LEVIATHAN NATURAL PRODUCTS INC.

(Formerly Leviathan Cannabis Group Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended August 31, 2021 and August 31, 2020

(in Canadian Dollars)

Management’s Responsibility for Financial Reporting

The accompanying consolidated financial statements for the Company have been prepared by management in accordance with the International Financial Reporting Standards. These consolidated financial statements contain estimates based on managements judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized assets safeguarded, and proper records maintained.

The Audit Committee and Board of Directors reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company’s auditors, Clearhouse LLP, are appointed by the shareholders to conduct an audit and their report follows.

Signed: *“Martin Doane”*

Chief Executive Officer

Signed: *“Jayne Beckwith ”*

Chief Financial Officer

Toronto, Ontario

December 24, 2021

CLEARHOUSE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Leviathan Natural Products Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Leviathan Natural Products Inc. (the Company), which comprise the consolidated statements of financial position as at August 31, 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2021, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of $4,935,568 during the year ended August 31, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended August 31, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on December 23, 2020.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
December 24, 2021

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT AUGUST 31, 2021 AND 2020

(Amounts Expressed in Canadian dollars)

		2021		2020
Assets				
Current Assets				
Cash	$	162,459	$	24,840
Other Receivable		108,286		20,506
Inventory (Note 5)		292,002		-
Prepaid Expenses		104,804		107,275
HST Recoverable		151,558		528,919
		819,109		681,540
Investment Property (Note 6)		4,425,000		3,984,390
Investment		25,000		25,000
License (Note 7)		107,881		-
Property, Plant & Equipment (Note 8)		3,945,135		5,192,617
	$	**9,322,125**	**$**	**9,883,547**
Liabilities				
Current Liabilities				
Accounts Payable & Accrued Liabilities	$	908,470	$	778,249
Deferred Revenue		605,670		581,853
Current portion of Long-Term Debt (Note 9)		1,694,841		4,830,158
		3,208,981		6,190,260
Long-Term Debt (Note 9)		10,566,636		5,295,110
		13,775,617		11,485,370
Non-Controlling Interest (Note 11)		(601,868)		(244,615)
Equity				
Share Capital (Note 10(a))		31,138,597		31,138,597
Warrants (Note 10(c))		2,477,380		2,477,380
Options (Note 10(b))		2,230,123		1,963,008
Deficit		(39,417,531)		(36,676,401)
Accumulated Other Comprehensive Loss		(280,193)		(259,792)
		(3,851,624)		(1,357,208)
Total Shareholders' Equity and non-controlling interest		(4,453,492)		(1,601,823)
	$	**9,322,125**	**$**	**9,883,547**

Going Concern (Note 1), Contingencies (Note 16), Subsequent Events (Note 17)

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

LEVIATHAN NATURAL PRODUCTS INC. (Formerly Leviathan Cannabis Group Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(Amounts Expressed in Canadian dollars)

	Number of Shares	Share Capital	Warrants	Options	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Non-Controlling Interest	Total Equity and Non-Controlling Interest
Balance, August 31, 2019	**84,743,603**	**$ 31,138,597**	**$2,477,380**	**$3,514,465**	**$(35,953,825)**	**$ (9,324)**	**$ 1,167,293**	**$ (33,420)**	**$ 1,133,873**
Vesting of Stock Options (Note 10(b))	-	-	-	60,354	-	-	60,354	-	60,354
Stock Options Expired (Note 10(b))	-	-	-	(1,611,811)	1,611,811	-	-	-	-
Benefit of Shareholder Loan					483,219	-	483,219	-	483,219
Net and Comprehensive Loss for the Year	-	-	-	-	(2,817,606)	(250,468)	(3,068,074)	(211,195)	(3,279,269)
Balance, August 31, 2020	**84,743,603**	**$ 31,138,597**	**$2,477,380**	**$1,963,008**	**$(36,676,401)**	**$ (259,792)**	**$ (1,357,208)**	**$ (244,615)**	**$ (1,601,823)**
Vesting of Stock Options (Note 10(b))	-	-	-	2,083,900	-	-	2,083,900	-	2,083,900
Stock Options Expired (Note 10(b))	-	-	-	(1,816,785)	1,816,785	-	-	-	-
Net and Comprehensive Loss for the Year	-	-	-	-	(4,557,915)	(20,401)	(4,578,315)	(357,253)	(4,935,568)
Balance, August 31, 2021	**84,743,603**	**$ 31,138,597**	**$2,477,380**	**$2,230,123**	**$(39,417,531)**	**$ (280,193)**	**$ (3,851,624)**	**$ (601,868)**	**$ (4,453,492)**

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

LEVIATHAN NATURAL PRODUCTS INC. (Formerly Leviathan Cannabis Group Inc.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(Amounts Expressed in Canadian dollars)

		2021		2020
Revenue				
Sales	$	341,813	$	-
Rent		272,280		72,732
		614,093		72,732
Cost of sales		489,328		-
		124,765		72,732
Expenses				
Salaries, Wages & Consulting Fees (Note 13)		1,162,080		1,326,776
Interest, net (Note 9)		1,076,463		890,945
Professional Fees		228,591		287,744
Office & General		331,973		358,455
Foreign Exchange (Gain) Loss		(12)		4,489
Travel & Promotion		561		31,313
Investor Relations & Fees		57,252		52,332
Share Based Compensation (Note 10(b) and Note 13)		2,083,900		60,354
Rent		16,555		19,626
Operational and utilities		108,242		93,284
Amortization (Note 8)		664,745		42,578
Marketing		-		5,890
Fair value adjustment on investment property		(159,653)		(7,253)
Gain on modification of debt		(1,097,254)		-
Impairment of property, plant and equipment		566,489		-
Recovery		-		(65,000)
		5,039,932		3,101,533
Net Loss	**$**	**(4,915,167)**	**$**	**(3,028,801)**
Other Comprehensive Loss				
Unrealized foreign exchange on net investments in foreign operations		-		(211,156)
Foreign Currency Translation		(20,401)		(39,312)
Net Comprehensive Loss	**$**	**(4,935,568)**	**$**	**(3,279,269)**
Net Loss Attributable to:				
Non-controlling Interest (Note 11)	**$**	**(357,252)**	$	(211,195)
Shareholders of the Company	**$**	**(4,557,915)**	$	(2,817,606)
	$	**(4,915,167)**	**$**	**(3,028,801)**
Weighted Average Number of Common Shares Outstanding – Basic and Diluted (Note 12)		**84,743,603**		**84,743,603**
Basic and Fully Diluted Loss per Share	**$**	**(0.05)**	**$**	**(0.03)**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

(Amounts Expressed in Canadian dollars)

		2021		2020
Cash Flow from Operating Activities				
Net Loss	$	(4,915,167)	$	(3,028,801)
Add-Back (Deduct) Non-Cash Items				
Amortization		664,745		42,578
Interest and accretion		1,076,463		890,945
Share Based Compensation		2,083,900		60,354
Rent revenue		(272,280)		(73,732)
Impairment of assets		569,289		-
Gain on debt extinguishment		(1,097,254)		-
Fair value adjustment on investment property		(159,653)		(7,253)
Changes in Non-Cash Working Capital:				
Other Receivable		(87,780)		(18,282)
Prepaid Expenses		2,471		(40,656)
HST Recoverable		377,360		(111,055)
Inventory		(292,002)		-
Accounts Payable & Accrued Liabilities		55,057		371,242
		(1,994,851)		(1,914,660)
Cash Flow from Financing Activities				
Lease payments		(38,804)		(39,377)
Columbia mortgage payments		(64,699)		(462,960)
Proceeds from Long-Term Debt		2,407,172		5,282,493
		2,303,669		4,780,156
Cash Flow from Investing Activities				
Cash paid to acquire Natural Origins SAS		(137,303)		-
Purchase of property, plant & equipment		(13,495)		(3,699,704)
		(150,798)		(3,699,704)
Increase (Decrease) in Cash		**158,020**		**(834,208)**
Effect of foreign exchange translation		**(20,401)**		**(63,166)**
Cash, Beginning of year		**24,840**		**922,213**
Cash, End of year	**$**	**162,459**	**$**	**24,840**

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. (Formerly Leviathan Cannabis Group Inc.) (the "Company") is a cannabis focused, marketing services agency and is, through its subsidiaries, pursuing the goal of becoming a fully licensed cultivator, processor and distributor of cannabis and hemp products in Canada, United States & South America.

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 (the "CSE") 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.

In 2020 and 2021, there was a global outbreak of COVID-19 (coronavirus), which had a significant impact on businesses through restrictions put in place by federal, provincial, state and municipal governments regarding travel, business operations, and isolations/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, management anticipate that this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages and increased government regulations, all of which may negatively impact the Company's business and financial condition. COVID–19 has not had a material adverse effect on the Company's operations nor has it had an immediate impact on the Company's ability to lease its investment property in Ontario. The pandemic has had a limited effect on the construction phase of its operations in Tennessee.

For the year ended August 31, 2021, the Company reported a net loss of $4,915,167 (2020 - $3,028,081) and, as at August 31, 2021, had a deficit of $39,417,531 (2020 - $36,676,401) and a working capital deficiency of $2,389,872 (2020 - $5,508,720). Management has forecasted that the expected expenditure levels and contracted commitments will exceed the Company's net cash inflows and working capital for the fiscal year 2022 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 realized, 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 and short-term borrowings. 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 may cast significant doubt on 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 consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the consolidated statements of financial position classifications used. Such adjustments may be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors on December 22, 2021.

(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 11.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(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, and Grupo LCG SAS and Natural Origins SAS, which have a Colombian peso 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Financial instruments

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).

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.

The following table summarizes the classification of the Company's financial instruments:

	IFRS 9 Classification
Financial assets	
Cash	Amortized cost
Other receivable	Amortized cost
Investment	FVTPL
Financial Liabilities	
Accounts payable	Amortized cost
Long-term debt	Amortized cost

(e) Revenue recognition

The Company earns revenue from the extraction and processing of hemp oil-based products – both through processing its own biomass hemp and proving the same services to its customers. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contras as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement. Revenue from product sales and the related cost of goods sold are recognized on delivery of goods to the customer. Processing fee revenue is recognized on completion of services.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(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%
Growing Equipment	Declining Balance	30%

Depreciation of the Company's buildings have begun or begin when the facilities are ready for use. The Company's facility in Tennessee is currently in use and the Company's facility in Colombia is not 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.

(h) Investment Property

Investment properties are held to earn rental income or for capital appreciation, or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. Investment properties are initially measured at cost including transaction costs. Transaction costs include various professional fees, land transfer tax and initial leasing commissions to bring the property up to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment properties are recorded at fair value and related gains or losses arising from changes in fair value are recognized in net comprehensive income in the period of change. The determination of fair value is based upon, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions. An investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of operations and comprehensive income in the period of retirement or disposal. Gains or losses on the disposal of an investment property are determined as the difference between the net disposal proceeds and the carrying value of the asset on the date of disposal. All property operating expenses in the consolidated statements of operations and comprehensive income pertain to properties which earn rental income. Investment property may also be transferred if the Company changes its use to owner-occupied property in which case the carrying value is transferred to property, plant, and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(i) 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.

(j) 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 August 31, 2021.

(k) 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. Warrant modifications are not recognized to the extent they originated in a financing transaction.

(l) Inventories

Inventories consist of finished goods, work-in-process and raw materials and is valued at the lower of cost and net realizable value. Cost is determined using the standard cost method, which is updated regularly to reflect current conditions and approximate cost based on the weighted average formula. Cost of inventories includes cost of purchase (purchase price, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provision for obsolete, slow moving and defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extend there is a subsequent increase in the net realizable value of the inventory.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Leases

IFRS 16 introduced a single, on-balance sheet accounting model for leases. The Company, as a lessee, has recognized right-of use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

A right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company primarily uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has furthermore applied judgment to determine the applicable discount rate. The discount rate is based on the Company's incremental borrowing rate and reflects the current market assessments of the time value of money and the associated risks for which the estimates of future cash flows have not been adjusted for.

(n) Non-controlling interests

Non-controlling interest is measured at its proportionate share of the acquirer’s identifiable net assets or liabilities. Net income or loss and comprehensive income or loss, for the period, are allocated between non-controlling interest and owners of the parent. Non-controlling interest in subsidiaries must be presented in the statement of financial position within equity, separately from the equity of the owners of the parent.

(o) 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.

(p) 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:

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(p) Significant accounting estimates, judgments, and assumptions - continued

Value of investment property

Investment properties are initially measured at cost including transaction costs. Transaction costs include various professional fees, land transfer tax and initial leasing commissions to bring the property up to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment properties are recorded at fair value and related gains or losses arising from changes in fair value are recognized in net comprehensive income in the period of change. The fair value is estimated by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued.

Value of inventory

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provision for obsolete, slow moving and defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extend there is a subsequent increase in the net realizable value of the inventory.

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 8.

Going concern assumption

Going concern presentation of the financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

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 15.

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.

Functional and presentation currency

In determining the functional currency of the parent and its subsidiary, the Company considers the currency that mainly influences sales and the cost of providing goods and services in each jurisdiction in each the Company operates. The Company also considered secondary indicators including the currency in which funds from financing activities are denominated, the currency in which funds are retained and whether the activities of the subsidiaries are carried out as an extension of the Company or if they are carried out with a degree of autonomy.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(q) Recent and future accounting pronouncements

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place at the end of the reporting period;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability;
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. There is currently a proposal in place to extend effective date for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") Amendments

The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. The extent of the impact of adoption of this amendment has not yet been determined.

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.

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 August 31, 2021, the Company has current assets of $819,109 (August 31, 2020 - $681,540) to settle current financial liabilities of $3,208,981 (August 31, 2020 - $6,190,260) (Note 1).

Additional details relating to the repayment dates of the Company's long-term debt are included in Note 9.

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 of these 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 hemp activities and the future profitability of the Company is directly related to the market price of cannabis and hemp.

4. AQUISITIONS

a) Colombia

On November 18, 2019 the Company, through its subsidiary Grupo LCG SAS, acquired a farm property in Carmen de Viboral, Colombia. The purchase price for the facility was 3.225 billion Colombian pesos (CAD $1.29 million). The Company has determined that the assets acquired do not constitute a business under IFRS 3 Business Combinations and the transaction has been accounted for as an asset acquisition.

Purchase Price:

Present value of cash payments	$	1,217,730
Acquisition costs		27,055
	$	**1,244,785**

Net Assets acquired:

Land	$	975,905
Buildings		268,870
	$	**1,244,775**

See Note 9(c) for additional payment details.

b) Natural Origins SAS

On August 13, 2021 the Company, through its subsidiary Grupo LCG SAS, acquired 100% of the issued and outstanding shares of Natural Origins SAS for total consideration of 486 million Colombian pesos (CAD$137,303). The only asset owned by Natural Origins SAS were cannabis licenses received from the Colombian Ministry of Health and Social Welfare (Note 7). Natural Origins SAS was determined not to meet the definition of a business as per IFRS 3 as substantially all of the fair value of Natural Origins SAS was concentrated in one asset: its cannabis licenses. Accordingly, the acquisition was treated as an asset acquisition.

5. INVENTORY

The components of inventory are as follows:

		2021		**2020**
Opening balance	$	-	$	-
Hemp, raw material		30,281		-
Packaging		261,721		-
Closing balance	**$**	**292,002**	**$**	**-**

6. INVESTMENT PROPERTY

During 2020, the Company executed a lease for the Woodstock property that was previously owner-occupied. The property was measured at cost until the change of use of the property to investment property. The Company measures the investment property at fair value. The fair value is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Operation costs of the investment property after its reclassification to investment property were approximately $32,981 (2020 - $7,300).

The following is a reconciliation of the carrying value of the Company's investment property:

		2021		**2020**
Opening balance	$	3,984,390	$	-
Transfer from owner-occupied property		-		3,322,552
Expenditure recognized in the carrying value		280,957		654,585
Fair value adjustments		159,653		7,253
Closing balance	**$**	**4,425,000**	**$**	**3,984,390**

7. LICENSE

The Company owns three (2020 – nil) licenses received from the Colombian Ministry of Health and Social Welfare with a value of $137,303 (2020 - $Nil). The licenses are considered to be an intangible asset with a definite life. The licenses are being amortized straight-line over a three year period which reflects the duration of the license term.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Building (b)	Right of Use Asset	Growing Equipment	Furniture	Total
Cost					
At August 31, 2019	**3,817,387**	**-**	**10,000**	**5,171**	**3,832,558**
Adoption of IFRS 16	-	43,076	-	-	43,076
Transfer to investment property (Note 6)	(3,322,552)	-	(7,448)	-	(3,330,000)
Additions	2,886,306	-	1,949,445	108,738	4,944,489
Additions - right of use asset	-	57,966	-	-	57,966
Effect of foreign exchange	(248,231)	-	(59,659)	(3,943)	(311,833)
At August 31, 2020	**3,132,910**	**101,042**	**1,892,338**	**109,966**	**5,236,256**
Additions	4,284	-	9,211	-	13,495
Impairment (a)	(566,489)	-	-	-	(566,489)
At August 31, 2021	**2,570,705**	**101,042**	**1,901,549**	**109,966**	**4,683,262**
Accumulated Amortization					
At August 31, 2019	**-**	**-**	**6,374**	**2,135**	**8,509**
Amortization for the period	-	39,602	1,675	1,301	42,578
Transfer to investment property (Note 6)	-	-	(7,448)	-	(7,448)
At August 31, 2020	**-**	**39,602**	**601**	**3,436**	**43,639**
Amortization for the period	60,486	38,804	562,459	32,739	694,488
At August 31, 2021	**60,486**	**78,406**	**563,060**	**36,175**	**738,127**
Net Book Value					
At August 31, 2020	3,132,910	61,440	1,891,737	106,530	5,192,617
At August 31, 2021	**2,510,219**	**22,636**	**1,338,489**	**73,791**	**3,945,135**

a) The Company recorded an impairment of $569,489 (2020 - $Nil) on its facility in Tennessee. The impairment was based on the fair value less disposal costs of the Tennessee facility prepared from a third party valuator.

b) The Company's facility in Colombia representing $1,120,562 of land and buildings, was not in use during the year ended August 31, 2021.

9. LONG-TERM DEBT

The Company's long-term debt agreements are summarized below:

		2021		2020
Woodstock (a)	$	4,403,728	$	4,070,784
Bridge Loan (b)		6,485,345		5,234,642
Colombia Mortgage (c)		701,586		723,149
Lease Liability (d)		17,564		56,693
Government Loan (e)		64,892		40,000
US Loan (f)		588,362		-
	$	12,261,477	$	10,125,268
Less: current portion		1,694,841		4,830,158
	$	10,566,636	$	5,295,110

a) Woodstock

The Company has two mortgages of equal rank secured against the facility in Woodstock. Both mortgages bear interest of 7% per annum, compounded monthly. During the year, the mortgages were extended from February 22, 2021 to September 1, 2022, at which the principal balance and any accrued interest will be due and payable. All accrued interest up to February 22, 2021 was capitalized and the interest plus the outstanding principal will pay interest at the rate of 7.00% per annum, calculated and compounded monthly, on the first day of each and every month, in arrears.

		2021		2020
Opening balance	$	4,070,781	$	3,717,089
Interest expense		294,540		277,518
Accretion expense		38,407		76,180
Payments		-		-
Closing balance	**$**	**4,403,728**	**$**	**4,070,781**
Less: current portion		237,081		4,070,781
Non-current portion	**$**	**4,166,647**	**$**	**-**

b) Bridge Loan

On October 15, 2019 the Company signed an agreement with a shareholder to provide unsecured financing of up to $5,500,000 bearing interest at a rate of ten percent (10%) per annum from the date of each advance, payable three times per year: April 30, August 31, and December 31. The Company may, at its discretion, repay the balance of principal and/or interest owing at any time without penalty. In October 2020, the agreement was increased to $7,500,000. The Company determined that the interest rate was preferential and has discounted the future cash flows at an effective rate of 16%. The resulting discount on initial recognition is recognized directly in equity as a shareholder contribution. In February 2021, the due date was extended to December 31, 2023 with annual interest payments payable on December 31 of each year. Due to the extension of the due date of the loan, a gain on modification was recorded and the Company discounted the future cash flows of the modified loan at an effective rate of 16%.

9. LONG-TERM DEBT - continued

b) Bridge Loan - continued

		2021		2020
Opening balance	$	5,234,642	$	-
Draws (i)		1,905,521		5,568,082
Discount		(507,549)		(486,376)
Gain on modification		(1,097,254)		-
Interest expense		699,093		285,589
Accretion expense		461,413		152,936
Payments (i)		(210,521)		(285,589)
Closing balance	**$**	**6,485,345**	**$**	**5,234,642**
Less: current portion		738,610		-
Non-current portion	**$**	**5,746,735**	**$**	**5,234,642**

(i) Of the total interest expense of $699,093 (2020 - $285,589), $210,521 (2020 - $168,082) was not paid and has been treated as an additional draw.

c) Colombia Mortgage

On November 18, 2019 the Company, through its subsidiary Grupo LCG SAS, acquired a farm property located on 22.43 flat acres land in Carmen de Viboral, Colombia. The purchase price for the facility was 3.225 billion Colombian pesos (CAD $1.29 million). The Company paid C$429,000 during the period. A first ranking mortgage is secured against the property with an interest rate of 0.625% per month. The Company discounted the future principal and interest payments using an effective rate of 13.39%.

		2021		2020
Opening balance	$	723,149	$	1,285,730
Discount		-		(68,000)
Interest expense		64,699		44,835
Accretion expense		18,616		43,735
Payments		(64,699)		(462,960)
Effect of changes in foreign exchange rates		(40,179)		(120,191)
Closing balance	**$**	**701,586**	**$**	**723,149**
Less: current portion		701,586		723,149
Non-current portion	**$**	**-**	**$**	**-**

As at August 31, 2021, the remaining principal payments are COP 2,110,000,000 (CAD $701,586) that were payable in June/July 2021.

d) Lease Liability

During 2020, the lease was extended and the liability and right of use asset were both increased by $57,966. The following is a reconciliation of the lease liability:

		2021		2020
Opening balance	$	56,693	$	-
Adoption of IFRS 16		-		36,228
Extension of lease		-		57,966
Interest expense		3,673		1,876
Lease payments		(42,802)		(39,377)
Closing balance	**$**	**17,564**	**$**	**56,693**
Less: Current portion		17,564		39,129
Non-current portion	**$**	**-**	**$**	**17,564**

3. LONG-TERM DEBT - continued

e) Government Loan

During the period, the Company had a $120,000 (2020 - $40,000) loan from Canada Emergency Business Account ("CEBA"). This interest free loan was offered by the Canadian Government through the Corporation's bank in the context of the Covid-19 pandemic outbreak to finance operating costs. Repayment of the loan balance on or before December 31, 2022 will result in a loan forgiveness of $10,000. As at January 1st, 2023, the Corporation will have the option to extend the repayment of the capital for 3 years and will benefit from an interest rate of 5%.

		2021		2020
Opening balance	$	40,000	$	-
Draws		80,000		40,000
Discount		(60,357)		-
Accretion expense		5,249		-
Closing balance	**$**	**64,892**	**$**	**40,000**

f) US Loan

On March 5, 2021, the Company entered into a loan and security agreement with an arm's-length lender for a loan of US$499,000. The loan bears interest at a rate of 12.99% per annum, paid monthly, and is secured against certain assets of Leviathan US. The Loan comes due and payable in full on March 1, 2023. Partially-amortized payments are payable in consecutive monthly installments of US$5,433 on the first day of each month, beginning April 1, 2021.

		2021		2020
Opening balance	$	-	$	-
Draws		629,588		-
Discount		(52,397)		-
Interest expense		40,885		-
Accretion expense		11,411		-
Payments		(41,125)		-
Closing balance	**$**	**588,362**	**$**	**-**
Less: current portion		-		-
Non-current portion	**$**	**588,362**	**$**	**-**

4. SHARE CAPITAL AND RESERVES

a. Share Capital

Authorized:

Unlimited number of common shares.

Issued and outstanding:

84,743,603 (2020 – 84,743,603)

Activity:

Fiscal 2021 and 2020

No activity.

10. SHARE CAPITAL AND RESERVES – continued

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.

Activity:

<u>Fiscal 2020</u>

During the year, 600,000 options issued to former employees expired.

The total share-based compensation during the year ended August 31, 2020 is $60,354.

<u>Fiscal 2021</u>

During the year, 5,300,000 options issued to officers, directors and consultants expired.

On March 21, 2021, the company issued 1,000,000 options to an advisory firm with an exercise price of $0.60 and an expiry date of March 21, 2024. 250,000 options vest every three months from the issue date. The value of the options was determined at $348,145 using 90% volatility, 3-year expected life, 0.44% discount rate, 0% expected dividend.

On August 27, 2021, the company issued 5,550,000 options to officers, directors and consultants with an exercise price of $0.65 and an expiry date of August 27, 2024. These options fully vested upon issuance. The value of the options was determined at $1,830,308 using 90% volatility, 3-year expected life, 0.44% discount rate, 0% expected dividend.

The total share-based compensation during the year ended August 31, 2021 is $2,083,900.

A summary of the Company's stock option activity for the years ended August 31, 2021 and 2020 is as follows:

	Number of Options	Weighted-Average Exercise Price ($)
Outstanding, August 31, 2019	7,109,360	0.69
Cancelled/Expired	(1,359,360)	2.00
Outstanding, August 31, 2020	5,750,000	0.60
Expired	(5,300,000)	0.60
Issued	6,550,000	0.64
Outstanding, August 31, 2021	7,000,000	0.64

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at August 31, 2021 are as follows:

Date of Grant	Exercise Price ($)	Number Outstanding	Number Exercisable	Remaining Life (Years)
Nov 8, 2018	0.60	300,000	300,000	0.56
May 22, 2019	0.60	150,000	150,000	0.85
Mar 21, 2021	0.60	1,000,000	250,000	2.56
Aug 27, 2021	0.65	5,550,000	5,550,000	2.99
		7,000,000	6,250,000	

10. SHARE CAPITAL AND RESERVES – continued

c. Warrants

Between June 2018 and September 2018, the Company issued 15,000,000 share purchase warrants as part of a $0.50 per unit 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 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 $2,477,380 of the net proceeds of the financing.

On June 19, 2020, the Company repriced and extended the expiry date of the 15,000,000 share purchase warrants expiring between July 2020 and September 2020. 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.

On December 11, 2020, the Company repriced and extended the expiry date of the 15,000,000 share purchase warrants expiring on December 31, 2020. The warrants were repriced from $0.75 to $0.60 and the expiry date extended to December 31, 2021. All other terms of the warrants remain unchanged.

11. 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
Natural Origins SAS	Colombia	65% (iii)	August 17, 2021

(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.

(iii) A 100% interest of Natural Origins SAS is held through Grupo LCG SAS.

12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended August 31, 2021 was based on the net loss and comprehensive loss attributable to common shareholders of $4,557,915 (2020 – $2,817,606) and the weighted average number of common shares outstanding of 84,743,603 (2020 – 84,743,603).

13. RELATED PARTY BALANCES AND TRANSACTIONS

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

		2021		2020
Salaries, consulting and benefits (a) and (b)	$	593,989	$	409,963
Share based compensation		1,994,811		60,354
	$	**2,588,800**	**$**	**470,317**

(a) During the period, $Nil (August 31, 2020 – US$941,507) was paid to a company controlled by a shareholder of one of the Company's subsidiaries, for the renovation and build out of the Company's growing facility in Tennessee.

(b) As at August 31, 2021, $156,150 due to directors, officers and shareholders is included in accounts payable and accrued liabilities.

14. OPERATING SEGMENTS

The Company currently operates in three business segments:

1) Cannabis focused marketing services ("Marketing");
2) Cultivation, processing, and distribution of cannabis and hemp products in Canada and hemp products in the United States & South America ("Cultivation"). As at August 31, 2021, 100% of the Company's cultivation operations are in the development stage; and
3) Investment Property ("Investment").

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

	Corporate	**Cultivation**			**Investment Property**	**Marketing**	**Total**
	Canada	USA	Colombia	Total Cultivation	Canada	Canada	
Revenue	$ -	$ 341,813	$ -	$ 341,813	$ 272,280	$ -	$ 614,093
Share-based compensation	2,083,900	-	-	-	-	-	2,083,900
Interest expense, net of discount	(471,851)	55,367	86,618	141,985	332,942	(23,869)	(20,793)
Amortization	-	595,123	29,517	624,640	-	40,105	664,745
All other expenses	814,741	1,756,181	317,013	2,073,194	(122,103)	35,576	2,801,408
Net Loss	**$ (2,426,790)**	**$ (2,064,858)**	**$ (433,148)**	**$ (2,498,006)**	**$ 61,441**	**$ (51,813)**	**$ (4,915,167)**
Current Assets	178,501	433,161	12,738	445,899	133,596	61,113	819,109
Investments	-	-	-	-	-	25,000	25,000
Investment property	-	-	-	-	4,425,000	-	4,425,000
License	-	-	107,881	107,881	-	-	107,881
Property, plant, and equipment	-	2,801,503	1,120,563	3,922,066	-	23,069	3,945,135
Total Assets	**$ 178,501**	**$ 3,234,664**	**$ 1,241,182**	**$ 4,475,846**	**$ 4,558,596**	**$ 109,182**	**$ 9,322,125**
Current liabilities	1,067,613	427,550	885,359	1,312,909	810,895	17,564	3,208,981
Intercompany payable (receivable)	(9,740,252)	5,359,466	960,364	6,319,830	2,751,664	668,758	-
Long-term debt	5,779,181	506,104	-	506,104	4,248,905	32,446	10,566,636
Total liabilities	**$ (2,893,458)**	**$ 6,293,120**	**$ 1,845,723**	**$ 8,138,843**	**$ 7,811,464**	**$ 718,768**	**$ 13,775,617**

15. INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The reconciliation of the combined Canadian federal and provincial statutory income taxes rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

		2021		**2020**
Net loss before recovery of income taxes	$	(4,915,167)	$	(3,028,801)
Expected income tax (recover) expense		(1,302,519)		(802,630)
Tax rate changes and other adjustments		63,041		21,930
Non-deductible expenses		9,586		71,700
Stock based compensation		552,234		15,990
Impairment of assets		150,862		-
Change in tax benefits not recognized		526,796		693,010
Income tax (recovery)	**$**	**-**	**$**	**-**

Deferred tax

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The following table summarizes the components of deferred tax:

		2021		**2020**
Deferred tax assets				
Capital lease obligations	$	4,654	$	15,020
Operating tax losses carried forward		1,344		1,260
	$	**5,998**	**$**	**16,280**
Deferred tax liabilities				
Right of Use Asset		(5,998)		(16,280)
	$	**(5,998)**	**$**	**(16,280)**
Income tax (recovery)	**$**	**-**	**$**	**-**

15. INCOME TAXES - continued

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom:

		2021		2020
Property, plant and equipment	$	1,303,828	$	10,630
Investment property		629,710		1,070,320
Long-term debt		20,000		10,000
Investment		376,050		376,050
Share issuance costs		7,110		14,220
Operating tax losses – Canada		9,613,112		9,464,550
Operating tax losses – U.S.		1,722,209		738,340
Capital loss carried forward		50,000		50,000

The Canadian operating tax losses expire as noted in the table below. The U.S. operating tax losses can be carried forward indefinitely. Share issuance costs will be fully amortized in 2022. The capital losses may be carried forward indefinitely but can only be used to reduce capital gains. The share issuance costs will be fully deducted by 2022. The remaining deductible temporary differences may be carried forward indefinitely.

The Company's Canadian non-capital income tax losses expire as follows:

2035	$	196,796
2036		376,150
2037		1,224,130
2038		1,371,900
2039		3,159,960
2040		2,038,360
2041		1,245,816
	$	9,613,112

16. CONTINGENCIES

The Company has been charged under section 24 of the Provincial Offences Act for allegedly violating the Town of Pelham's Cannabis Interim Control Bylaw (ICB). If found guilty under section 67 of the Planning Act there may be a maximum fine of $50,000 for a first conviction, a surcharge to any fine of up to 25% of the fine amount, and, in some cases, a special fine may arise if there was an economic gain obtained due to the violation in an amount of the economic gain. Any potential liability cannot be reliably estimated and no provision has been recorded in these consolidated financial statements.

The Company has initiated legal proceedings against of the Town of Pelham. This litigation, filed through the Ontario Superior Court of Justice, follows the Town of Pelham Council's decision to deny the Company an exemption to its Interim Control By-law (4046), which placed a one-year moratorium on the building of new cannabis facilities and the expansion of existing operations.

The Company, along with two other cannabis companies operating in the Town of Pelham, appealed to the Local Planning Appeal Tribunal regarding the Town of Pelham's amendments to its agricultural zoning by-law and official plan following its land review study of cannabis cultivation and processing issues.

17. SUBSEQUENT EVENTS

a) On October 25, 2021 the Company announced that it entered into a definitive agreement (the "Agreement") to acquire all of the issued and outstanding shares of Tirthankar Ltd. and related companies (the “Tirthankar Entities”), which operate 10 retail cannabis stores in Ontario, and have 5 more locations in development. Pursuant to the Agreement, the Company will acquire all of the issued and outstanding shares of the Tirthankar Entities in consideration for $1.8 million cash and 15,750,000 common shares of the Company. Leviathan will also issue 250,000 common shares to certain employees of the Tirthankar Entities as a retention bonus. All the common shares of Leviathan issuable under the Agreement will be subject to contractual restrictions on trading.

b) Subsequent to the year-end of August 31, 2021, the Company received proceeds of $450,999 from 751,666 share purchase warrants exercised at $0.60 per warrant.