30, 2019 and for the period from incorporation on August 11, 2017 to April 30, 2018 in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audits 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Other Information**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion and Analysis report.

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

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

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

In preparing the 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.

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

Our objectives are to obtain reasonable assurance about whether the 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 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.

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 Mickey Goldstein.

Buckley Dodds LLP

Vancouver, British Columbia
August 27, 2019

Buckley Dodds LLP
Chartered Professional Accountants

**Osoyoos Cannabis Inc.**
**(formerly LKP Solutions Inc.)**
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| | Notes | | As at April 30 2019 | | As at April 30 2018 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | | $ | 1,622,730 | $ | 5,240,734 |
| GST and HST receivable | | | 301,424 | | 84,629 |
| Prepaid expenses | | | 50,000 | | 70,345 |
| Due from related party | 10 | | 18,500 | | 317,891 |
| | | | 1,992,654 | | 5,713,599 |
| **Property and equipment** | 5 | | 2,050,842 | | - |
| **Rental deposit** | 13 | | 64,817 | | - |
| **Total assets** | | $ | 4,108,313 | $ | 5,713,599 |
| **Liabilities and shareholders' deficiency** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | 6, 10 | $ | 235,356 | $ | 48,002 |
| Accrued interest payable | | | 52,939 | | 49,064 |
| Loan payable | 7 | | 174,166 | | - |
| | | | 462,461 | | 97,066 |
| **Loan payable** | 7,10 | | 696,664 | | 1,000,000 |
| **Convertible debentures** | 8 | | 311,107 | | 449,412 |
| **Total liabilities** | | | 1,470,232 | | 1,546,478 |
| **Shareholders' equity** | | | | | |
| Capital Stock | 9 | | 7,556,860 | | 4,831,066 |
| Contributed surplus | | | 281,816 | | - |
| Subscriptions received in advance | | | - | | 146,955 |
| Warrant reserve | | | 623,521 | | 623,521 |
| Share-based payment reserve | | | 1,145,753 | | 590,917 |
| Convertible debentures | 8 | | 94,304 | | 105,190 |
| Accumulated deficit | | | (7,064,173) | | (2,130,528) |
| Total shareholders' equity | | | 2,638,081 | | 4,167,121 |
| **Total liabilities and shareholders' equity** | | $ | 4,108,313 | $ | 5,713,599 |

| | |
|---|---|
| Nature of Operations and Going Concern | 1 |
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Approved by the Board of Directors on August 27, 2019

"Michael Ash", Director "Gerry Goldberg", Director

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

**Osoyoos Cannabis Inc.**
**(formerly LKP Solutions Inc.)**
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

| | Notes | Year ended April 30, 2019 | For the period from incorporation on August 11, 2017 to April 30, 2018 |
|---|---|---|---|
| **Expenses** | | | |
| Advertising and promotion | | $ 7,405 | $ 11,301 |
| Accretion | 7, 8 | 295,983 | 27,212 |
| Consulting fees | 10 | 69,547 | - |
| Contract fees | | 34,044 | - |
| Development costs | | 15,990 | 230,073 |
| Foreign exchange | | - | 7,704 |
| Insurance | | 57,595 | - |
| Interest expense | 7 | 383,141 | 121,399 |
| Investor relations | | 122,640 | 54,712 |
| Licenses | | - | 1,500 |
| Loss on repayment of convertible debentures | 8 | 47,676 | - |
| Management fees | 10 | 442,025 | 871,613 |
| Office and administration | 10 | 33,961 | 9,912 |
| Professional fees | | 224,739 | 159,179 |
| Share-based compensation | 9, 10 | 554,836 | 590,917 |
| Transfer agent and regulatory fees | | 40,586 | 7,121 |
| Travel | | 13,123 | 20,375 |
| Rent | | 84,278 | - |
| | | (2,427,569) | (2,113,018) |
| Loss from acquisition of subsidiary | 4 | (2,506,076) | (17,510) |
| **Net loss and comprehensive loss for the period** | | $ (4,933,645) | $ (2,130,528) |
| **Loss per share** | | | |
| Loss per common share: Basic and diluted | | $ (0.18) | $ (0.24) |
| Weighted average number of common shares outstanding: Basic and diluted | | 27,475,722 | 8,793,442 |

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

# Osoyoos Cannabis Inc.
# (formerly LKP Solutions Inc.)
## Consolidated Statement of Changes in Shareholders' Equity
## (Expressed in Canadian Dollars)

| | Number of common shares outstanding | Share capital | Contributed Surplus | Warrant reserve | Subscription received in advance | Share-based payment reserve | Convertible debentures | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| Seed Shares issued for cash | 16,000,000 | $ 4 | $ - | $ - | $ - | $ - | $ - | $ - | $ 4 |
| Shares issued to founder for services | 2,248,260 | 562,065 | - | - | - | - | - | - | 562,065 |
| Private placement | 16,054,587 | 5,876,124 | - | - | 146,955 | - | - | - | 6,023,079 |
| Shares issued as finders' fees | 1,410,936 | - | - | - | - | - | - | - | - |
| Share issuance costs | - | (611,502) | - | - | - | - | - | - | (611,502) |
| Convertible debentures | - | - | - | - | - | - | 261,181 | - | 261,181 |
| Shares issued for convertible debentures as finance fee | 342,500 | 51,375 | - | - | - | - | - | - | 51,375 |
| Equity portion of shares issued for convertible debentures finance fee | - | - | - | - | - | - | (11,875) | - | (11,875) |
| Warrants issued with convertible debentures | - | - | - | 623,521 | - | - | - | - | 623,521 |
| Equity portion of warrants issued for convertible debentures finance fee | - | - | - | - | - | - | (144,116) | - | (144,116) |
| Shares issued for services | 2,650,000 | 53,000 | - | - | - | - | - | - | 53,000 |
| Shares redeemed | (15,000,000) | (1,100,000) | - | - | - | - | - | - | (1,100,000) |
| Warrants issued as compensation | - | - | - | - | - | 590,917 | - | - | 590,917 |
| Net loss for the period | - | - | - | - | - | - | - | (2,130,528) | (2,130,528) |
| **Balance as at April 30, 2018** | 23,706,283 | $ 4,831,066 | $ - | $ 623,521 | $ 146,955 | $ 590,917 | $ 105,190 | $ (2,130,528) | $ 4,167,121 |
| Contributed surplus on debt discount | - | - | 281,816 | - | - | - | - | - | 281,816 |
| Issue of shares for subscriptions (Note 9) | 326,556 | 146,955 | - | - | (146,955) | - | - | - | - |
| Repricing of 1,000,000 founder shares | - | 5,000 | - | - | - | - | - | - | 5,000 |
| Shares for finders' fees (Note 9) | 139,522 | - | - | - | - | - | - | - | - |
| Repayment of convertible debentures | - | - | - | - | - | - | (10,886) | - | (10,886) |
| Reverse takeover of subsidiary (Note 9) | 6,662,796 | 1,998,839 | | - | - | | - | | 1,998,839 |
| Share based compensation | - | - | - | - | - | 554,836 | - | - | 554,836 |
| Shares issued for interest (Note 9) | 335,000 | 50,000 | - | - | - | - | - | - | 50,000 |
| Shares issued on conversion of debentures (Note 9) | 3,500,000 | 525,000 | - | - | - | - | - | - | 525,000 |
| Net loss for the year | - | - | - | - | - | - | - | (4,933,645) | (4,933,645) |
| **Balance as at April 30, 2019** | **34,670,157** | **$ 7,556,860** | **$ 281,816** | **$ 623,521** | **$ -** | **$ 1,145,753** | **$ 94,304** | **$ (7,064,173)** | $ 2,638,081 |

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

# Osoyoos Cannabis Inc.
# (formerly LKP Solutions Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | Year ended April 30, 2019 | For the period from incorporation on August 11, 2017 to April 30, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the period | $ (4,933,645) | $ (2,130,528) |
| Adjustments to reconcile loss to net cash used in operating activities: | | |
| Share-based compensation | 554,836 | 590,917 |
| Loss from acquisition of subsidiary | 2,506,076 | 17,510 |
| Accretion | 295,983 | 27,212 |
| Amortization of finance fees | 289,796 | 72,286 |
| Accrued interest | 3,875 | - |
| Shares issued for services | - | 615,065 |
| Shares issued for interest | 50,000 | - |
| Loss on repayment of debenture debts | 47,676 | - |
| GST and HST receivable | (199,455) | (84,629) |
| Prepaid expenses | 20,345 | (64,345) |
| Accounts payable and accrued liabilities | 46,054 | 97,066 |
| **Total cash used in operating activities** | (1,318,459) | (859,446) |
| **Cash flows from investing activities** | | |
| Property and equipment | (1,950,342) | - |
| Rental deposit | (64,817) | - |
| Cash acquired on acquisition of subsidiary | 1,757 | 10,548 |
| **Total cash (used in) provided by investing activities** | (2,013,402) | 10,548 |
| **Cash flows from financing activities** | | |
| Shares issued for cash | - | 5,876,128 |
| Share issuance costs - cash | - | (611,502) |
| Subscriptions received in advance | - | 146,955 |
| Cash received on re-pricing of shares | 5,000 | - |
| Cash returned for subscriptions received in advance | (35,015) | - |
| Convertible debentures repaid in cash | (105,000) | 1,095,942 |
| Due to related parties | (151,128) | (417,891) |
| **Total cash (used in) provided by financing activities** | (286,143) | 6,089,632 |
| **Total (decrease) increase in cash and cash equivalents during the period** | (3,618,004) | 5,240,734 |
| **Cash and cash equivalents- beginning of period** | 5,240,734 | - |
| **Cash and cash equivalents- end of period** | $ 1,622,730 | $ 5,240,734 |
| **Cash (paid) received for** | | |
| Interest | $ (52,500) | $ - |
| Taxes | $ - | $ - |
| **Cash and cash equivalents consist of:** | | |
| Cash | $ 34,123 | $ 5,240,734 |
| Cash equivalents | $ 1,588,607 | $ |

For supplemental disclosure with respect to cash flows, see Note 11.

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

LKP Solutions Inc. ("LKP") was incorporated as Red Ore Gold Inc. under the laws of the Province of British Columbia by Articles of Incorporation dated January 13, 2011.

Effective October 31, 2018, LKP was part of a three-cornered amalgamation among LKP, 1160516 B.C. Ltd. (a wholly owned subsidiary of LKP) and former Osoyoos Cannabis Inc. ("OSO"). The result of the transactions was that LKP acquired all of the issued and outstanding securities of former OSO on the basis of one share of LKP for each share of former OSO. At completion of the transactions, LKP changed its name to Osoyoos Cannabis Inc. (the "Company") and the former OSO was amalgamated into 1160516 B.C. Ltd. During the year ended April 30, 2018, the former OSO purchased all of the issued and outstanding shares of Bare Root Production Osoyoos Inc. ("BRPO"). BRPO was incorporated under the laws of British Columbia by articles of incorporation dated February 25, 2017. As a result of this purchase, BRPO is a wholly owned subsidiary of 1160516 B.C. Ltd as at April 30, 2019 and 2018.

The business of the Company is for the research of, propagation and growth of, harvesting and marketing of medical cannabis.

The office of the Company is located at #703 – 45 Shepherd Ave East, Toronto, Ontario.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business, for the next fiscal year. At April 30, 2019 the Company had cash of $1,622,730 (April 30, 2018 - $5,240,734), working capital of $1,530,193 (April 30, 2018 - $5,616,533), and an accumulated deficit of $7,064,173 (April 30, 2018 - $2,130,528). The continuing operations of the Company are dependent on funding provided by equity investors. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. This uncertainty may cast significant doubt about the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying value or presentation of assets or liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

## 2. BASIS OF PRESENTATION

### Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in Note 12. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The functional currency of the Company, 1160516 B.C. Ltd., and BRPO is the Canadian dollar, which is also the Company's reporting currency.

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 1, "Presentation of Consolidated Financial Statements" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

## 2. BASIS OF PRESENTATION (continued)

### Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary 1160516 B.C. Ltd from the date of acquisition on October 31, 2018, which in turn owns all of the issued and outstanding shares of BRPO for the date of acquisition on August 23, 2017. All inter-company transactions and balances have been eliminated on consolidation.

### Significant accounting judgments and estimates

The preparation of these consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the periods reported.

Critical Judgements

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries has been determined to be the Canadian dollar.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the consolidated financial statements include:

*Share-based Payments*

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

## 2. BASIS OF PRESENTATION (continued)

### Significant accounting judgments and estimates (continued)

Key Sources of Estimation Uncertainty (continued)

*Deferred tax assets and liabilities*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

*Carrying values of tangible assets*

The Company assesses the carrying value of its tangible assets annually or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current earnings. Recoverability is dependent upon assumption and judgements regarding market conditions, costs of operations and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates, and future cash flows. A material change in the assumptions may significantly impact the potential impairment of these assets.

*Discount rates used in convertible debentures*

The Company calculates the liability portion of convertible debentures by calculating the present value of the loan and related interest, using a discount rate equal to the market rate that would be given for similar debt, without a conversion feature. Management determines this rate by assessing what rate the Company could borrow funds at from an unrelated party.

*Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

### Approval of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on August 27, 2019.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### Cash and cash equivalents

Cash and cash equivalents comprise of cash held at banks, credit unions, amounts held in trust, and amounts held in term deposits, which are readily convertible into known amounts of cash and subject to insignificant risk of changes in value. The Company's cash and cash equivalents are invested with major financial institutions in business accounts. The Company does not invest in any asset-backed deposits or investments.

### Income taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

### Foreign currency translation

Foreign currency transactions are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net loss. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net loss. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of such financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Loss per share**

Loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

**Share-based payments**

The Company grants stock options and warrants to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options and warrants. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options and warrants is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options and warrants are exercised and the amount initially recorded is then credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

**Fair value of warrants**

The Company measures the fair value of warrants issued from financings using the residual value method. When warrants are issued, the fair value is recorded in the warrant reserve, with the corresponding entry to share capital. When warrants are exercised, their fair value is removed from the warrant reserve account and recorded as share capital.

**Property and equipment**:

Property and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The cost of the item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of loss and comprehensive loss. The cost of repairs and maintenance is expensed as incurred. Amortization is not recognized until the asset is in use.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

(i) Impact of adoption

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of May 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model.

As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results, therefore all comparative period information is presented in accordance with our previous accounting policies. New or amended disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

Further as a result of adoption of IFRS 9, management has not changed its accounting policy for financial assets.

(ii) Accounting policy

The following is the Company's new accounting policy for financial instruments under IFRS 9.

(a) Classification and measurement of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost ("AMC"), based on the business model for managing the financial instruments and the contractual cash flow characteristics of the instrument.

(b) Debt instruments

On initial recognition, all debt instruments, are classified based on:

- The business model under which the asset is held; and
- The contractual cash flow characteristics of the financial instrument.

Business model assessment

Business model assessment involves determining whether financial assets are held and managed by the Company for generating and collecting contractual cash flows, selling the financial assets or both. The Company assesses the business model at a portfolio level using judgment and is supported by relevant objective evidence including:

- how the performance of the asset is evaluated and reported to the Company's management;
- the frequency, volume, reason and timing of sales in prior periods and expectations about future sales activity;
- whether the assets are held for trading purposes i.e., assets that are acquired by the Company principally for the purpose of selling or repurchase in the near term, or held as part of a portfolio that is managed together for short-term profits; and
- the risks that affect the performance of assets held within a business model and how those risks are managed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement, i.e. if they represent cash flows that are solely payments of principal and interest ("SPPI").

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains any contractual terms that could change the timing or amount of contractual cash flows such that the financial asset would not meet the SPPI criteria.

In making the assessment the Company considers:

- contingent events that would change the amount and/or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- associated penalties relating to prepayments;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Debt instruments measured at AMC

Debt instruments are measured at AMC using the effective interest rate, if they are held within a business model whose objective is to hold the financial asset for collecting contractual cash flows where those cash flows represent SPPI. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. AMC is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of these deferred costs is included in interest income in the consolidated statements of loss and comprehensive loss.

Impairment on debt instruments measured at AMC is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses ("ACL") in the consolidated statements of financial position.

There are no debt instruments measured at FVTOCI or at FVTPL as of and during the year ended April 30, 2019.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

(iii) Equity instruments

Equity instruments are measured at FVTPL, unless they are not held for trading purposes and an irrevocable election is made to designate these instruments at FVOCI upon initial recognition. The measurement election is made on an instrument-by-instrument basis. Changes in fair value are recognized as part of investments income in the consolidated statements of loss and comprehensive loss for equity instruments measured as at FVTPL.

(iv) Financial assets and liabilities designated at FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated by the Company on initial recognition. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial assets and financial liabilities designated at FVTPL are recorded in the consolidated statements of financial position at fair value. For assets designated at FVTPL, changes in fair values are recognized in other income in the consolidated statements of loss and comprehensive loss. For liabilities designated at FVPTL, all changes in fair value are recognized in other income in the consolidated statements of loss and comprehensive loss, except for changes in fair value arising from changes in the Company's own credit risk are recognized in OCI and are not subsequently reclassified to the consolidated statements of loss and comprehensive loss upon derecognition /extinguishment of the liabilities.

(c) Derecognition

(i) Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of loss and comprehensive loss.

(ii) Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Reconciliation of IAS 39 to IFRS 9

On adoption of IFRS 9, the Company has assessed all its financial assets and liabilities based on the business model and solely payments of principal and interest ("SPPI") tests. This has resulted in the re-classification and re-measurement of certain financial assets and liabilities as at May 1, 2018, which are summarized in the table below:

| April 30, 2018 – IAS39 | | | May 1, 2018 – IFRS 9 | | | |
|---|---|---|---|---|---|---|
| | Measurement basis | IAS 39 | Remeasurement | Reclassification | Measurement basis | IFRS 9 |
| **Cash and cash equivalents** | FVTPL | $ 5,240,734 | | $ (5,240,734)<br>$ 5,240,734 | AMC | $ 5,240,734 |
| **Due from related party** | AMC | $ 317,891 | | | AMC | $ 317,891 |
| **Accounts payable** | AMC | $ 48,002 | | | AMC | $ 48,002 |
| **Loan payable** | AMC | $ 1,000,000 | $ (281,816) | | AMC | $ 718,184 |
| **Convertible debentures** | AMC/Conversion feature at FVTPL | $ 449,412 | | | FVTPL | $ 449,412 |

### Recent accounting pronouncements

Effective May 1, 2018, the Company has adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

(a) IFRS 2, Share-based Payment ("IFRS 2") - In June 2016, the IASB issued amendments to IFRS 2, which expands upon the guidance for recognizing a liability for cash-settlement of a share-based payment as well as transactions with a net settlement feature for withholding tax obligations. These amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of this standard has had no effect on the Company's financial reporting.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), was issued in May 2015, which replaced IAS 11, Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles based five step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. The adoption of this standard has had no effect on the Company's financial reporting.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Recent accounting pronouncements (continued)

(c) IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or fair value through other comprehensive income. IFRS 15 is required for annual periods beginning on or after January 1, 2018. The Company has adopted this new standard as of its effective date being May 1, 2018, on a modified retrospective basis. The April 30, 2018 comparatives were not restated.

### Accounting standards Issued but not yet applied

New standard IFRS 16 "Leases" This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. IFRIC 22, 'Foreign currency transactions and advance consideration. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency.

As at April 30, 2019, the Company has a land lease agreement which expires on August 31, 2023. The expected impact upon adopting this new standard will be the reclassification of the lease as a right-of-use asset and associated lease liability on the statement of financial position. Due to the recognition of the lease asset and liability, a higher amount of depreciation expense and interest on the lease liability and a lower amount of lease or rental expense will be recognized under IFRS 16 as compared to the current standard.

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's financial statements.

(Expressed in Canadian Dollars)

## 4. ACQUISITIONS

During the year ended April 30, 2019, the Company completed the following acquisition:

Effective October 31, 2018 the Company was part of a three-cornered amalgamation among the Company, 1160516 B.C. Ltd. (a wholly owned subsidiary of LKP) and LKP. The result of the transactions was that LKP acquired all of the issued and outstanding securities of former OSO on the basis of one share of LKP for each share of former OSO. All outstanding warrants to purchase former OSO shares were exchanged, on an equivalent basis, for warrants to purchase shares of the Company. At completion of the transactions, LKP changed its name to Osoyoos Cannabis Inc. and former OSO was amalgamated into 1160516 B.C. Ltd.

Under IFRS, this was considered to be a Reverse Merger and Recapitalization (commonly referred to as a Reverse Take Over or "RTO").

The Company issued 6,662,796 shares to the shareholders of former OSO valued at $0.30 per share, with a total value of $1,998,839 for the acquisition.

The fair value of the acquired assets and liabilities assumed is as follows:

| | | |
|---|---|---|
| Assets acquired by the Company: | | |
| Cash | $ | 1,757 |
| Accounts receivable | | 17,340 |
| Liabilities assumed by the Company: | | |
| Accounts payable | | (40,800) |
| Amount due to related party | | (450,519) |
| Share subscriptions received in advance | | (35,015) |
| Net liabilities assumed | | (507,237) |
| Fair value of issued | | (1,998,839) |
| Loss on acquisition | $ | (2,506,076) |

During the period ended April 30, 2018, the Company completed the following acquisition:

On August 23, 2017, 1160516 B.C. Ltd acquired 100% of the issued and outstanding shares of BRPO for cash consideration of $1.

BRPO was incorporated under the laws of British Columbia by articles of incorporation dated on February 25, 2017 and is in the business of the research of, propagation and growth of, harvesting and marketing of medical cannabis.

The fair value of the acquired assets and liabilities assumed is as follows:

| | | |
|---|---|---|
| Assets acquired | | |
| Cash | $ | 10,549 |
| Prepaid expense | | 6,000 |
| Liabilities assumed | | |
| Amount due to related party | | (34,058) |
| Net liabilities assumed | | (17,509) |
| Consideration paid | | (1) |
| Loss on acquisition | $ | 17,510 |

(Expressed in Canadian Dollars)

## 5. PROPERTY AND EQUIPMENT

| | Equipment | Leasehold improvements | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at August 11, 2017 and April 30, 2018 | $ - | $ - | $ - |
| Additions | 2,011,200 | 39,642 | 2,050,842 |
| Balance at April 30, 2019 | 2,011,200 | 39,642 | 2,050,842 |
| **Accumulated Amortization** | | | |
| Balance at August 11, 2017 and April 30, 2018 and 2019 | $ - | $ - | $ - |
| **Net Book Value** | | | |
| Balance, April 30 2018 | $ - | $ - | $ - |
| **Balance, April 30, 2019** | **$ 2,011,200** | **$ 39,642** | **$ 2,050,842** |

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company’s accounts payable and accrued liabilities are broken down as follows:

| | April 30, 2019 | April 30, 2018 |
|---|---|---|
| Accounts payable | $ 70,070 | $ 35,502 |
| Accrued liabilities | 64,726 | 12,500 |
| Payable on equipment | 100,560 | - |
| Total accounts payable and accrued liabilities | $ 235,356 | $ 48,002 |

## 7. LOAN PAYABLE

The loan payable to the former CEO arises from the surrender of shares (Note 9) and as at April 30, 2019 and 2018, was unsecured and non-interest bearing with a due date of March 20, 2020. Subsequent to April 30, 2019, the terms of the loan were amended, and the maturity date was extended to March 15, 2025 (Note 16). The due date will be immediately accelerated in the event that the Company, or its successor in ownership of BRPO receives proceeds of a round of capital funding in excess of $10,000,000. Management has determined that the probability of receiving such financing to be very low and thus the liability should be long term. Effective May 1, 2018, the loan was discounted to fair value of $718,184 using market rate of 18% per annum. The loan will be accreted to fair value over the term of the loan. As a result of the loan being to a related party, the $281,816 loan discount was recorded in contributed surplus.

At April 30, 2019 the carrying value of the loan was $1,000,000 less $129,170 of unamortized discount (April 30, 2018 - $1,000,000). The Company recorded accretion expense for $152,646 during the year ended April 30, 2019. The carrying value of the loan has been segregated to short term for $174,166 and long term for $696,664 as subsequent to the year ended April 30, 2019. the repayment terms of the loan were modified and it is payable in five equal annual installments (Note 16).

(Expressed in Canadian Dollars)

## 8. CONVERTIBLE DEBENTURES

During the period ended April 30, 2018, the Company issued $1,130,000 in convertible debentures. The debentures had a maturity of 3 years, carry an interest rate of 10%, which can be paid in cash or common shares at a price of $0.15. The debentures are convertible into common shares at $0.15 per share, at the discretion of the debenture holder. In connection with the debentures, the Company issued 7,533,530 common share purchase warrants, with each warrant exercisable at $0.20 for a period of 2 years. The warrants are considered to be transaction costs of the debentures and had a fair value of $623,521 calculated using the Black-Scholes pricing model with volatility of 120% and an interest rate of 1.41%. Of this amount, $144,116 was allocated to the equity component of the convertible debenture, with the remaining amount allocated to the liability portion, to be amortized over the term of the notes. In addition, 342,500 common shares valued at $51,375 were issued to the holders of the debentures and recorded as transaction costs. Of the $51,375 transaction costs, $11,875 was recorded as a cost of issuing the equity, with the remainder recorded against the liability portion of the notes and will be amortized over the term of the notes. During the year ended April 30, 2019 the Company expensed interest expense of $104,199 (April 30, 2018 -$49,064) for these notes. At the option of the debenture holder, the interest can be paid in cash or in shares at a value of $0.15 per share.

On May 10, 2018 the Company repaid certain debentures with a face value of $105,000 and a carrying value of $46,438, resulting in a loss on repayment of $47,676 and a reduction in equity in debentures of $10,886.

On April 25, 2019, convertible debenture holders of face value of $525,000 opted to convert their debt into equity at $0.15 per common share. The Company issued 3,500,000 common shares.

As at April 30, 2019 the Company's convertible notes were as follows:

| | Equity component of convertible debenture | Liability portion of convertible debenture | Total |
|---|---|---|---|
| Proceeds received | $ 261,181 | $ 868,819 | $ 1,130,000 |
| Finance costs | (155,991) | (518,905) | (674,896) |
| Amortization of finance costs | - | 72,286 | 72,286 |
| Accretion | - | 27,212 | 27,212 |
| Balance, April 30, 2018 | $ 105,190 | $ 449,412 | $ 554,602 |
| Repayment of debentures | (10,886) | (46,438) | (57,324) |
| Conversion of debentures to shares | - | (525,000) | (525,000) |
| Amortization of finance costs | - | 289,796 | 289,796 |
| Accretion | - | 143,337 | 143,337 |
| **Balance, April 30, 2019** | **$ 94,304** | **$ 311,107** | **$ 405,411** |

## 9. CAPITAL STOCK

The Company is authorized to issue the following shares:

- Unlimited Class “A” voting common shares with no par value
- Unlimited Class “B” non-voting preferred shares with a par value of $1.00
- Unlimited Class “C” voting common shares with no par value

### a) Common shares

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

At April 30, 2019, the Company has 34,670,157 class A common shares issued and outstanding.

### b) Preferred shares

The Company is authorized to issue an unlimited number of preferred shares with the rights, privileges and restrictions determined by the Board of Directors at the time of issuance.

There were no issuances of preferred shares during the periods ended April 30, 2019 and 2018.

### c) Share issuances

During the year ended April 30, 2019, the Company had the following share issuances:

- The Company issued 326,566 shares for share proceeds of $146,955 received in advance. The Company also issued 139,522 shares for finders’ fees.
- On July 10, 2018, the Company repriced 1,000,000 founders’ shares (previously recognized at $4) to $0.005 per share for additional proceeds of $5,000. This brought the price of the shares into alignment with requirements of the Canadian Stock Exchange
- On January 8, 2019, the Company issued 335,000 shares to repay interest accrued for $50,000 on convertible debentures.
- On April 25, 2019, the subscribers to $525,000 of the convertible debentures converted their debt to 3,500,000 common shares at $0.15 per share.
- The Company issued 6,662,796 shares in connection with the acquisition discussed in note 4.

During the period ended April 30, 2018, the Company had the following share issuances:

- On August 11, 2017, the Company issued 15,000,000 common shares, as founders’ shares, for $1, to the former CEO and a director of the Company.
- On August 23, 2017, the Company issued a further 750,000 founders’ shares to 2 directors of the Company at a price of $1 per director, and an additional 250,000 shares to the corporate secretary for $1.
- The Company issued 342,500 common shares valued at $0.15 per share, for a total value of $51,375 as a finance cost, in relation to the issue of convertible debentures. (Note 8).

## 9 CAPITAL STOCK (continued)

### c) Share issuances (continued)

- In December, 2017 the Company issued 400,000 units valued at $0.02 per unit for a total of $8,000 in connection with a contract for investor relations to commence shortly before the shares of the Company become publicly traded. Each unit is comprised of one common share and one common share purchase warrant, exercisable at $0.50 until March 14, 2020. The warrants attached to the units have been valued at $nil using the residual value method.
- In December, 2017, the Company closed a private placement of 6,742,200 units at $0.25 per unit for gross proceeds of $1,685,550. Each unit is comprised of one common share and one common share purchase warrant, exercisable at $0.50 until November 1, 2019. The Company paid $229,572 and issued 630,360 units, valued at $157,590, as a finders' fee for this private placement. The fair value of the warrants issued as part of the units with this financing was calculated to be $nil using the residual value method.
- On March 20, 2018, the Company executed an agreement whereby a former director and former CEO surrendered 15,000,000 common shares for cancellation for the sum of $1,100,00, of which $100,000 was paid at closing and the remaining $1,000,000 is in the form of a loan payable. (Note 7, 10)
- On March 23, 2018, the Company closed a private placement of 9,638,943 units at a price of $0.45 per unit, for gross proceeds of $4,337,524. Of these units, 9,312,387 were issued as at April 30, 2018, with a value of $4,190,574, with the remaining 326,566 units valued at $146,955 issued subsequent to the period end. The warrants attached to these subscriptions received in advance were issued during the period ended April 30, 2018, while the shares were issued subsequently. Each unit is comprised of one common share and one common share purchase warrant, exercisable at $0.75 for two years from closing. The Company paid $381,930 and reserved for issue 920,098 finders' units as share issuance costs. Of these finders' units, 780,576 were issued during the period ended April 30, 2018, valued at $351,259. Of the remaining 139,522 finders' units, the share component was issued subsequent to April 30, 2018, while the warrants were issued during the period ended April 30, 2018. The fair value of the warrants issued with this financing was calculated to be $nil using the residual value method.
- On March 23, 2018 the Company issued 2,250,000 units valued at $0.02 per share for total value of $45,000 as compensation to founding directors and officers of the Company for management fees. Each unit consists of one common share and one common share purchase warrant exercisable at $0.50 until March 14, 2020. The fair value of the warrants issued with this financing was calculated to be $nil using the residual value method.

(Expressed in Canadian Dollars)

## 9 CAPITAL STOCK (continued)

### d) Warrants

During the year ended April 30, 2019, and concurrent with the completion of RTO, the Company issued to directors as compensation, 1,100,000 warrants exercisable at $0.45 until March 14, 2023.

As part of the amalgamation, all outstanding warrants (663,400 warrants) to purchase OSO shares were exchanged, on an equivalent basis, for warrants to purchase OSO (formerly LKP) shares

On April 9, 2019, the Company granted an aggregate of 775,000 5-year cashless warrants as executive compensation to the COO, the CEO and a member of the board. 575,000 of the cashless warrants have an exercise price of $0.25 and the balance at $0.45.

The following is a summary of changes in warrants:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, August 11, 2017 | - | $ - |
| Issued | 31,863,201 | $0.50 |
| Outstanding, April 30, 2018 | 31,863,201 | $0.50 |
| Issued | 1,875,000 | $0.39 |
| Acquired form RTO (Note 4) | 663,400 | $0.37 |
| **Outstanding, April 30, 2019** | **34,401,601** | **$0.49** |

As at April 30, 2019, the Company had the following share purchase warrants outstanding:

| Outstanding | Exercise Price | Remaining Life (Years) | Expiry Date |
|---|---|---|---|
| 2,450,000 | $0.20 | 0.51 | November 1, 2019 |
| 2,248,260 | $0.50 | 0.51 | November 1, 2019 |
| 7,372,560 | $0.50 | 0.59 | December 1, 2019 |
| 1,583,330 | $0.20 | 0.61 | December 10, 2019 |
| 3,500,000 | $0.20 | 0.63 | December 15, 2019 |
| 2,650,000 | $0.50 | 0.87 | Mach 14, 2020 |
| 10,559,051 | $0.75 | 0.90 | March 23, 2020 |
| 80,400 | $0.50 | 1.23 | July 21, 2020 |
| 357,000 | $0.25 | 1.42 | October 1, 2020 |
| 226,000 | $0.50 | 1.67 | December 31, 2020 |
| 1,500,000 | $0.25 | 3.87 | March 14, 2023 |
| 1,100,000 | $0.45 | 3.87 | March 14, 2023 |
| 575,000 | $0.25 | 4.95 | April 8, 2024 |
| 200,000 | $0.45 | 4.95 | April 8, 2024 |
| 34,401,601 | $0.49 | 1.06 | |

(Expressed in Canadian Dollars)

## 9. CAPITAL STOCK (continued)

### e) Stock options

At April 30, 2019 and 2018, there are no stock options outstanding

### f) Share-based compensation

During the year ended April 30, 2019:

The Company recognizes compensation expense for all stock options and warrants granted as compensation using the fair value method of accounting. For the year ended April 30, 2019, the company recorded share-based compensation expense of $396,994 for 1,100,000 warrants issued to directors, and an additional $157,842 for 775,000 warrants issued to directors for a total compensation expense for $554,836 (Note 9d).

The Company calculated the fair value of warrants issued as compensation using the Black-Scholes option pricing model, for the 1,100,000 warrants with the following assumptions:

| | |
|---|---|
| Expected life | 4.4 years |
| Risk- free Interest rate | 2.04% |
| Expected volatility | 1 20% |
| Expected dividends yield | 0% |
| Forfeiture rate | 0% |

The Company calculated the fair value of warrants issued as compensation using the Black-Scholes option pricing model, for the 775,000 warrants with the following assumptions:

| | |
|---|---|
| Expected life | 5 years |
| Risk- free Interest rate | 2.04% |
| Expected volatility | 1 20% |
| Expected dividends yield | 0% |
| Forfeiture rate | 0% |

During the period ended April 30, 2018:

The Company recognizes compensation expense for all stock options and warrants granted as compensation using the fair value method of accounting. For the period ended April 30, 2018, the company recorded share-based compensation expense of $590,917 for 1,500,000 warrants issued to directors and management (Note 8d). The Company calculated the fair value of warrants issued as compensation using the Black-Scholes option pricing model, with the following assumptions:

| | |
|---|---|
| Expected life | 5 years |
| Risk- free Interest rate | 2.09% |
| Expected volatility | 120% |
| Expected dividends yield | 0% |
| Forfeiture rate | 0% |

(Expressed in Canadian Dollars)

## 10. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Key management of the Company are members of the Board of Directors, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO").

Transactions with key management personnel not disclosed elsewhere in the financial statements include the following:

Amounts paid for key management services include the following:

| | | | | **April 30, 2019** |
|---|---|---|---|---|
| Management fees to a former CEO* | $ | 98,750 | | |
| Contract fee to former CFO | $ | 57,500 | | |
| Contract fees for CEO services | $ | 120,000 | | |
| Contract fees for CFO services | $ | 12,500 | | |
| Contract fee for COO services | $ | 55,000 | | |
| Contract fees to the corporate secretary | $ | 98,275 | | |
| Total Management fees | | | $ | 442,025 |
| Consulting fees paid to a director | | | | 23,000 |
| Share-based compensation from warrants issued | | | | 554,836 |
| Office and rent expense paid to a former CEO | | | | 500 |
| | | | $ | 1,020,361 |

* Includes severance expense for $45,000

| | | | | **April 30, 2018** |
|---|---|---|---|---|
| Management fees to a former CEO | $ | 62,000 | | |
| Management fees to the CFO | $ | 22,250 | | |
| Management fees to a director and a former director | $ | 24,000 | | |
| Management fees to the corporate secretary | $ | 46,300 | | |
| Management fees a former CEO and director (included is $562,065 related to shares issued for management fees at the then prevailing market price) | $ | 717,063 | | |
| Total Management fees | | | $ | 871,613 |
| Share-based compensation from warrants issued | | | | 590,917 |
| Office and rent expense paid to a former CEO | | | | 5,000 |
| | | | $ | 1,467,530 |

## 10. RELATED PARTY TRANSACTIONS (continued)

As at April 30, 2019, the Company had the following balances with related parties:

- Included in due from related parties is $18,500 (April 30, 2018: $18,500) owed by the former CEO and director of the Company, and companies with management and directors in common with the Company;
- Included in accounts payable and accrued liabilities is $11,300 (April 30, 2018: $2,227) due to the related parties.
- The note payable is due to the former CEO as discussed in Note 7.

Amounts due to and from related parties are non-interest bearing with no terms of repayment, other than the note payable as discussed in Note 7 and 16.

## 11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The Company had the following non-cash transactions affecting cash flows from financing and investing activities during the year ended April 30, 2019 (see also note 4):

- The Company issued 6,662,796 shares for the acquisition as discussed in Note 4
- As at April 30, 2019, $100,560 on property and equipment additions are included in accounts payable and accrued liabilities
- The Company issued 326,556 shares for $146,955 of subscriptions received in advance
- The Company issued 3,500,000 shares for the settlement of convertible debentures of $525,000

The Company had no non-cash transaction affecting cash flows from financing and investing activities during the period ended April 30, 2018.

## 12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, due from related party, accounts payable, loan payable, and convertible debentures.

The Company's cash and cash equivalents is measured at fair value under the fair value hierarchy based on level one quoted prices in active markets for identical assets or liabilities. The presentation of the Company's due from related party and accounts payable is fair value, taking into account their short-term nature. The fair value of convertible debentures and the loan payable are measured on the statement of financial position using level 3 of the fair value hierarchy.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

**Financial risk management and objectives**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate risk, foreign currency risk, and commodity price risk).

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk and market risk

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is not exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flows primarily from its financing activities.

The Company manages its liquidity needs by carefully monitoring scheduled costs. Liquidity is measured in various time bands, on day to day and week-to-week basis, as well as on long term liquidity needs over 180 day to 360 day look out periods. Funding for long term liquidity needs is based on the ability of the Company to successfully complete private placements as well as, in certain cases, to pay the outstanding balances owed in shares of the Company rather than in cash.

As at April 30, 2019, the Company had cash of $1,622,730 and current liabilities of $462,461.

The Company considers expected cash flow from financial assets in managing liquidity risk. The Company's existing cash resources currently do not meet the current cash outflow requirements. As a result, the Company is at a risk of not being a going concern if management is unable to raise the appropriate funds prior to the maturity of the financial liabilities. Appropriate going concern disclosures have been made in Note 1.

## 12. FINANCIAL INSTRUMENTS (continued)

### Financial risk management and objectives (continued)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

*(a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

*(b) Price risk*

The Company is not exposed to significant price risk as it does not possess investments in publicly traded securities.

*(c) Currency risk*

The Company is not exposed to significant foreign exchange risk as all its operations are in Canada.

## 13. CONTINGENCIES AND COMMITMENTS

The Company's operations were governed by governmental laws and regulations regarding environmental protection. Environmental consequences are difficult to both predict and identify, in terms of level, impact or timeline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations in effect. Restoration costs will be accrued in the financial statements only when they will be reasonably estimated and will be charged to the earnings at the time.

On September 1, 2018, 2018, the Company executed a lease on real property and paid a rental deposit of $64,817. The triple net lease expires on August 31, 2023, subject to a 5 year renewal option at fair value rent. In years 1 and 2, the monthly rent (including common area cost) is $10,714, for years 3 and 4 $11,581 and year 5 $12,449. The common area cost will be increased to reflect cost increases. The Company has the option to acquire the property for $1,500,000. The option may be exercised at the end of the initial lease term on giving prior notice of at least six (6) months prior to the end of the initial lease term.

## 14. CAPITAL MANAGEMENT

The Company's capital structure has been defined by management as being comprised of shareholders' equity. The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its activities and general corporate costs. This is achieved by the Board of Directors review and acceptance of budgets that are achievable within existing resources made available from private placements or other funding.

The Company monitors its capital structure using annual forecasted cash flows, budgets and targets.

The Company currently has no source of revenues; as such the Company is dependent upon external financing to fund its activities. In order to carry future projects 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.

Based on available funds, the Company manages its capital structure and makes adjustments to it to maintain flexibility while achieving the objectives stated above as well as support future business opportunities. To manage the capital structure the Company may adjust its operating expenditure plans, or issue new common shares and warrants.

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. The Company is not subject to externally imposed capital requirements or covenants.

(Expressed in Canadian Dollars)

## 15. INCOME TAXES

The following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

| | | **April 30, 2019** | | **April 30, 2018** |
|---|---|---|---|---|
| Loss for the period | $ | (4,933,645) | $ | (2,130,528) |
| Tax rate | | 26% | | 26% |
| Expected income tax recoverable at statutory rate | $ | (1,282,748) | $ | (533,937) |
| Non-deductible items | | 796,048 | | 155,796 |
| Share issuance costs | | - | | (158,991) |
| Change due to acquisition, and other | | (477,691) | | - |
| Change in unrecognized deductible temporary differences | | 964,391 | | 557,132 |
| Total income tax recovery | $ | - | $ | - |

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:

| | | **April 30, 2019** | | **April 30, 2018** |
|---|---|---|---|---|
| **Deferred Tax Assets** | | | | |
| Non-capital losses available for future period | $ | 1,343,433 | $ | 429,940 |
| Share issuance costs | | 95,394 | | 127,192 |
| Debt with accretion | | 82,696 | | - |
| | | 1,521,523 | | 557,132 |
| Unrecognized deferred tax assets | | (1,521,523) | | (557,132) |
| Total deferred tax assets | $ | - | $ | - |

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

| | | **April 30, 2019** | **Expiry Date** | | **April 30, 2018** |
|---|---|---|---|---|---|
| **Temporary Differences** | | | | | |
| Share issuance costs | $ | 366,901 | 2038 – 2041 | $ | 489,202 |
| Debt with accretion | $ | 318,063 | No expiry | $ | - |
| Non-capital losses available for future period | $ | 5,167,051 | 2032 - 2039 | $ | 1,653,6138 |

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

## 16. SUBSEQUENT EVENTS

On May 16, 2019, the Company announced that Anahit International Corp. (“Anahit” or “Target”) and the Company entered into a non-binding letter of intent (“LOI”), which subject to, among other things, due diligence of each party, the negotiation and execution of a definitive agreement, certain conditions and applicable Canadian Securities Exchange (“CSE”) approval, will result in the reverse takeover of the Company by Anahit (“Proposed Transaction”). After completion of the Proposed Transaction, the shareholders and certain convertible security holders of the Company will hold approximately 20% of the issued common shares of the resulting issuer, with current shareholders and convertible security holders of Anahit holding approximately the remaining 80%, on a partially diluted basis. If completed, the Proposed Transaction will constitute a Fundamental Change, as such term is defined in the policies of the CSE.

On May 23, 2019, the Company announced that the Board of Directors have secured extended and improved terms of a loan note initially payable on March 15, 2020 (Note 7), to a founder and former Director of the Company. The principal amount of one million dollars ($1,000,000), negotiated as part of a capital restructuring of the Company in March 2018, will now bear a simple interest rate of 5% p.a. and will be payable in five equal annual installments. Additionally, subject to terms and conditions of an escrow agreement and all regulatory and exchange approvals, the Company will issue the lender 125,000 common shares at a deemed purchase price of $0.21 per share with 25,000 vesting immediately and 20,000 common shares vesting on each of the five anniversary dates beginning on March 15, 2020.

Subsequent to year end, three separate small claims actions have been commenced against the Company in British Columbia's Small Claims Court for damages in lieu of shares which the Plaintiffs allege were purchased by the Plaintiffs in January 2014, but not issued by the Company. The Company has defended against the Claim and specifically denies the Plaintiff’s entitlement to shares or damages in lieu.

Subsequent to the year end, the former corporate secretary of the Company filed legal action against the Company for severance pay. The Company is defending this claim, and believes it is too early to access the outcome of the claim and the liability, if any.