# **Osoyoos Cannabis Inc.** (formerly LKP Solutions Inc).

## Condensed Interim Consolidated Financial Statements

**(Unaudited- expressed in Canadian dollars)**

**January 31, 2020**

# **Osoyoos Cannabis Inc. (**formerly LKP Solutions Inc.**)**

(Unaudited)
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## NOTICE TO READER

The accompanying condensed interim consolidated financial statements of Osoyoos Cannabis Inc. (formerly LKP Solutions Inc.) as at and for the nine months ended January 31, 2020 have been prepared by management and approved by the Board of Directors of the Company. These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

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

| | Notes | | As at January 31 2020 | | As at April 30 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | | $ | 450,240 | $ | 1,622,730 |
| GST and HST receivable | | | 378,478 | | 301,424 |
| Deferred cost | | | 25,000 | | - |
| Prepaid expenses | | | 95,425 | | 50,000 |
| Due from related party | 10 | | 18,500 | | 18,500 |
| | | | 967,643 | | 1,992,654 |
| **Property and equipment** | 5 | | 2,154,911 | | 2,050,842 |
| **Right-of-use asset** | 13 | | 401,342 | | - |
| **Rental deposit** | 12 | | 64,817 | | 64,817 |
| **Total assets** | | $ | 3,588,713 | $ | 4,108,313 |
| **Liabilities and shareholders' deficiency** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | 6,10 | $ | 175,014 | $ | 235,356 |
| Accrued interest payable | | | 46,597 | | 52,939 |
| Lease obligation | 14 | | 102,440 | | - |
| Loan payable | 7 | | 125,000 | | 174,166 |
| | | | 449,051 | | 462,461 |
| **Loan payable** | 7 | | - | | 696,664 |
| **Lease obligation** | 14 | | 314,119 | | - |
| **Convertible debentures** | 8 | | 397,424 | | 311,107 |
| **Total liabilities** | | | 1,160,594 | | 1,470,232 |
| **Shareholders' equity** | | | | | |
| Capital Stock | 9 | | 7,711,860 | | 7,556,860 |
| Contributed surplus | | | 281,816 | | 281,816 |
| Warrant reserve | | | 623,521 | | 623,521 |
| Share-based payment reserve | | | 1,145,753 | | 1,145,753 |
| Convertible debentures | 8 | | 94,304 | | 94,304 |
| Accumulated deficit | | | (7,429,135) | | (7,064,173) |
| Total shareholders' equity | | | 2,428,119 | | 2,638,081 |
| **Total liabilities and shareholders' equity** | | $ | 3,588,713 | $ | 4,108,313 |

| | |
|---|---|
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Approved by the Board of Directors on March 26, 2020

"Graham Simmonds", Director "Gerry Goldberg", Director

*The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.*

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

| | Notes | Three months ended January 31, 2020 | Three months ended January 31, 2019 | Nine months ended January 31, 2020 | Nine months ended January 31, 2019 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Expenses** | | | | | |
| Accretion | 7, 8 | 15,491 | 52,871 | 175,643 | 166,246 |
| Advertising and promotion | | - | 4,095 | - | 7,309 |
| Amortization of right-to-use asset | 13 | 27,641 | - | 82,923 | - |
| Consulting fees | | 7,500 | 14,000 | 102,521 | 66,547 |
| Contract fees | | 59,501 | 20,520 | 112,701 | 34,044 |
| Development costs | | 3,666 | 14,146 | 10,326 | 19,627 |
| Insurance | | 22,500 | 22,596 | 67,500 | 35,096 |
| Interest expense | | 30,872 | 56,950 | 76,454 | 192,283 |
| Investor relations | | - | 14,940 | - | 52,640 |
| Loss on repayment of debenture debts | | - | - | - | 47,676 |
| Management fees | 10 | 65,000 | 146,450 | 200,000 | 363,450 |
| Office and administration | | 2,904 | 21,890 | 15,838 | 27,327 |
| Professional fees | | 579 | 47,109 | 138,550 | 150,228 |
| Rent | | - | 27,327 | - | 41,792 |
| Share based compensation | | | - | - | 396,994 |
| Transfer agent and regulatory fees | | 4,375 | 12,172 | 15,032 | 20,525 |
| Travel | | 6,649 | 222 | 12,474 | 9,631 |
| **Total Expenses** | | (246,678) | (455,288) | (1,009,962) | (1,631,415) |
| Gain on restructuring of debt | 7 | - | - | 645,000 | - |
| Loss from acquisition of subsidiary | | - | (20,000) | - | (2,506,084) |
| **Net loss and comprehensive loss for the period** | | $ (246,678) | (475,288) | (364,962) | (4,137,499) |
| **Loss per share** | | | | | |
| Loss per common share: Basic and diluted | | $ (0.01) | (0.02) | (0.01) | (0.16) |
| Weighted average number of common shares outstanding: Basic and diluted | | 36,538,346 | 30,892,146 | 35,628,454 | 26,429,739 |

*The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.*

**Osoyoos Cannabis Inc.** (formerly LKP Solutions Inc.).
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
(Unaudited- Expressed in Canadian Dollars)

| | **Number of common shares outstanding** | **Share capital** | **Subscription received in advance** | **Contributed Surplus** | **Warrant reserve** | **Share-based payment reserve** | **Convertible debentures** | **Deficit** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Balance as of April 30, 2018 | 23,706,283 | $ 4,831,066 | $ 146,955 | $ | $ 623,521 | 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 (Note 9) | - | 5,000 | - | - | - | - | - | - | 5,000 |
| Shares for finders' fees (Note8) | 139,522 | - | - | - | - | - | - | - | - |
| Repayment of convertible debentures Note 8) | - | - | - | - | - | - | (10,886) | - | (10,886) |
| Reverse takeover of subsidiary (Note 4, 9) | 6,632,828 | 1,998,847 | - | - | - | - | - | - | 1,998,847 |
| Share based compensation | - | - | - | - | - | 396,994 | - | - | 396,994 |
| Shares issued for debenture interest | 333,334 | 50,000 | - | - | - | - | - | - | 50,000 |
| Net loss for the period | - | - | - | - | - | - | - | (4,137,499) | (4,137,499) |
| **Balance as at January 31, 2019** | **31,138,523** | **$ 7,031,868** | **$ -** | **$ 281,816** | **$ 623,521** | **987,911** | **$ 94,304** | **$ (6,268,027)** | **$** 2,751,393 |
| Balance as of April 30, 2019 | 34,670,157 | $ 7,556,860 | $ - | $ 281,816 | $ 623,521 | 1,145,753 | $ 94,304 | $ (7,064,173) | $ 2,638,081 |
| Shares issued for debt settlement (note 9) | 125,000 | 25,000 | - | - | - | - | - | - | 25,000 |
| Shares issued for debenture interest (Note 9) | 166,667 | 25,000 | - | - | - | - | - | - | 25,000 |
| Shares issued for debt settlement (Note 7 and 9) | 1,500,000 | 105,000 | - | - | - | - | - | - | 105,000 |
| Adjustment for reverse merger transaction (Note 9) | 220,000 | - | - | - | - | - | - | - | - |
| Net loss for the period | - | - | - | - | - | | - | (364,962) | (364,962) |
| **Balance as at January 31, 2020** | **36,681,824** | **$ 7,711,860** | **$ -** | **$ 281,816** | **$ 623,521** | **1,145,753** | **$ 94,304** | **$ (7,429,135)** | **$** 2,428,119 |

*The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.*

# **Osoyoos Cannabis Inc.** (formerly LKP Solutions Inc.)
Condensed Interim Consolidated Statement of Cash Flows
(Unaudited- Expressed in Canadian Dollars)

| | | Nine months ended January 31, 2020 | | Nine months ended January 31, 2019 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net loss for the period | $ | (364,962) | $ | (4,137,499) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | | |
| Accretion | | 157,640 | | 166,246 |
| Amortization of finance fees (Note 8) | | 57,846 | | 118,637 |
| Shares and accrual for interest | | 18,658 | | 28,969 |
| Accretion on lease obligation (Note 14) | | 18,003 | | - |
| Amortization of right-of-use asset (Note 13) | | 82,923 | | - |
| Gain on restructuring the debt (Note 7) | | (645,000) | | - |
| Loss on acquisition of subsidiary | | - | | 2,506,084 |
| Share based compensation | | - | | 396,994 |
| Loss on repayment of debenture debts | | - | | 47,676 |
| GST and HST receivable | | (77,054) | | (193,958) |
| Prepaid expenses | | (45,425) | | (72,155) |
| Accounts payable and accrued liabilities | | (60,341) | | 123,109 |
| **Total cash used by operating activities** | | (857,712) | | (1,015,897) |
| **Cash flows from investing activities** | | | | |
| Equipment (Note 5) | | (104,069) | | (1,709,520) |
| Rental deposit | | - | | (64,817) |
| Lease obligation expense | | (85,709) | | 1,757 |
| **Total cash used by investing activities** | | (189,778) | | (1,772,580) |
| **Cash flows from financing activities** | | | | |
| Shares issued for cash | | - | | 5,000 |
| Repayment of debt | | (125,000) | | - |
| Convertible debentures | | - | | (105,000) |
| Due to related parties | | - | | (208,303) |
| **Total cash used by financing activities** | | (125,000) | | (308,303) |
| **Total decrease in cash during the period** | | (1,72,490) | | (3,096,780) |
| **Cash and cash equivalents - Beginning of period** | | 1,622,730 | | 5,240,734 |
| **Cash and cash equivalents - End of period** | | 450,240 | $ | 2,143,954 |
| **Cash (paid) received for** | | | | |
| Interest | $ | (18,842) | $ | (52,500) |
| Taxes | $ | - | $ | - |

*The notes to the condensed interim consolidated financial statements are an integral part of these 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.

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 January 31, 2020 the Company had cash of $450,240 (April 30, 2019 - $1,622,730), working capital of $518,592 (April 30, 2019 - $,1,530,193), and an accumulated deficit of $7,429,135 (April 30, 2019 - $7,064,173). 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 condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. 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 and its subsidiary is the Canadian dollar, which is also the Company's reporting currency.

## 2. BASIS OF PRESENTATION (continued)

### Statement of compliance

These interim consolidated financial statements (the "financial statements") are unaudited and have been prepared on a condensed basis in accordance with International Accounting Standard 34, Interim Financial Reporting issued by the International Accounting Standards Board ("IASB"), using accounting policies of International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended April 30, 2019, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements are based on accounting policies as described in the April 2019 annual consolidated financial statements except that, effective May 1, 2019, the Company implemented IFRS 16 'Leases' (see notes 3, 13 and 14).

### 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.

## 2. BASIS OF PRESENTATION (continued)

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.

*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 March 26, 2020.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the consolidated financial statements at April 30, 2019 have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

**New standards adopted**

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

At May 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

-Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Leases and right-of-use assets (continued)

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

The Company adopted this standard and the impact on the Company's unaudited condensed interim consolidated financial statements are disclosed in note 13 and 14.

(b) Uncertainty over Income Tax Treatments: On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after May 1, 2019. The Company adopted this standard at May 1, 2019 and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

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.

(Unaudited-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) |

## 5. PROPERTY AND EQUIPMENT

| | | Equipment * | | Leasehold improvements ** | | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 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 |
| Additions | | - | | 104,069 | | 104,069 |
| Balance at January 31, 2020 | | 2,011,200 | | 143,711 | | 2,154,911 |
| **Net Book Value** | | | | | | |
| Balance, January 31, 2020 | $ | 2,011,200 | $ | 143,711 | $ | 2,154,911 |
| **Balance, April 30, 2019** | **$** | **2,011,200** | **$** | **39,642** | **$** | **2,050,842** |

*No amortization has been taken on these assets, as they are not yet in use by the Company
** The leasehold improvements are in progress and will be amortized when completed

(Unaudited-Expressed in Canadian Dollars)

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | | January 31, 2020 | | April 30, 2019 |
|---|---|---|---|---|
| Accounts payable | $ | 97,789 | $ | 70,070 |
| Accrued liabilities | | 77,225 | | 64,726 |
| Payable on equipment | | - | | 100,560 |
| Total accounts payable and accrued liabilities | $ | 175,014 | $ | 235,356 |

## 7. LOAN PAYABLE

The loan payable to the former CEO arises from the surrender of shares and was unsecured and non-interest bearing with a due date of March 15, 2020. Effective May 1, 2018, the loan was discounted to fair value of $718,184 using market rate. The loan was to be accreted to fair value over the term of the loan. On May 23, 2019, the Company secured extended and improved terms of the loan note initially payable on March 15, 2020. The principal amount of one million dollars ($1,000,000), negotiated as part of a capital restructuring of the Company in March 2018, would bear a simple interest rate of 5% p.a. and 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 issued to the lender 125,000 common shares with 25,000 vesting immediately and 20,000 common shares vesting on each of the five anniversary dates beginning on March 15, 2020. The share issuance cost of $25,000 have been deferred to be amortized over the period of the loan. The former CEO is no longer considered a related party.

At April 30, 2019 the carrying value of the loan was $1,000,000 less $129,170 of unamortized discount. The Company recorded accretion expense for $129,170 during the three- month period ended July 31, 2019.

On September 23, 2019, the Company announced that in final settlement of the debt of $1,000,000. The Company has issued the creditor 1,500,000 shares of the Company fair valued at $105,000, paid cash of $125,000 and executed a promissory note in the principal amount of $125,000, which accrues interest at 5% per annum and is due May 31, 2020. The settlement resulted in a gain on restructuring of debt in the amount of $645,000.

## 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

(Unaudited-Expressed in Canadian Dollars)

**8. CONVERTIBLE DEBENTURES (Continued)**

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 three months ended July 31, 2019 the Company expensed interest expense of $12,500 (July 31, 2018 -$26,829) 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 January 31, 2020 the Company's convertible notes were as follows:

| | | Equity component of convertible debenture | | Liability portion of convertible debenture | | Total |
|---|---|---|---|---|---|---|
| Balance as of 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** | **$** | **405,411** |
| Amortization of finance costs | | - | | 57,846 | | 57,846 |
| Accretion | | - | | 28,471 | | 28,471 |
| **Balance, January 31, 2020** | **$** | **94,304** | **$** | **397,424** | **$** | **491,728** |

**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 January 31, 2020, the Company has 36,681,824 class A common shares issued and outstanding.

## 9. CAPITAL STOCK (Continued)

### 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 January 31, 2020 and April 30, 2019.

### c) Share issuances

During the nine-month period ended January 31, 2020, the Company had the following share issuances:

- On May 23, 2019, the Company issued 125,000 common shares to the former CEO for loan settlement (Note 7)
- On August 15, 2019, the Company issued 166,667 shares to repay interest accrued for $25,000 on convertible debentures
- On September 23, 2019, the Company issued 1,500,000 common shares to the former CEO for loan settlement (Note 7)
- On October 22, 2019, the Company issued 20,000 common shares being settlement with a plaintiff with regard to share issuance relating to the prior year reverse merger.
- On January 6, 2020, the Company issued 200,000 common shares being settlement with a plaintiff with regard to share issuance relating to the prior year reverse merger.

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.

### 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.

(Unaudited-Expressed in Canadian Dollars)

## 9. CAPITAL STOCK (Continued)

### d) Warrants (Continued)

On October 22, 2019, the Company issued 20,000 warrants being settlement with a plaintiff regarding warrant issuance relating to the prior year reverse merger. These warrants are exercisable at $0.50 until October 21, 2021.

On January 6, 2020, the Company issued 200,000 warrants being settlement with a plaintiff regarding warrant issuance relating to the prior year reverse merger. These warrants are exercisable at $0.50 until January 5, 2022.

The following is a summary of changes in warrants:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| 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 |
| Issued | 220,000 | $0.50 |
| Expired | (7,533,330) | $0.20 |
| Expired | (9,620,820) | $0.50 |
| **Outstanding, January 31, 2020** | **17,467,451** | **$0.61** |

As at January 31, 2020, the Company had the following share purchase warrants outstanding:

| Outstanding | Exercise Price | Remaining Life (Years) | Expiry Date |
|---|---|---|---|
| 2,650,000 | $0.50 | 0.17 | March 14, 2020* |
| 10,559,051 | $0.75 | 0.15 | March 23, 2020* |
| 80,400 | $0.50 | 0.48 | July 21, 2020 |
| 357,000 | $0.25 | 0.67 | October 1, 2020 |
| 226,000 | $0.50 | 0.92 | December 31, 2020 |
| 20,000 | $0.50 | 1.75 | October 21, 2021 |
| 200,000 | $0.50 | 2.00 | January 5, 2022 |
| 1,500,000 | $0.25 | 3.12 | March 14, 2023 |
| 1,100,000 | $0.45 | 3.12 | March 14, 2023 |
| 575,000 | $0.25 | 4.20 | April 8, 2024 |
| 200,000 | $0.45 | 4.20 | April 8, 2024 |
| 17,467,451 | $0.61 | 0.51 | |

*Subsequent to the quarter, these warrants expired on their expiry dates.

### e) Stock Options

At January 31, 2020 and April 30, 2019, there are no stock options outstanding

(Unaudited-Expressed in Canadian Dollars)

## 9. CAPITAL STOCK (Continued)

### 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% |

## 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”) , the Chief Financial Officer (“CFO”) and Chief Operating Officer (“COO”)

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

(Unaudited-Expressed in Canadian Dollars)

## 10. RELATED PARTY TRANSACTIONS (Continued)

Key management remuneration includes the following:

| | | Three months January 31, 2020 | Nine months January 31, 2020 |
|---|---|---|---|
| Contract fees for CEO services | $ | 27,500 | 87,500 |
| Contract fees to CFO services | | 7,500 | 22,500 |
| Contract fees for COO services | | 30,000 | 90,000 |
| | $ | 65,000 | 200,000 |
| Consulting fees paid to directors | | - | 84,000 |
| | $ | 65,000 | 284,000 |

On January 20, 2020, the Company announced today that the board of directors accepted the resignation of Ernie Eves as a director of the Company and appointed Graham Simmonds, Tyler Devenyi and Larry Horwitz to serve as directors of the Company, all effective January 16, 2020. The Company also appointed Graham Simmonds to serve as the Company's new CEO, effective January 16, 2020. Gerry Goldberg, who previously served as Interim CEO and Executive Chairman, will continue to serve as the Company's Executive Chairman.

| | | Three months January 31, 2019 | | Nine months January 31, 2019 |
|---|---|---|---|---|
| Management fees to the former CEO* | $ | 55,000 | $ | 98,750 |
| Contract fees to the former CFO | $ | 11,750 | | 57,500 |
| Contract fees to the COO | $ | 22,500 | | 30,000 |
| Management fees to a director or to a company controlled by the director and CEO | $ | 30,000 | | 90,000 |
| Contract fees to CFO or a company controlled by the CFO | $ | 5,000 | | 5,000 |
| Contract fees to the corporate secretary | $ | 22,200 | | 82,200 |
| | | 146,450 | $ | 363,450 |
| Consulting fees paid to a director | | - | | 20,000 |
| Share-based compensation to directors from warrants issued | | - | | 396,994 |
| Office and rent expense paid to the former CEO | | - | | 500 |
| | | 146,450 | $ | 780,944 |

* Includes severance expense for $45,000

As at January 31, 2020, the Company had the following balances with related parties:

- Included in due from related parties is $18,500 (April 30, 2019: $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 $Nil (April 30, 2019: $11,300) due to related parties.

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.

## 11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, due from related party, rental deposit, 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 rental deposit and loan payable approximates fair value. The fair value of convertible debentures 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

<u>Credit risk</u>

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.

<u>Liquidity risk</u>

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.

**11. FINANCIAL INSTRUMENTS (**continued)

**Financial risk management and objectives (continued)**

Liquidity risk (Continued)

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 January 31, 2020, the Company had cash of $450,240 and current liabilities of $449,051.

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.

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.

(Unaudited-Expressed in Canadian Dollars)

## 12. 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, 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.

## 13. RIGHT-OF-USE ASSET

| | |
|---|---|
| IFRS 16-right-of-use asset recognition | $484,265 |
| **Right -of-use asset at May 1, 2019** | **$484,265** |
| Amortization | (82,923) |
| **Balance, January 31, 2020** | **$401,342** |

Right-of-use asset consists of sub-lease for warehouse space amortized over 52 months.

## 14. LEASE LIABILITIES

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10% which is the Company's incremental borrowing rate. The effective interest rate is 10.47%. The continuity of the lease liabilities is presented in the table below:

| | |
|---|---|
| **Balance April 30, 2019** | **$484,265** |
| Interest accretion expense | $18,003 |
| Lease payments prepaid | $10,713 |
| Lease payments made during the period | $(96,422) |
| **Balance January 31, 2020** | **$416,559** |

| | |
|---|---|
| As at January 31, 2020 | |
| Less than one year | $102,440 |
| Greater than one year | $314,119 |
| Total lease obligation | $416,559 |

### 15. SUBSEQUENT EVENT

Since December 31, 2019, the break of the novel strain of coronavirus, specially identified as "COVID-19" has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.