# LEVIATHAN CANNABIS GROUP INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## Nine Months Ended May 31, 2019 and May 31, 2018
(in Canadian Dollars)

## NOTICE TO READER

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(2) issued by the Canadian Securities Administrators, if the auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating the financial statements have not been reviewed by the auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the interim periods ended May 31, 2019 and May 31, 2018 have been prepared in accordance with IFRS and are the responsibility of the Company's management.

The Company's independent auditors, MNP LLP, have not performed a review of the unaudited condensed interim financial statements for the interim periods ended May 31, 2019 and May 31, 2018 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an entity's auditor.

**LEVIATHAN CANNABIS GROUP INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**MAY 31, 2019 (UNAUDITED) AND AUGUST 31, 2018**

(in Canadian dollars)

| As at | | May 31 2019 | | August 31 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | $ | 1,819,647 | $ | 2,869,583 |
| Trade Receivable | | - | | 18,875 |
| Note Receivable | | - | | 98,013 |
| Financing Proceeds Receivable | | 360,981 | | 103,030 |
| Deposit and Deferred Acquisition Costs (Note 15 (b)) | | 58,121 | | 290,732 |
| Prepaid Expenses | | 144,041 | | 162,345 |
| HST Recoverable | | 372,626 | | 188,987 |
| | | 2,755,417 | | 3,731,565 |
| Property, Plant & Equipment (Note 7) | | 4,990,215 | | 4,539,337 |
| License in Progress (Note 5) | | 36,597,192 | | 36,597,192 |
| | **$** | **44,342,824** | **$** | **44,868,094** |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Accounts Payable & Accrued Liabilities | $ | 310,018 | $ | 731,579 |
| Interest Payable on Long Term Debt (Note 8) | | 60,000 | | - |
| Purchase Price Payable (Note 5) | | - | | 688,132 |
| | | 370,018 | | 1,419,711 |
| Long Term Debt (Note 8) | | 3,629,934 | | 3,449,424 |
| | | 3,999,953 | | 4,869,135 |
| **Minority Interest** (Note 10) | | (32,803) | | - |
| **Equity** | | | | |
| Share capital (Note 9 (a)) | | 43,746,367 | | 42,415,746 |
| Shares to be Issued | | - | | 25,000 |
| Warrants | | 2,477,380 | | 1,822,000 |
| Options | | 5,816,514 | | 5,351,347 |
| Deficit | | (11,664,586) | | (9,615,134) |
| | | 40,375,674 | | 39,998,959 |
| | **$** | **44,342,824** | **$** | **44,868,094** |

*The accompanying notes, including Nature of Business and Going Concern Assumption (Note 1), Contingencies (Note 5), Commitments (Note 13) and Subsequent Events (Note 15), are an integral part of these financial statements.*

*On Behalf of the Board of Directors:*

*"Martin J. Doane"*
*Board Chair*

*"R. David Jarvis"*
*Audit Committee Chair*

**LEVIATHAN CANNABIS GROUP INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS**
**THREE MONTHS AND NINE MONTHS ENDED MAY 31, 2019 AND MAY 31, 2018 (UNAUDITED)**

(in Canadian dollars)

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| **For the periods ended May 31,** | **2019** | **2018** | **2019** | **2018** |
| **Revenue** | | | | |
| Branding Service | $ - | $ 22,124 | $ 79,503 | $ 24,611 |
| **Expenses** | | | | |
| Amortization | 640 | 313 | 2,764 | 521 |
| Bad Debt | 18,875 | - | 18,875 | - |
| Construction | 28,351 | - | 129,446 | - |
| Foreign Exchange (Gain) Loss | (6,312) | - | 20,331 | - |
| Interest (Note 8) | 106,578 | - | 296,304 | - |
| Investor Relations & Fees | 52,450 | - | 136,602 | - |
| Marketing | 11,610 | - | 57,446 | - |
| Office & General | 23,896 | 11,093 | 82,922 | 35,691 |
| Professional Fees | 18,791 | 34,001 | 282,584 | 99,659 |
| Rent | 9,478 | 16,182 | 45,839 | 24,897 |
| Salaries, Wages & Consulting Fees | 294,092 | 104,500 | 1,211,195 | 161,100 |
| Share Based Compensation (Note 9(b)) | 90,990 | 1,857,139 | 465,167 | 1,857,139 |
| Travel & Promotion | 7,695 | 35,407 | 42,566 | 37,844 |
| Utilities | 3,061 | - | 22,185 | - |
| | 660,196 | 2,058,635 | 2,814,227 | 2,216,851 |
| **Net Loss Before Under-Noted** | **$ (660,196)** | **$ (2,036,511)** | **$ (2,734,723)** | **$ (2,192,240)** |
| Loss on Note Receivable (Note 6(a)) | (50,000) | - | (50,000) | - |
| Gain on Purchase Price Payable (Note 5) | 735,271 | - | 735,271 | - |
| **Net and Comprehensive Income (Loss)** | **$ 25,075** | **$ (2,036,511)** | **$ (2,049,452)** | **$ (2,192,240)** |
| **Weighted Average Number of Common Shares Outstanding – Basic and Diluted (Note 11)** | **94,743,603** | **49,593,603** | **94,661,544** | **44,557,583** |
| **Basic and Fully Diluted Loss per Share** | **$ 0.00** | **$ (0.04)** | **$ (0.02)** | **$ (0.05)** |

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

**LEVIATHAN CANNABIS GROUP INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**NINE MONTHS ENDED MAY 31, 2019 AND MAY 31, 2018 (UNAUDITED)**
(in Canadian dollars)

| | Number of Shares | Share Capital | Shares to be Issued | Warrants | Options | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance, August 31, 2017** | **37,426,936** | **$ 3,024,769** | **$ -** | **$ -** | **$ 492,288** | **$ (3,661,062)** | **$ (144,005)** |
| Comprehensive Loss for the Period | - | - | - | - | - | (33,537) | (33,537) |
| **Balance, May 31, 2018** | **37,426,936** | **$ 3,024,769** | **$ -** | **$ -** | **$ 492,288** | **$ (3,694,599)** | **$ (177,542)** |
| | | | | | | | |
| **Balance, August 31, 2018** | **90,771,601** | **$ 42,415,746** | **$ 25,000** | **$ 1,822,000** | **$ 5,351,347** | **$ (9,615,134)** | **$ 39,998,959** |
| Private Placement (Note 9(a)) | 3,972,002 | 1,330,621 | (25,000) | 655,380 | - | - | 1,961,001 |
| Stock Options Issued (Note 9(b)) | - | - | - | - | 465,167 | - | 465,167 |
| Comprehensive Loss for the Period | - | - | - | - | - | (2,049,452) | (2,049,452) |
| **Balance, May 31, 2019** | **94,743,603** | **$ 43,746,367** | **$ -** | **$ 2,477,380** | **$ 5,816,514** | **$ (11,664,586)** | **$ 40,375,675** |

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

**LEVIATHAN CANNABIS GROUP INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**
**NINE MONTHS ENDED MAY 31, 2019 AND MAY 31, 2018 (UNAUDITED)**
(in Canadian dollars)

| For the nine months ended May 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| **Cash Flow from Operating Activities** | | | | |
| Net Loss and Comprehensive Loss | $ | (2,049,452) | $ | (2,192,241) |
| Add-Back (Deduct) Non-Cash Items | | | | |
| Amortization | | 57,446 | | 521 |
| Interest | | 227,649 | | - |
| Share Based Compensation | | 465,167 | | 1,857,139 |
| Loss on Note Receivable | | 50,000 | | |
| Gain on Purchase Price Payable (Note 5) | | (735,271) | | - |
| Changes in Non-Cash Working Capital: | | | | |
| Trade Receivable | | 18,875 | | - |
| Notes receivable | | 48,013 | | - |
| Deposit and Deferred Acquisition Costs (Note 15(b)) | | 232,611 | | - |
| Prepaid Expenses | | 18,304 | | (12,739) |
| HST Recoverable | | (183,639) | | (26,218) |
| Accounts Payable & Accrued Liabilities | | (421,561) | | 208,391 |
| Interest Payable on Long Term Debt | | 60,000 | | - |
| | | (2,211,857) | | (165,147) |
| **Cash Flow from Financing Activities** | | | | |
| Subscription Receivable | | - | | 100,000 |
| Private Placement | | 1,703,050 | | - |
| | | 1,703,050 | | 100,000 |
| **Cash Flow from Investing Activities** | | | | |
| Acquisition of Business | | - | | 86,127 |
| Property, Plant & Equipment | | (508,324) | | - |
| Minority Interest | | (32,803) | | - |
| | | (541,128) | | 86,127 |
| **Increase (Decrease) in Cash** | | (1,049,936) | | 20,979 |
| **Cash, Beginning of Period** | | 2,869,583 | | 15,239 |
| **Cash, End of Period** | $ | 1,819,647 | $ | 36,218 |

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

## 1. NATURE OF BUSINESS AND GOING CONCERN

### Nature of Business

Leviathan Cannabis Group Inc. (the "Company" or "Leviathan Group") is a Canadian cannabis company. The Company's portfolio comprises the wholly-owned subsidiaries Jekyll + Hyde Brand Builders Inc. ("Jekyll + Hyde"), a cannabis-focused marketing services agency; and Woodstock Biomed Inc. ("Woodstock"), a late stage medicinal cannabis applicant under the Health Canada Access to Cannabis for Medical Purposes Regulations ("ACMPR"); the 75% owned subsidiary Leviathan US, Inc. ("Leviathan US"), a proposed hemp processing facility currently under renovation in Tennessee, USA; and the wholly-owned subsidiary Bathurst Resources Corp. ("Bathurst"), a dormant, non-operating subsidiary.

Leviathan Cannabis Group Inc. (the "Company") is a publicly traded company incorporated and domiciled in Canada. The Company's registered office is Suite 116, 250 The Esplanade, Toronto, Ontario M5H 4J6. The Company's common shares are listed on the Canadian Securities Exchange under the symbol EPIC.

### Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Management has forecasted the expected expenditure levels and contracted commitments will exceed the Company's net cash inflows and working capital during the fourth quarter of fiscal 2019 unless further financing is obtained. Additional sources of funding will be required during fiscal 2019 to carry on operations and/or to realize on investment opportunities. The Company's future operations are dependent upon its ability to secure additional funds and generate product sales. While the Company is striving to achieve these plans, there is no assurance that these and other strategies will be achieved, or such sources of funds will be available or obtained on favourable terms or obtained at all. Historically, the Company has obtained funding via the issuance of shares and warrants. If the Company cannot secure additional financing on terms that would be acceptable to it or otherwise generate product sales, the Company will have to consider additional strategic alternatives which may include, among other strategies, cost curtailments and delays of product launch, as well as seeking to license and/or divest assets or a merger, sale or liquidation of the Company. These material uncertainties cast significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the condensed interim consolidated statements of financial position classifications used.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all of the information required for full annual consolidated financial statements.

These condensed interim consolidated financial statements were approved by the Board of Directors on July 29, 2019.

### (b) Basis of presentation and consolidation

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These consolidated financial statements include the accounts of the Company and its wholly-owned (100%) subsidiaries, Jekyll and Hyde Brand Builders Inc. (“J&H”), Bathurst Resources (“Bathurst’) and Woodstock Biomed Inc. (“Woodstock”) plus the Company’s majority-owned (75%) subsidiary Leviathan US, Inc. (“Leviathan US”).

### (c) Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category of financial asset is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of loss and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the future cash flows associated with a financial asset or a group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments - continued

Financial liabilities

The Company's accounting policy for each category of financial liability is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

*Other financial liabilities* - This category includes accounts payables and accrued liabilities which are recognized at amortized cost.

The Company's financial instruments and classifications are as follows:

| Financial Instrument | Classification |
|---|---|
| ***Assets*** | |
| Cash | Loans and receivables |
| Trade receivables | Loans and receivables |
| Financing proceeds receivable | Loans and receivables |
| Notes and Deposit receivable | Loans and receivables |
| ***Liabilities*** | |
| Accounts payable | Other financial liabilities |
| Purchase price payable | Other financial liabilities |
| Long-term debt | Other financial liabilities |

### (d) Revenue recognition

Revenue during the nine months ended May 31, 2019 was derived from branding services rendered by Jekyll and Hyde Brand Builders Inc.

Revenue from services is measured by reference to the fair value of consideration received or receivable for services rendered. Revenue is recognized when the specific performance requirements as outlined in the client engagement letter have been performed and when there is reasonable assurance of collection.

The Company may enter into sales agreements with customers that have multiple element arrangements. When these multiple elements have standalone value to the customer, the components are accounted for separately, based on the relative selling prices, using the appropriate revenue recognition criteria as described above.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Provisions

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

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

The Company had no material provisions at May 31, 2019.

### (f) Share based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

### (g) Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive.

### (h) Significant accounting judgments and estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Significant accounting judgments and estimates (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. The following are the key estimate and assumption uncertainties:

- Intangible asset
- Share based compensation

### (i) Future Accounting Pronouncements

Standards issued but not yet effective up to the date of issuance of the Company's financial statements, but which may affect the financial statements are listed below. The Company intends to adopt those standards when they become effective.

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB in its final version in July 2014, and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company will adopt this standard for the period beginning September 1, 2018. The Company does not expect a significant impact upon the adoption of this standard.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued in May 2014 and clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications), and improve guidance for multiple-element arrangements. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company will adopt this standard for the period beginning September 1, 2018. The impact of adoption of IFRS 15 will have no significant impact on the Company's financial results as reported, however, may require additional disclosure breaking down revenue by element.

IFRS 16 – Leases sets out a new model for lease accounting, replacing IAS 17. "Leases" and related interpretations. Under this new standard, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the consolidated statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for accounting years beginning on or after January 1, 2019. The Company has not yet completed its impact assessment for the adoption of this standard.

## 3. FINANCIAL RISK FACTORS

The Company's risk exposure and the impact on its financial instruments are summarized below:

**Credit Risk**
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment/contractual obligations. The Company has deposited its cash with reputable Canadian financial institutions, from which management believes the risk of loss is minimal. The Company has Notes and Deposit Receivable and Financing Proceeds Receivable were received subsequent to the end of the reporting period.

**Liquidity Risk**
The Company's approach to managing liquidity risk is to ensure that it has sufficient liquidity to meet liabilities when due. As at May 31, 2019, the Company has current assets of $2,755,417 to settle current financial liabilities of $370,018 (Note 1).

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

*Interest Rate Risk*
The Company's current policy is to invest excess cash in investment-grade short term deposit certificates issued by its banking institutions. The Company monitors the investments it makes and is satisfied with the credit ratings of its banks. The risk the Company will realize a loss as a result of a decline in the fair value of short-term deposits is limited due to the short-term nature ofthese investments.

The Company's Long-Term Debt carries a fixed rate of interest payable together with the principal at maturity.

*Commodity Price Risk*

The ability of the Company to develop its cannabis properties and the future profitability of the Company is directly related to the market price of cannabis.

## 4. IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable except for indefinite life intangible assets and intangible assets that are not yet ready for use which are tested for impairment annually. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risk specific to the asset. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the reduction is included in comprehensive loss for the period.

## 5. LICENSE IN PROGRESS (WOODSTOCK BIOMED INC.)

On June 18, 2018, the Company purchased all the issued and outstanding common shares of Woodstock Biomed Inc. (Woodstock). Woodstock's primary assets are a Confirmation of Readiness (for a cannabis cultivation and sales licence) issued by Health Canada under Health Canada's Access to Cannabis for Medical Purposes Regulations (ACMPR) and a construction-ready greenhouse (to be converted to cannabis cultivation and processing) in the Town of Pelham, Ontario, Canada.

The total fair market value of consideration paid by the Company for the shares of Woodstock was $36,403,766 (including acquisition costs) comprised of 20,000,000 escrowed common shares of the Company (valued at $22,973,511) to be released in semi-annual instalments of 15% over three years after the date of purchase (plus remaining 10% with the last instalment) plus 10,000,000 escrowed contingent common shares of the Company (valued at $12,607,770) and a contingent cash payment of $750,000 (discounted and recorded as purchase price payable) to be released and paid if Woodstock is granted a cultivation licence by Health Canada before August 14, 2019.

Given Woodstock had received its Confirmation of Readiness for a cannabis cultivation and sales licence from Health Canada under Health Canada's ACMPR, after deducting the fair market value of all other assets and liabilities of Woodstock acquired or assumed by the Company on the date of closing the acquisition, the Company allocated $36,597,192 of the remaining purchase price paid, to Woodstock's intangible asset "Licence-in-Progress".

On October 15, 2018, the Pelham Town Council imposed an interim control bylaw prohibiting any further development of all land within the Town for any type of cannabis cultivation and/or processing for up to one year.

On April 29, 2019 (closed May 3, 2019), the former owners of Woodstock sold all their escrowed shares in the Company to a group of arms-length, third party purchasers. The officers and/or directors of the Company were not involved with (nor party to) this private purchase and sale of the Company's shares.

On May 21, 2019, after extensive, good faith appeals to the Pelham Town Council for relief from Town Council's interim control bylaw, the Company's wholly-owned subsidiary Woodstock Biomed Inc. announced its intention to initiate legal action against the Town to mitigate the Company's damages as a result of Council's decision to uphold its interim control bylaw.

As at May 31, 2019, given Woodstock is not in a position to be awarded a cannabis cultivation and sales licence by Health Canada before August 14, 2019, the contingent cash payment of $750,000 (discounted and shown as purchase price payable) has been recorded as a gain in the consolidated statement of net and comprehensive income (loss).

The potentially material uncertainties attributable to the Town Council's imposition of its interim control bylaw and the outcome of any legal recourse will likely continue to exist when the Company conducts its annual assessment (for year-end audit purposes) of the value of its intangible asset Licence-in-Progress.

## 6. NOTES RECEIVABLE

**(a)** In January 2019, the Company terminated its Letter of Intent (dated July 3, 2018) to buy Pulse RX Inc. thereby converting its promissory note for $50,000 to a demand note payable. At May 31, 2019, this amount was deemed uncollectible and written-off as a capital loss.

**(b)** On January 24, 2019, I Feel Good Cannabis Company Ltd. (which shares key management personnel with the Company) repaid all its advances from the Company of $98,013.

## 7. PROPERTY, PLANT AND EQUIPMENT

*Recognition and measurement*
Items of property and equipment are measured at cost less accumulated amortization and accumulated impairment losses. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The costs of the day to day servicing of property, plant and equipment are recognized in the statement of net loss and comprehensive loss in the period in which they are incurred.

*Amortization*
Amortization is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

| Asset | Basis | Rate |
|---|---|---|
| Land | N/A | N/A |
| Building | Declining Balance | 4% |
| Equipment | Declining Balance | 30% |
| Furniture | Declining Balance | 30% |

The building is related to the property acquired through the acquisition of Woodstock Biomed Inc. Depreciation begins when the property is ready for use.

| | | Building | | Land | | Equipment | | Furniture | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| At August 31, 2018 | $ | 3,665,000 | $ | 860,000 | $ | 20,000 | $ | 5,691 | $ | 4,550,691 |
| Additions | | 457,910 | | - | | - | | - | | 457,910 |
| Sale of assets | | - | | - | - | 10,000 | | - | | (10,000) |
| **At May 31, 2019** | **$** | **4,122,910** | **$** | **860,000** | **$** | **10,000** | **$** | **5,691** | **$** | **4,998,601** |
| | | | | | | | | | | |
| **Accumulated Amortization** | | | | | | | | | | |
| At August 31, 2018 | $ | - | $ | - | $ | 10,000 | $ | 1,355 | $ | 11,355 |
| Amortization for the period | | - | | - | | 1,788 | | 976 | | 2,764 |
| Adjust for sale of assets | | | | | - | 5,733 | | - | | 5,733 |
| **At May 31, 2019** | **$** | **-** | **$** | **-** | **$** | **6,055** | **$** | **2,331** | **$** | **8,386** |
| | | | | | | | | | | |
| **Net Book Value** | | | | | | | | | | |
| **At May 31, 2018** | $ | - | $ | - | $ | - | $ | - | $ | - |
| At August 31, 2018 | $ | 3,665,000 | $ | 860,000 | $ | 10,000 | $ | 4,336 | $ | 4,539,336 |
| **At May 31, 2019** | **$** | **4,122,910** | **$** | **860,000** | **$** | **3,945** | **$** | **3,360** | **$** | **4,990,215** |

## 8. LONG TERM DEBT

On the acquisition of Woodstock (Note 5), the Company inherited two mortgages of equal value and rank. Both mortgages bear interest of 7% per annum, compounded monthly. Interest is accumulated and repayable together with the principle on February 22, 2021. As of May 31, 2019, the total balance owing was $3,823,055 (August 31, 2018 - $3,628,076). For the nine months ended May 31, 2019, the Company recognized interest expense of $183,247 and accretion expense of $57,349.

## 9. SHARE CAPITAL AND RESERVES

### (a) Share Capital

**Authorized:**

unlimited number of common shares

**Issued and outstanding:**

94,743,903

**Escrow:**

27,000,000 (30,000,000 at August 31, 2018)

**Activity:**

During the nine months ended May 31, 2019, the Company issued a total of 3,972,002 Units for $0.50 per Unit for total cash proceeds of $1,986,001. Each unit comprised one common share and one common share purchase warrant exercisable at $1.00 for 24 months. The warrants were allocated net proceeds of $655,380 based on their relative fair value within the Unit.

### (b) Stock options

The Company has a stock option plan (the "Plan") under which the directors of the Company may grant options to qualified directors, officers, employees and consultants of the Company. The exercise price of the options cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The maximum aggregate number of common shares under option at any time under the Plan cannot exceed 10% of the issued and outstanding common shares.

A summary of the Company's stock option activity for the nine months ended May 31, 2019 is as follows:

| | Number Of Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding August 31, 2018 | 9,200,000 | $ 1.18 |
| Issued | 400,000 | $ 1.50 |
| Issued | 600,000 | $ 0.60 |
| Forfeited, expired or cancelled | (390,640) | $ 2.00 |
| Forfeited, expired or cancelled | (350,000) | $ 0.60 |
| Forfeited, expired or cancelled | (1,200,000) | $ 1.50 |
| Forfeited, expired or cancelled | (1,250,000) | $ 2.00 |
| Forfeited, expired or cancelled | (150,000) | $ 1.50 |
| Issued | 550,000 | $ 0.60 |
| Outstanding May 31, 2019 | 7,409,360 | $ 0.89 |

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at May 31, 2019 are as follows:

| | | OPTIONS OUTSTANDING | | | OPTIONS EXCERSIABLE | |
|---|---|---|---|---|---|---|
| Exercise Price | Date Option Issued | Number Outstanding | Weighted-Average Exercise Price | Average Remaining Contractual Life (years) | Number Exercisable | Weighted-Average Exercise Price |
| $0.60 | 18-May-18 | 4,600,000 | $0.60 | 1.96 | 4,600,000 | $0.60 |
| $2.00 | 19-Jun-18 | 1,359,360 | $2.00 | 2.05 | 1,359,360 | $2.00 |
| $1.50 | 8-Aug-18 | 300,000 | $1.50 | 1.19 | - | $1.50 |
| $0.60 | 8-Nov-18 | 600,000 | $0.60 | 1.44 | 225,000 | $0.60 |
| $0.60 | 1-Apr-19 | 150,000 | $0.60 | 1.84 | 150,000 | $0.60 |
| $0.60 | 10-May-19 | 200,000 | $0.60 | 1.95 | 200,000 | $0.60 |
| $0.60 | 22-May-19 | 200,000 | $0.60 | 1.98 | 25,000 | $0.60 |
| **Total** | | **7,409,360** | **$0.89** | **1.90** | **6,559,360** | **$0.89** |

On October 2, 2018, the Company granted 400,000 options to a director at $1.50 expiring two years after each quarterly vesting in-advance period. The director subsequently resigned from the board on November 8, 2018, thus forfeiting 350,000 options. On February 6, 2019, the remaining 50,000 were cancelled. The value of the options was determined to be $15,459 using 90% volatility, a four-month term, 1.63% discount rate and $Nil expected dividend. Given the 50,000 options vested upon issuance, $15,459 has been recorded as share based compensation during the period.

On November 8, 2018, the Company granted 600,000 options to two directors at $0.60 vesting in advance on a quarterly basis for two years. The value of the options was determined to be $179,421 using 90% volatility, 2-year term, 2.37% discount rate and $Nil expected dividend. For the nine months ended May 31, 2019, 225,000 options have vested representing share-based compensation during the period of $124,606.

On September 26, 2018, 150,000 options that were issued to a director and officer on June 19, 2018 at $2.00 were cancelled.

On November 8, 2018, 240,640 options that were issued to a director and officer on June 19, 2018 at $2.00 were cancelled.

On January 18, 2019, 500,000 options issued to a director on July 20, 2018 at $1.50 were cancelled.

On February 3, 2019, 350,000 options issued to a consultant on May 18, 2018 at $0.60 were cancelled.

On February 6, 2019, 1,000,000 options issued to a director on June 19, 2018 at $2.00 were cancelled.

On February 7, 2019, 250,000 options issued to a consultant on June 19, 2018 at $2.00 were cancelled.

On February 21, 2019, 300,000 options issued to a consultant on August 8, 2018 at $1.50 were cancelled.

On April 1, 2019, 150,000 options issued to a consultant on July 25, 2018 at $1.53 were cancelled. On the same day, the Company granted a company owned by the same consultant 150,000 options, at an exercise strike price of $0.60 per common share, expiring on April 1, 2021. All these options vested immediately on April 1, 2019. The value of the options was determined to be $143,845 using 90% volatility, 2-year term, 1.60% discount rate and $Nil expected dividend. For the nine months ended May 31, 2019, 150,000 options at $1.53 were cancelled and replaced by 150,000 vested options at $0.6 representing share-based compensation during the period of $111,673 (net).

On May 10, 2019, the Company granted an executive engineering consultant 200,000 options, at an exercise strike price of $0.60 per common share, expiring on May 10, 2021. All these options vested immediately on May 10, 2019. The value of the options was determined to be $50,735 using 90% volatility, 2-year term, 1.64% discount rate and $Nil expected dividend. For the nine months ended May 31, 2019, 200,000 options have vested representing share-based compensation during the period of $50,735.

On May 22, 2019, the Company granted a senior US operations and processing consultant 200,000 options, at an exercise strike price of $0.60 per share, expiring on May 22, 2021. These options vest quarterly, in advance, over two years. The value of the options was determined to be $58,067 using 90% volatility, 2-year term, 1.66% discount rate and $Nil expected dividend. For the nine months ended May 31, 2019, 25,000 options have vested representing share-based compensation during the period of $24,438.

The total share-based compensation during the nine-month period ended May 31, 2019, including all options vested during the period, is $465,167.

## 10. MINORITY INTEREST

Minority Interest represent the 25% minority interest in Leviathan US and is attributable to expenditures by Leviathan US financed (paid for) by the Company

## 11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the nine months ended May 31, 2019 was based on the Net and Comprehensive Loss attributable to common shareholders of $2,049,452 (May 31, 2018 – $2,192,240) and the weighted average number of common shares outstanding of 94,661,544 (May 31, 2018 – 44,557,583).

## 12. RELATED PARTY BALANCES AND TRANSACTIONS

Compensation of key management personnel.

The remuneration expense of directors and other members of key management personnel, or companies under their control, during the period was as follows:

| Nine months ended May 31 | **2019** | **2018** |
|---|---:|---:|
| Salaries, consulting and benefits | $520,889 | $89,000 |
| Stock based compensation | 241,322 | 1,857,139 |
| | $762,211 | $1,946,139 |

As described in Note 6(b), the Company made a series of advances to IFG, which were repaid to the Company in January 2019. In total, three executive management team members are directors or key management personnel of IFG.

## 13. COMMITMENTS

**Lease Obligation**

The company is under a lease obligation related property used as headquarters in Toronto. The period covered under the lease is September 15, 2017 to September 30, 2020 (expiry date). The Company has the right to extend the lease no later than three months prior to expiration date of the lease. Rent expense is noted on the Financial Statements as an annual amount recorded monthly.

*Future annual minimum lease payments are:*

August 31, 2019: $10,272
August 31, 2020: $41,089
August 31, 2021: $41,089

## 14. INCOME TAXES

Income tax expense comprises current and deferred tax and are recognized in profit or loss except to the extent that they relate to a business combination or are recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, and the Company intends to settle tax liabilities and assets on a net basis or to realize the tax assets and liabilities simultaneously.

## 15. SUBSEQUENT EVENTS

**(a)** In June 2019, the Company granted 150,000 options to a senior employee to purchase 150,000 common shares of the Company from treasury (one common share per option) at an exercise strike price of $0.60 per common share with 75,000 options (50%) vesting on January 11, 2020 (and expiring on January 11, 2022) and 75,000 options (remaining 50%) vesting on January 11, 2021 (and expiring on January 11, 2023).

**(b)** On July 25, 2019, as a result of the signing into law of the US Farm Bill by the President of the United States in December 2018 (legalizing the cultivation and processing of hemp for medicinal purposes throughout the United States by exempting hemp from the US Controlled Substances Act), the Company's majority-owned (75%) subsidiary Leviathan US purchased a 37,000 SF vacant industrial building on 5-acres of land (suitable for expansion) in Carthage, Smith County, Tennessee, USA (close to Nashville, Knoxville and Chattanooga, Tennessee) to be converted by Leviathan US into a licensed medicinal hemp extraction and processing facility by the end of the year.