# LEVIATHAN NATURAL PRODUCTS INC.
# (formerly Leviathan Cannabis Group Inc.)

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

For the Nine Months Ended May 31, 2020 and May 31, 2019

(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, 2020 and May 31, 2019 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, 2020 and May 31, 2019 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 NATURAL PRODUCTS INC. (formerly Leviathan Cannabis Group Inc.)

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT MAY 31, 2020 (UNAUDITED) AND AUGUST 31, 2019

(Amounts Expressed in Canadian dollars)

| | May 31 2020 | August 31 2019 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 413,892 | $ 922,213 |
| Other Receivable | 6,373 | 2,224 |
| Investment | 25,000 | 25,000 |
| Prepaid Expenses | 183,023 | 66,619 |
| Deposits | 13,984 | - |
| HST Recoverable | 504,229 | 417,864 |
| | 1,146,500 | 1,433,920 |
| Property, Plant & Equipment (Note 6) | 8,587,612 | 3,824,049 |
| | $ 9,734,113 | $ 5,257,969 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable & Accrued Liabilities | 718,925 | 407,007 |
| Current portion of Long-Term Debt (Note 7) | 335,400 | - |
| | 1,054,325 | 407,007 |
| Long-Term Debt (Note 7) | 9,625,722 | 3,717,089 |
| | 10,680,047 | 4,124,096 |
| Non-Controlling Interest (Note 9) | (171,890) | (33,420) |
| Equity | | |
| Share Capital (Note 8(a)) | 31,138,597 | 31,138,597 |
| Warrants (Note 8(c)) | 2,477,380 | 2,477,380 |
| Options (Note 8(b)) | 3,568,981 | 3,514,465 |
| Deficit | (37,781,926) | (35,953,825) |
| Accumulated Other Comprehensive (Loss)/Income | (177,076) | (9,324) |
| | (774,044) | 1,167,293 |
| Total Shareholders' Equity and non-controlling interest | (945,934) | 1,133,873 |
| | $ 9,734,113 | $ 5,257,969 |

*Going Concern (Note 1), Commitments (Note 12), Subsequent Events (Note 15)*

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

Approved by the Board of Directors

Signed"Martin Doane"
Chief Executive Officer

Signed"Jayne Beckwith"
Interim Chief Financial Officer

Toronto,Ontario
July 30, 2020

## LEVIATHAN NATURAL PRODUCTS INC. (formerly Leviathan Cannabis Group Inc.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2020 AND MAY 31, 2019 (UNAUDITED)

(Amounts Expressed in Canadian dollars)

| | Three months 2020 | Three months 2019 | Nine months 2020 | Nine months 2019 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Branding Service | $ - | $ - | $ - | $ 79,503 |
| **Expenses** | | | | |
| Amortization (Note 6) | $ 634 | 640 | $ 1,818 | $ 2,764 |
| Bad Debt | - | 18,875 | - | 18,875 |
| Demolition | - | 28,351 | 112 | 129,446 |
| Foreign Exchange (Gain) Loss | (112,334) | (6,312) | (68,206) | 20,331 |
| Interest (Note 7) | 164,501 | 106,578 | 387,770 | 296,304 |
| Investor Relations & Fees | 13,822 | 52,450 | 43,985 | 136,602 |
| Marketing | 5,082 | 11,610 | 5,082 | 57,446 |
| Office & General | 12,466 | 7,014 | 94,825 | 43,964 |
| Operating Costs | 40,092 | 3,282 | 69,992 | 9,225 |
| Professional Fees | 3,289 | 18,791 | 183,827 | 282,584 |
| Property Tax & Insurance | 23,268 | 13,600 | 73,009 | 29,733 |
| Rent | 18,039 | 9,478 | 47,779 | 45,839 |
| Salaries, Wages & Consulting Fees (Note 11) | 328,514 | 294,092 | 943,009 | 1,211,195 |
| Share Based Compensation (Note 8(b)) | 11,169 | 90,990 | 54,516 | 465,167 |
| Travel & Promotion | 3,239 | 7,695 | 33,724 | 42,566 |
| Utilities | 44,176 | 3,061 | 66,870 | 22,185 |
| | 555,958 | 660,196 | 1,938,113 | 2,814,227 |
| **Net Loss** | $ (555,958) | $ (660,196) | $ (1,938,113) | $ (2,734,723) |
| **Other Comprehensive Loss** | | | | |
| Loss on Note Receivable | - | (50,000) | - | (50,000) |
| Gain on Purchase Price Payable | - | 735,271 | - | 735,271 |
| Foreign Exchange Translation | (134,398) | - | (167,752) | - |
| **Net Comprehensive Income (Loss)** | $ (690,356) | $ 25,075 | $ (2,105,865) | $ (2,049,452) |
| **Net Loss Attributable to:** | | | | |
| Non-controlling Interest (Note 9) | $ (29,794) | - | $ (110,012) | $ - |
| Shareholders of the Company | $ (526,164) | ($660,196) | $ (1,828,101) | $ (2,734,723) |
| | $ (555,958) | $ (660,196) | $ (1,938,113) | $ (2,734,723) |
| Weighted Average Number of Common Shares Outstanding – Basic and Diluted (Note 10) | 84,743,603 | 94,743,603 | 84,743,603 | 94,661,544 |
| Basic and Fully Diluted Loss per Share | $ (0.00) | $ (0.01) | $ (0.02) | $ (0.03) |

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

# LEVIATHAN NATURAL PRODUCTS INC. (formerly Leviathan Cannabis Group Inc.)

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)

FOR THE NINE MONTHS ENDED MAY 31, 2020 AND MAY 31, 2019 (UNAUDITED)

(Amounts Expressed in Canadian dollars)

| | Number of Shares | Share Capital | Shares to be Issued | Warrants | Options | Deficit | Accumulated Other Comprehensive (Loss)/Income | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, August 31, 2018 | 90,771,601 | 42,415,746 | 25,000 | 1,822,000 | 5,351,347 | (9,615,134) | - | 39,998,959 |
| Stock Options Issued (Note 8(b)) | - | - | - | - | 465,167 | - | - | 465,167 |
| Private Placement | 3,972,002 | 1,330,621 | (25,000) | 655,380 | - | - | - | 1,961,001 |
| Net and Comprehensive Loss for the Year | - | - | - | - | - | (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 |
| | | | | | | | | |
| Balance, August 31, 2019 | 84,743,603 | 31,138,597 | - | 2,477,380 | 3,514,465 | (35,953,825) | (9,324) | 1,167,293 |
| Stock Options Issued (Note 8(b)) | - | - | - | - | $ 54,516 | - | - | 54,516 |
| Net and Comprehensive (Loss)/Income for the Period | - | - | - | - | - | (1,828,101) | (167,752) | (1,995,853) |
| Balance, May 31, 2020 | 84,743,603 | $ 31,138,597 | $ - | $ 2,477,380 | $ 3,568,981 | $ (37,781,926) | $ (177,076) | $ (774,044) |

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

# LEVIATHAN NATURAL PRODUCTS INC. (Leviathan Cannabis Group Inc.)

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE NINE MONTHS ENDED MAY 31, 2020 AND MAY 31, 2019 (UNAUDITED)

(Amounts Expressed in Canadian dollars)

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Cash Flow from Operating Activities** | | | | |
| Net Loss | $ | (1,938,113) | $ | (2,049,452) |
| Add-Back (Deduct) Non-Cash Items | | | | |
| Amortization | | 1,818 | | 57,446 |
| Interest and accretion | | 387,656 | | 227,649 |
| Share Based Compensation | | 54,516 | | 465,167 |
| Loss on Note Receiveable | | - | | 50,000 |
| Gain on Purchase Price Payable | | - | | (735,271) |
| Changes in Non-Cash Working Capital: | | | | |
| Trade Receivable | | - | | 18,875 |
| Notes Receivable | | - | | 48,013 |
| Other Receivable | | (4,149) | | - |
| Prepaid Expenses | | (116,404) | | 18,304 |
| Deposits | | (13,984) | | - |
| HST Recoverable | | (86,365) | | (183,639) |
| Interest Payable on Long Term Debt | | - | | 60,000 |
| Deposit and Deferred Acquistiion Costs | | - | | 232,611 |
| Accounts Payable & Accrued Liabilities | | 283,460 | | (421,561) |
| | | (1,431,564) | | (2,211,859) |
| **Cash Flow from Financing Activities** | | | | |
| Private Placement, Net of Issue Costs | | - | | 1,703,050 |
| | | - | | 1,703,050 |
| **Cash Flow from Investing Activities** | | | | |
| Notes & Deposit Receivable | | 5,856,377 | | - |
| Minority Interest | | - | | (32,803) |
| Purchase of property, plant & equipment | | (4,765,382) | | (508,324) |
| | | 1,090,995 | | (541,127) |
| Increase (Decrease) in Cash | | (340,569) | | (1,049,936) |
| Effect of foreign exchange translation | | (167,752) | | - |
| Cash, Beginning of Year | | 922,213 | | 2,869,583 |
| Cash, End of Year | $ | 413,892 | $ | 1,819,647 |

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

## 1. NATURE OF BUSINESS AND GOING CONCERN

### Nature of Business'

Leviathan Natural Products Inc. (the "Company" and formerly "Leviathan Cannabis Group Inc.") is primarily focused on the future production and distribution of non-psychoactive extracted cannabinoid ("CBD") products from hemp for the health and wellness market and is, through its subsidiaries, pursuing the goal of becoming a fully licensed cultivator, processor and distributor of CBD products in Canada, the United States & South America. The Company's branding / marketing subsidiary specializes in cannabis and hemp-focused marketing.

Leviathan Natural Products 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 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.

For the nine months ended May 31, 2020, the Company reported a net loss of $1,938,113 (May 31, 2019 - $2,734,723). Management has forecasted the expected expenditure levels and contracted commitments will exceed the Company's net cash inflows and working capital for the fiscal year 2020 unless further financing is obtained. Additional sources of funding will be required 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 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 consistence 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 30, 2020.

### (b) Basis of presentation and consolidation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments carried at fair value.

These consolidated financial statements include the accounts of the Company and its subsidiaries. Additional information on the Company's interest in subsidiaries is provided in Note 9.

### (c) Functional and presentation currency

The consolidated financial statements of the Company are presented in Canadian Dollars. The functional currency of the Company and its subsidiaries is the Canadian Dollar, except for Leviathan US, which has a US Dollar functional currency

Transactions in currencies other than the functional currency are translated to the functional currency at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated statements of financial position date. Exchange gains and losses on settlement of transactions, and the translation of monetary assets and liabilities other than in functional currency are recorded in the consolidated statements of operations and comprehensive loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### (d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the Statements of Financial Position at the time the Company becomes a party to the contractual terms and provisions of the financial instrument.

Financial assets

Non-derivative financial assets within the IFRS 9 are classified as "financial assets at fair value" (either as Fair Value through Other Comprehensive Income ("FVTOCI") or as fair value through profit or loss ("FVTPL")), and "financial assets at amortized costs" as appropriate. The Company determines the classification of its financial assets at initial recognition based on the Company's business model and contractual terms of cash flows.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Financial assets at FVTPL

Financial assets measured at FVTPL include financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVTPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations and comprehensive loss. The Company's investment is designated at FVTPL.

Financial assets at FVTOCI

Financial assets measured at FVTOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVTOCI. After initial measurement, investments measured at FVTOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of operations and comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss. The Company has no financial assets designated at FVTOCI.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the asset.

Impairment of financial assets

The impairment model under IFRS 9 is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. The Company's only financial assets subject to impairment are amounts receivable and note receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized. The Company has measured the lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors.

Financial liabilities

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVTPL. The Company's financial liabilities include accounts payable & accrued liabilities, purchase price payable, and long-term debt, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR accretion is included in finance cost in the consolidated statements of earnings (loss).

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Financial instruments - continued

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gains or losses reported in other income or expense in the consolidated statements of loss and comprehensive loss.

Determination of fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of the fair value of financial assets and liabilities.

- Level one includes quoted prices in active markets for identical assets or liabilities.
- Level two includes inputs that are observable other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

(e) Revenue recognition

For the nine months ended May 31, 2020 there was no Revenue generated by any of the operating unites.

Revenue is recognized when the services have been performed and collection of the receivable is reasonably assured. The Company may enter into sales agreements with customers that have multiple performance obligations. When an individual performance obligation within the agreement is satisfied, the relative fair value of the individual performance obligation is recognized as revenue.

(f) 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% |

Depreciation of the Company's buildings will begin when the facilities are ready for use.

(g) Intangible assets

Intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses. Intangible assets acquired through a business combination are measured at fair value at the acquisition date.

Amortization begins when assets become available for use. The estimated useful life, amortization method, and rate are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### (h) Impairment of non-financial assets

The carrying values of non-financial assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. Additionally, the carrying values of goodwill, indefinite life intangibles, and intangibles not yet ready for use are assessed for indications of impairment at the end of every financial reporting period. Events or changes in circumstances which may indicate impairment include: a significant change to the Company's operations, significant decline in performance, or a change in market conditions which adversely affect the Company. The recoverable amount is determined as the higher of the fair value less costs of disposal ("FVLCD") and its value in use ("VIU") based on discounted cash flows.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its FVLCD and its VIU. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded.

During the year ended August 31, 2019, the Company fully impaired its License in Progress (see Note 4) and partially impaired its Woodstock building (see Note 6).

### (i) 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 as at May 31, 2020.

### (j) Share-based payment transactions

The fair value of stock 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, incorporating 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 or actually vested.

### (k) Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period excluding contingently issuable or returnable shares. 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### (l) Significant accounting estimates, judgments, and assumptions

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.

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

Warrants and stock options

Warrants and stock options are initially valued at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield, expected term of the warrant or stock option and expected risk-free interest rate.

Useful lives and impairment of long-lived assets

Long-lived assets are defined as property, plant, and equipment and intangible assets with finite lives. Depreciation and amortization are dependent upon estimates of useful lives and impairment is dependent upon estimates of recoverable amounts. These are determined through the exercise of judgment and are dependent upon estimates that consider factors such as economic and market conditions, frequency of use, anticipated changes in laws, and technological improvements. Refer to Notes 4 and 6.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to consider certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences. Refer to Note 14.

Business combinations

In determining the appropriate basis of accounting for an acquisition, judgment is used to determine if an acquisition is a business combination or an asset acquisition. Refer to Note 4.

### (l) Recent and future accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. Updates that are not applicable or are not consequential to the Company have been excluded.

IFRS 9 – Financial Instruments ("IFRS 9")

Effective September 1, 2018, the Company adopted IFRS 9 using the retrospective approach. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL"). Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. The change did not impact the carrying amounts of any of the Company's financial assets and liabilities on the adoption date.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(l) Recent and future accounting pronouncements - continued

IFRS 9 – Financial Instruments ("IFRS 9") - continued

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

| | IAS 39 Classification | IFRS 9 Classification |
|---|---|---|
| **Financial assets** | | |
| Cash | Loans and receivables | Amortized cost |
| Trade receivable | Loans and receivables | Amortized cost |
| Note and deposit receivable | Loans and receivables | Amortized cost |
| Other receivable | Loans and receivables | Amortized cost |
| Investment | FVTPL | FVTPL |
| Financing proceeds receivable | Loans and receivables | Amortized cost |
| **Financial Liabilities** | | |
| Accounts payable | Amortized cost | Amortized cost |
| Purchase price payable | Amortized cost | Amortized cost |
| Long-term debt | Amortized cost | Amortized cost |

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

Effective September 1, 2018 and applied on a modified retrospective basis, the Company adopted IFRS 15 *Revenue from Contracts with Customers,* which supersedes previous accounting standards for revenue, including IAS 18, *Revenue* (IAS 18) and IAS 11, *Construction Contracts* (IAS 11). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The Company adopted this standard using the full retrospective approach, and the application of IFRS 15 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of the initial application of IFRS 15. The standard requires revenue to be recognized in a manner that depicts the transfer of control of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, revenue is recognized as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### (l) Recent and future accounting pronouncements - continued

IFRS 16 – Leases ("IFRS 16")

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The date of initial application of IFRS 16 is annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings at the beginning of the 2020 fiscal year. The Company leases its head office building. The Company's current office lease extends to September 30, 2020. On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. Accordingly, the Company does not expect significant adjustments to opening retained earnings at the beginning of the 2020 fiscal year.

## 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, American and Colombian 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, 2020, the Company has current assets of $1,146,500 (August 31, 2019 - $1,433,920) to settle current financial liabilities of $1,054,325 (August 31, 2019 - $407,007) (Note 1). See Note 7(b) concerning the signing of a financing agreement in October 2019.

### 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. AQUISITIONS

### JEKYLL & HYDE BRAND BUILDERS INC.

#### Acquisition Details

On December 22, 2017, the Company completed the acquisition of Jekyll & Hyde Brand Builders Inc. ("J&H") via a three-cornered amalgamation with a wholly owned subsidiary created solely for this purpose. J&H is a cannabis focused, marketing services agency. Under the terms of the acquisition, the Company issued one common share for each common share of J&H outstanding resulting in a total issuance of 12,166,667 common shares at a value of $0.01 per share to the shareholders of J&H.

The acquisition of Jekyll & Hyde Brand Builders ("J&H") was accounted for as a business combination. The total purchase was allocated to the net assets of J&H acquired as follows:

| | | |
|---|---|---|
| **Purchase Price:** | | |
| Fair value of 12,116,667 common shares | $ | 121,667 |
| **Net Assets acquired:** | | |
| Cash | $ | 47,191 |
| Accounts receivable | | 133,832 |
| HST receivable | | 13,553 |
| Prepaid expenses | | 53,462 |
| Equipment | | 5,171 |
| Trade payables | | (5,033) |
| | $ | 248,176 |
| Gain on bargain purchase | $ | 126,509 |

### WOODSTOCK BIOMED INC.

On June 18, 2018, the Company acquired 100% of the issued and outstanding shares of Woodstock Biomed Inc. ("Woodstock"), a stage 5 Access to Cannabis for Medical Purposes ("ACMPR") applicant which owns a greenhouse production facility in Pelham, Ontario. The 29.5-acre property (the "Property") will serve as the Company's cornerstone for cannabis cultivation operations in Canada. The Property features a 350,000 sq. ft. facility, which the Company will transform into a state-of-the art cannabis cultivation center.

The purchase price was:

(a) $750,000 in cash, payable upon receipt of the cultivation license;

(b) 20,000,000 common shares of the Company subject to an escrow agreement to be released as follows:

- (i) 3,000,000 (15%) 6 months from closing;
- (ii) 3,000,000 (15%) 12 months from closing;
- (iii) 3,000,000 (15%) 18 months from closing;
- (iv) 3,000,000 (15%) 24 months from closing;
- (v) 3,000,000 (15%) 30 months from closing;
- (vi) 5,000,000 (25%) 36 months from closing;

(c) 10,000,000 common shares of the Company were subject to an escrow agreement to be released if Woodstock received its cultivation license prior to August 14, 2019. If the license was not received before August 14, 2019, these shares would be returned to the Company for cancellation.

The acquisition of Woodstock Biomed was accounted for as an asset acquisition because it was determined that Woodstock did not meet the definition of a business under IFRS 3. The total purchase was determined and allocated to the net assets of Woodstock acquired as follows:

The Company calculated the theoretical put option value for each tranche of common shares issued based on their restriction period and net this value against the fair value of the common shares on the date of issuance. Put option variables were $1.97 stock price and exercise price, 90% volatility, 1.84% - 1.94% discount rate, and expected life ranging between 6 to 36 months.

## 4. ACQUISITIONS - continued

WOODSTOCK BIOMED INC. - continued

The $750,000 cash payment was expected to be made on August 14, 2019 and was discounted using a 9.45% discount rate.

A change in this discount rate by 1% would impact the valuation by approximately $7,500. The values assigned to the Company's land and building were based on a 3rd party appraisal commissioned by the Company. The advances payable were due on demand and paid immediately after acquisition. The Long-Term Debt, which bears interest of 7%, payable at maturity (Note 7), was valued by discounting the future cash flows at an estimated commercial lending rate of 9.45% (prime + 6%). A change in this discount rate by 1% would impact the valuation by approximately $80,000. The license-in-progress was determined as the excess of the purchase price over the other identified assets.

Purchase Price:

| | | |
|---|---|---|
| Present value of cash payable on receipt of cultivation license | $ | 674,806 |
| Fair value of 20,000,000 escrowed common shares | | 22,973,511 |
| Fair value of 10,000,000 contingently returnable common shares | | 12,607,770 |
| Acquisition costs | | 147,679 |
| | $ | 36,403,766 |

Net Assets acquired:

| | | |
|---|---|---|
| Cash | $ | 4,844 |
| HST receivable | | 7,826 |
| Prepaid expenses | | 1,170 |
| Equipment | | 18,800 |
| Land | | 860,000 |
| Building | | 3,665,000 |
| License-in-progress | | 36,597,192 |
| Trade payables | | (114,216) |
| Advances payable | | (1,250,000) |
| Long-term debt | | (3,386,850) |
| Total Cost of Purchase | $ | 36,403,766 |

On October 15, 2018, the Pelham Town Council imposed an interim control bylaw ("ICB") 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 the ICB, 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 the ICB.

On July 15, 2019 Cannabis Control Committee recommends to Pelham Council that the Interim By-law, set to expire on October 15, 2019, extended another year. Pelham Council defers dealing with the recommendation of the Cannabis Control Committee until September 2019.

On September 23, 2019, the Town of Pelham Council voted in favour extending the ICB to July 15, 2020.

Woodstock was not awarded a cannabis cultivation and sales licence by Health Canada before August 14, 2019; therefore, the 10,000,000 contingently returnable common shares were cancelled, and the contingent cash payment was no longer payable. The value originally assigned to the contingent escrowed shares and the contingent cash payment of $750,000 was recorded as a gain in the consolidated statement of operations and comprehensive loss in the Year ended August 31, 2019.

## 4. ACQUISITIONS - continued

WOODSTOCK BIOMED INC. - continued

The material uncertainties attributable to the Town Council's imposition of its ICB and the outcome of any legal recourse were considered indicators of impairment in managements' annual assessment of the cash generating unit containing the licence-in-progress. As there is no reasonable expectation of being able to use the license in the future, management could not reliably determine any future cash-flows expected from the assets in either a value in use or a fair value less costs to sell model and, therefore, management fully impaired the License-in-Progress. This resulted in an impairment charge to the consolidated statement of operations and comprehensive loss of $23,314,616 recorded in the statements for the Year ended August 31, 2019, net of the recoveries for the cancelled contingent cash and escrowed share payments.

| | Amount |
|---|---|
| Impairment of License-in-Progress | $36,597,192 |
| Recovery of contingent cash consideration | (674,806) |
| Recovery of contingent share deferred consideration (Note 8(a)) | (12,607,770) |
| Impairment of associated property, plant and equipment (Note 6) | 587,354 |
| Total impairment | $23,901,970 |

## 5. NOTES RECEIVABLE

a. On July 3, 2018, the Company signed a Letter of Intent ("LOI") with Pulse RX Inc. ("Pulse") wherein the Company would investigate the potential acquisition of Pulse. During the year, the Company advanced $50,000 to Pulse in exchange for a demand note. In January 2019, the Company terminated the LOI and demanded repayment of the note. At August 31, 2019, this amount was deemed uncollectible and written-off on the consolidated statements of operations and comprehensive loss.

b. On July 23, 2018, the Company entered into an Agreement to purchase Fountain Wellbeing, a cooperative corporation situated in North Hollywood Los Angeles California for $7.5 million. The Company paid a deposit of $225,000 USD which was held in escrow. During the permitted due diligence period the Company decided to terminate the agreement without penalty on August 2, 2018. The Company notified escrow agent of the cancellation and the funds were returned in October 2018.

c. In 2018, the Company advanced a total of $98,013 to I Feel Good Cannabis Company Inc. ("IFG"), which shares key management personnel with the Company. On November 23, 2018, the Company exchanged the balance due for a promissory note issued in the amount of $98,013 at a 12% interest per annum. The funds were received to fully discharge this note on January 24, 2019. During the year ended August 31, 2019, the Company paid for certain IFG costs totalling $2,224 and were included in other receivables. IFG repaid $2,224 to the Company during the period ended February 29, 2020.

## 6. PROPERTY, PLANT AND EQUIPMENT

| | | Building | | Land | | Equipment | | Furniture | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| At August 31, 2019 | $ | 2,957,387 | $ | 860,000 | $ | 10,000 | $ | 5,171 | $ | 3,832,558 |
| Additions | | 1,401,007 | | 1,487,401 | | 1,857,201 | | 19,773 | | 4,765,382 |
| At May 31, 2020 | $ | 4,358,394 | $ | 2,347,401 | $ | 1,867,201 | $ | 24,944 | $ | 8,597,940 |
| Accumulated Amortization | | | | | | | | | | |
| At August 31, 2019 | $ | - | $ | - | $ | 6,374 | $ | 2,135 | $ | 8,509 |
| Amortization for the period | | - | | - | | 842 | | 976 | | 1,818 |
| At May 31, 2020 | $ | - | $ | - | $ | 7,216 | $ | 3,111 | $ | 10,327 |
| Net Book Value | | | | | | | | | | |
| At August 31, 2019 | $ | 2,957,387 | $ | 860,000 | $ | 3,626 | $ | 3,036 | $ | 3,824,049 |
| At May 31, 2020 | $ | 4,358,394 | $ | 2,347,401 | $ | 1,859,985 | $ | 21,833 | $ | 8,587,612 |

## 7. LONG TERM DEBT

### a) Woodstock Mortgages

On the acquisition of Woodstock (Note 4), 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 less any accumulated interest paid during the term. As of May 31, 2020, the total balance owing was $3,952,029 (August 31, 2019 - $3,831,671) and the remaining discount was $63,385 (August 31, 2019 - $114,582). During the nine months ended May 31, 2020, the Company recognized interest expense of $234,851 (May 31, 2019 - $183,247) and accretion expense of $28,984 (May 31, 2019 - $57,349). The Company made no interest payments during the nine months ended May 31, 2020 (May 31, 2019 – Nil).

### b) Bridge Loan

On October 15, 2019 the Company signed an agreement with an investor to provide financing of up to $5,000,000 at 10% per annum from the date of each advance. The Company may, at its discretion, repay the balance of principal and/or interest owing at any time without penalty. There are no covenants associated with the financing facility. For the nine months ended May 31, 2020 the company has taken a total draw of $4,900,000 (May 31, 2019 – $Nil) and incurred an interest cost for the period of $156,054 (May 31, 2019 - $Nil) of which $38,547 (May 31, 2019 - $Nil) remains outstanding as at May 31, 2020.

### c) Colombia Mortgage

On November 18, 2019 the Company, through its subsidiary LCG Holdings Inc., acquired a hydrangea facility located on 22.43 flat acres land in Carmen de Viboral, Colombia. The purchase price for the facility was C$1,251,900 (Colombian Peso 3.21Billion). The Company paid C$429,000 during the period, C$487,500 is due in November 2020 and C$335,400 is due in May 2021. A first ranking mortgage is secured against the property with an interest rate of 0.625% per month.

## 8. SHARE CAPITAL AND RESERVES

### a. Share Capital

Authorized:

Unlimited number of common shares.

Issued and outstanding:

84,743,603

Escrow:

11,000,000 (August 31, 2019 – 14,000,000)

Activity:

<u>Fiscal 2019</u>

In September 2018, the Company issued a total of 3,972,002 Units for $0.50 per Unit for total cash proceeds of $1,986,001 including the $25,000 received in August 2018. 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 the same relative fair value within the Unit as determined in August 2018 (note 8(c)).

As set out in the Woodstock purchase agreement, 10,000,000 of the shares issued in escrow were contingently returnable subject to terms and conditions to be satisfied by August 14, 2019. These conditions were not met by August 14, 2019 and the Company commenced cancellation the shares. The $12,607,770 fair value originally assigned to these shares was recorded as a recovery during the year (Note 4). The cancellation of the escrowed shares was formally completed on September 16, 2019.

### 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.

8. SHARE CAPITAL AND RESERVES - continued

b. Stock options - continued

Activity:

On October 2, 2018, the Company granted 400,000 options to a director exercisable at $1.50, vesting quarterly, in-advance, over two years, and expiring two years after vesting. The value of the options was determined to be $336,679 using 90% volatility, 2 to 3.75-year expected life, 1.63% discount rate, and $Nil expected dividend. The director subsequently resigned from the board on November 8, 2018, thus forfeiting 350,000 options unvested. On February 6, 2019, the remaining 50,000 were cancelled.

On November 8, 2018, the Company granted 600,000 options to two directors exercisable at $0.60, vesting quarterly, in-advance, over two years, and expiring two years after vesting. The value of the options was determined to be $189,561 using 90% volatility, 2 to 3.75-year expected life, 2.37% discount rate, and $Nil expected dividend.

On January 11, 2019, the Company granted 150,000 options to an employee exercisable at $0.60, vesting annually over two years, and expiring two years after vesting. The value of the options was determined to be $36,392 using 90% volatility, 3 to 4-year expected life, 2.37% discount rate, and $Nil expected dividend. The employee left the Company on July 15, 2019 thus forfeiting the options.

On April 1, 2019, 150,000 options issued to a consultant on July 25, 2018 exercisable at $1.53 were cancelled. On the same day, the Company granted a company owned by the same consultant 150,000 options, vesting immediately, exercisable at $0.60 per common share until April 1, 2021. These transactions were treated as an option modification for accounting purposes. The incremental Black-Scholes value of $7,306 along with the previously unvested value of $104,366 was expensed immediately. The Black-Scholes valuations used the following assumptions:

| | Original | Modified |
|---|---|---|
| Stock price | $0.30 | $0.30 |
| Exercise price | $1.53 | $0.60 |
| Expected life | 1.5 to 3.0 years | 2 years |
| Volatility | 90% | 90% |
| Dividend yield | 0% | 0% |
| Risk-free rate | 2.05% | 2.05% |

On May 10, 2019, the Company granted an executive engineering consultant 200,000 options exercisable at $0.60, vesting immediately, and expiring two years from grant. The value of the options was determined to be $50,735 using 90% volatility, 2-year expected life, 1.64% discount rate and $Nil expected dividend.

On May 22, 2019, the Company granted a senior US operations and processing consultant 200,000 options exercisable at $0.60, vesting quarterly, in-advance, over two years, and expiring two years after vesting. The value of the options was determined to be $58,067 using 90% volatility, 2 to 3.75-year expected life, 1.66% discount rate and $Nil expected dividend.

<u>Fiscal 2020</u>

On November 14, 2019, 300,000 options issued to a former employee expired.

On November 20, 2019, 300,000 options issued to a former employee expired.

The total share-based compensation during the nine months ended May 31, 2020 is $54,516 (May 31, 2019 - $465,167).

A summary of the Company's stock option activity for the nine months ended May 31, 2020 is as follows:

| | Number of Options | Weighted-Average Exercise Price ($) |
|---|---|---|
| Outstanding, August 31, 2018 | 9,200,000 | 1.18 |
| Granted | 1,550,000 | 0.60 |
| Cancelled/Expired | (3,640,640) | 1.30 |
| Outstanding, August 31, 2019 | 7,109,360 | 0.69 |
| Cancelled/Expired | (1,359,360) | 2.00 |
| Outstanding, May 31, 2020 | 5,750,000 | 1.66 |

8. SHARE CAPITAL AND RESERVES - continued

b. Stock options - continued

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at May 31, 2020 are as follows:

| Date of Grant | Exercise Price $ | Number Outstanding | Number Exercisable | Remaining Life (Years) |
|---|---|---|---|---|
| 18-May-18 | $0.60 | 4,600,000 | 4,600,000 | 1.71 |
| 25-Jul-18 | $0.60 | 150,000 | 150,000 | 1.64 |
| 08-Nov-18 | $0.60 | 600,000 | 525,000 | 1.19 |
| 10-May-19 | $0.60 | 200,000 | 200,000 | 1.69 |
| 22-May-19 | $0.60 | 200,000 | 125,000 | 1.73 |
| | | 5,750,000 | 5,600,000 | |

c. Warrants

Between June 27 to August 15, 2018, the Company issued 11,027,998 share purchase warrants as part of a private placement financing. Each warrant entitles the holder thereof to purchase one common share at an exercise price of $1.00 per common share for 24 months. The Warrant may not be exercised before the date that is 120 days from July 9, 2018. The Company may require the holders of the Warrants, upon 15 days' notice, to exercise their right to purchase common shares at any time after 120 days from July 9, 2018, if the common shares close at or above $1.50 per common share for 20 consecutive trading days.

The value of a warrant was determined using 90% volatility, 2-year expected life, 1.94% discount rate, 0% expected dividend. The resulting value represented approximately 33% of the value of the Unit with the remaining 67% attributed to the value of the common share within the Unit. The warrants were allocated $1,822,000 of the net proceeds of the financing.

In September 2018, the Company completed the second tranche of the financing (Note 8(a)) issuing an additional 3,972,002 Units with the same terms as above. The warrants were allocated net proceeds of $655,380 based on the same relative fair value within the Unit as determined in the August 2018 tranche above.

9. INTEREST IN SUBSIDIARIES

These consolidated financial statements incorporate the activities of the Company's subsidiaries from the date the Company acquires control to the date control is relinquished.

The Company's subsidiaries and relative ownership interests are as follows:

| Subsidiary | Domicile | Ownership Interest | Date Control Acquired |
|---|---|---|---|
| Bathurst Resources Corp. | Canada | 100% | December 31, 2013 |
| Jekyll and Hyde Brand Builders Inc. | Canada | 100% | December 22, 2017 |
| Woodstock Biomed Inc. | Canada | 100% | August 14, 2019 |
| Leviathan US, Inc. (90%) | USA | 90% | April 15, 2019 |
| LCG Holdings Inc. (65%) (i) | Canada | 65% | August 1, 2019 |
| Grupo LCG SAS | Colombia | 65% (ii) | August 21, 2019 |

(i) The Company has established LCG Holdings Inc. as a business venture to cultivate hemp and manufacture cannabidiol ("CBD") isolate and other extracted products in the rich agricultural region of Republic of Colombia, South America.

(ii) A 100% interest of Grupo LCG SAS is held through LCG Holdings Inc. The Company became active in September 2019.

## 10. LOSS PER SHARE

The calculation of basic and diluted loss per share for the nine months ended May 31, 2020 was based on the net loss and comprehensive loss attributable to common shareholders of $2,105,865 (May 31, 2019 – $2,049,452) and the weighted average number of common shares outstanding of 84,743,603 (May 31, 2019 – 94,661,544).

## 11. RELATED PARTY BALANCES AND TRANSACTIONS

a. As described in Note 5(b), the Company made a series of advances to IFG, which were repaid to the Company in January 2019. Subsequently, the Company made additional advances to IFG during the year ended August 31, 2019. IFG repaid these advances, in full, in February 2020. Three executive management team members of the Company are directors or key management personnel of IFG.

b. The remuneration expense of directors and other members of key management personnel, or companies under their control, are as follows:

| Nine months ended May 31 | 2020 | 2019 |
|---|---|---|
| Salaries, consulting and benefits | $347,563 | $520,889 |
| Stock based compensation | 54,516 | 241,322 |
| | $402,079 | $762,211 |

## 12. 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 but must notify the landlord of this intention no later than six months prior to the expiration date and must have a negotiated new lease completed and signed 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, 2020: $30,816

August 31, 2021: $41,089

## 13. OPERATING SEGMENTS

The Company currently operates in two business segments:

1) Cannabis focused marketing services ("Marketing"); and
2) Cultivation, processing, and distribution of cannabis products in Canada and hemp products in the United States & South America ("Cultivation"). As at May 31, 2020, 100% of the Company's cultivation operations are in the development stage.

The Company manages its reporting segments based on a combination of geographic and operational information as follows:

| | Corporate | Cultivation | | | | Marketing | Total |
|---|---|---|---|---|---|---|---|
| | Canada | Canada | USA | Colombia | Total Cultivation | Canada | |
| Revenue | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Share-based compensation | 54,516 | - | - | - | - | - | 54,516 |
| Interest expense (income) | 155,941 | 234,851 | - | (519) | 234,332 | (2,616) | 387,656 |
| Amortization | - | 842 | - | - | 842 | 976 | 1,818 |
| All other expenses | 832,071 | 42,357 | 362,946 | 211,141 | 616,444 | 45,608 | 1,494,123 |
| Net Loss | $ (1,042,527) | $ (278,050) | $ (362,946) | $ (210,622) | $ (851,618) | $ (43,967) | $ (1,938,113) |
| | | | | | | | |
| Current Assets | 755,493 | 92,565 | 116,172 | 73,646 | 282,382 | 108,625 | 1,146,500 |
| Property, plant, and equipment | | 3,322,784 | 3,775,368 | 1,487,401 | 8,585,553 | 2,060 | 8,587,612 |
| Total Assets | $ 755,493 | $ 3,415,349 | $3,891,539 | 1,561,047 | $ 8,867,935 | $ 110,685 | $ 9,734,113 |
| | | | | | | | |
| Current liabilities | 308,612 | 10,647 | 363,466 | 365,909 | 740,023 | 5,689 | 1,054,325 |
| Intercompany payable (receivable) | (7,365,042) | 2,724,100 | 3,675,897 | 180,300 | 6,580,296 | 167,185 | - |
| Long-term debt | 4,978,685 | 3,952,030 | - | 695,007 | 4,647,037 | - | 9,625,722 |
| Total liabilities | $ (2,077,744) | $ 6,686,776 | $4,039,363 | $1,241,216 | $ 11,967,356 | $ 172,875 | $ 10,680,047 |

## 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

### Warrants Expiry Date Extended & Repriced

On June 19, 2020 the company announced that it had repriced and extended the expiry date of an aggregate of 15,000,000 outstanding private placement warrants expiring in July 2020. The warrants were issued pursuant to a private placement financing that closed in several tranches in July 2018. The warrants were repriced from $1.00 to $0.75 and the expiry date extended to December 31, 2020. All other terms of the warrants remain unchanged.

### Bridge Financing – Extended

Subsequent to the quarter ended May 31, 2020 the company made a final draw against the $5M loan facility (See Note 7(b)) resulting in the loan being fully consumed. The shareholder has agreed to increase the value of the Loan to $5.5M at the same terms and conditions. The company has also made a $100,000 additional draw against this loan bringing the total of the facility that has been used to $5.1M as of the date of this report.

### Lease Renewal & Deferment

Subsequent to the end of the period and as a result of COVID – 19 the company working with the Landlord applied for a rent reduction program that is being offered by the Canadian Government and landlords (CECRA). As a result, the company expects to receive a credit for the rent paid for April - June 2020 in the amount of $13,289. In addition, the company will receive a 25% reduction from the landlord in rent due for the period July – September 2020 in the amount of $4,429 and the landlord has agreed to defer an additional 25% ($4,429) for the same period. This deferred Rent ($4,429) will be repaid in equal amounts starting January 2021.

On July 2, 2020 the company completed a renegotiation of the lease with its current landlord. The current premises will be leased for a further 18 months (October 1, 2020 to March 31, 2021) The total obligation under this new lease will be $72,744 for the 18 months.

### Woodstock – Town of Pelham By-Law

On July 13, 2020 The Town of Pelham Council passed by-laws to amend the Official Plan By-law (4251(2020)) and Zoning By-law (4252(2020)). These new By-law amendments replace the Interim Control By-law (4046) which expired on July 15,2020. The Company is reviewing the new by-law amendments to determine the impact they will have on original plans for the property. The Company's lawsuit for damages against the Town of Pelham continues.