# LEVIATHAN NATURAL PRODUCTS INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## For the Three and Nine Months Ended May 31, 2022 and 2021

*(Expressed in Canadian Dollars)*

# LEVIATHAN NATURAL PRODUCTS INC.

## NOTICE TO READER

Pursuant to National Instrument 51-102, Part 4, Subsection 4.3(3a) issued by the Canadian Securities Administrators, if the auditor of the Company has not performed a review of the condensed interim consolidated 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 three and nine months ended May 31, 2022 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, Clearhouse LLP, has not performed a review of the unaudited condensed interim consolidated financial statements for the three and nine months ended May 31, 2022.

Toronto,Ontario
July 29, 2022

# LEVIATHAN NATURAL PRODUCTS INC.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## AS AT MAY 31, 2022 AND AUGUST 31, 2021

(Amounts Expressed in Canadian Dollars)

| | | May 31 2022 | | August 31 2021 |
|---|---|---|---|---|
| | | (Unaudited) | | (Audited) |
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | $ | 4,105,130 | $ | 162,459 |
| Other receivable | | 33,636 | | 108,286 |
| Inventory (Note 5) | | 262,364 | | 292,002 |
| Prepaid expenses | | 92,600 | | 104,804 |
| HST recoverable | | 109,393 | | 151,558 |
| | | 4,603,123 | | 819,109 |
| Investment property (Note 6) | | 4,425,000 | | 4,425,000 |
| Investment | | 25,000 | | 25,000 |
| License (Note 7) | | 67,744 | | 107,881 |
| Property, plant & equipment (Note 8) | | 3,793,517 | | 3,945,135 |
| **Total Assets** | **$** | **12,914,384** | **$** | **9,322,125** |
| | | | | |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable & accrued liabilities | $ | 1,148,130 | $ | 908,470 |
| Deferred revenue | | 324,937 | | 605,670 |
| Current portion of long-term debt (Note 9 and 13) | | 6,254,818 | | 1,694,841 |
| | | 7,727,885 | | 3,208,981 |
| Long-term debt (Note 9) | | 7,271,535 | | 10,566,636 |
| **Total Liabilities** | | 14,999,420 | | 13,775,617 |
| | | | | |
| **Non-Controlling Interest** (Note 11) | | (392,278) | | (601,868) |
| | | | | |
| **Equity** | | | | |
| Share capital (Note 10(a)) | | 36,749,202 | | 31,138,597 |
| Warrants (Note 10(c)) | | - | | 2,477,380 |
| Options (Note 10(b)) | | 2,369,614 | | 2,230,123 |
| Deficit | | (40,546,703) | | (39,417,531) |
| Accumulated other comprehensive loss | | (264,871) | | (280,193) |
| **Total Equity** | | (1,692,758) | | (3,851,624) |
| **Total Equity and Non-Controlling Interest** | | (2,085,036) | | (4,453,492) |
| **Total Liabilities, Equity and Non-Controlling Interest** | **$** | **12,914,384** | **$** | **9,322,125** |

*Going Concern (Note 1), Contingencies (Note 15), Subsequent Events (Note 17)*

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

# LEVIATHAN NATURAL PRODUCTS INC.

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

**FOR THE NINE MONTHS ENDED MAY 31, 2022 AND 2021**

(Unaudited - 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, 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)) | - | - | - | 67,944 | - | - | 67,944 | - | 67,944 |
| Net and comprehensive loss for the period | - | - | - | - | (2,785,538) | 17,843 | (2,767,695) | (216,798) | (2,984,493) |
| **Balance, May 31, 2021** | **84,743,603** | **$ 31,138,597** | **$2,477,380** | **$2,030,952** | **$ (39,461,939)** | **$ (241,949)** | **$ (4,056,959)** | **$ (461,413)** | **$ (4,518,372)** |

| | 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, 2021** | **84,743,603** | **$ 31,138,597** | **$2,477,380** | **$2,230,123** | **$ (39,417,531)** | **$ (280,193)** | **$ (3,851,624)** | **$ (601,867)** | **$ (4,453,492)** |
| Vesting of stock options (Note 10(b)) | - | - | - | 216,914 | - | - | 216,914 | - | 216,914 |
| Expiry of stock options (Note10(b)) | - | - | - | (64,462) | 64,462 | - | - | - | - |
| Exercise of stock options (Note10(b)) | 37,500 | 35,461 | - | (12,961) | - | - | 22,500 | - | 22,500 |
| Issuance of shares on exercise of warrants (Note 10(c)) | 751,666 | 575,144 | (124,144) | - | - | - | 451,000 | - | 451,000 |
| Expiry of warrants (Note10(c)) | - | - | (2,353,236) | - | 2,353,236 | - | - | - | - |
| Issuance of shares on private placement (Note 10(a)) | 8,333,333 | 5,000,000 | - | - | - | - | 5,000,000 | | 5,000,000 |
| Acquisition of interest in subsidiary (Note 11(i)) | - | - | - | - | (407,135) | - | (407,135) | 375,099 | (32,036) |
| Net and comprehensive loss for the period | - | - | - | - | (3,139,735) | 15,322 | (3,124,413) | (165,510) | (3,289,923) |
| **Balance, May 31, 2022** | **93,866,102** | **$ 36,749,202** | **$ -** | **$2,369,614** | **$ (40,546,703)** | **$ (264,871)** | **$ (1,692,758)** | **$ (392,278)** | **$ (2,085,036)** |

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

## LEVIATHAN NATURAL PRODUCTS INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2022 AND 2021**

(Unaudited - Amounts Expressed in Canadian Dollars)

| | Three months | | Nine months | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Revenue** | | | | |
| Sales | $ 117,939 | $ 110,969 | $ 498,636 | $ 161,391 |
| Rent and deferred revenue | 117,360 | 54,997 | 265,593 | 163,995 |
| | 235,299 | 165,966 | 764,229 | 325,386 |
| Cost of sales (Note 16) | 279,355 | 254,976 | 770,142 | 370,599 |
| | (44,056) | (89,010) | (5,913) | (45,213) |
| **Expenses** | | | | |
| Salaries, wages & consulting fees (Note 13) | 180,338 | 247,671 | 793,537 | 904,988 |
| Interest, net (Note 9) | 483,656 | 333,480 | 1,416,830 | 970,131 |
| Professional fees | 76,932 | 48,205 | 244,173 | 153,113 |
| Office & general | 47,042 | 26,994 | 161,743 | 226,988 |
| Travel & promotion | 4,700 | 88 | 11,867 | 347 |
| Investor relations & fees | 21,556 | 14,594 | 56,558 | 61,880 |
| Share based compensation (Note 10(b) and Note 13) | 130,241 | 66,769 | 216,914 | 67,944 |
| Rent | (5,057) | 10,498 | 2,396 | 13,681 |
| Operational and utilities | 5,578 | 8,997 | 15,817 | 63,300 |
| Gain on modification of debt (Note 9(e)) | (9,930) | - | (9,930) | - |
| Amortization (Note 8) | 132,369 | 149,813 | 389,427 | 494,750 |
| | 1,067,425 | 907,109 | 3,299,332 | 2,957,122 |
| **Net Loss** | **$ (1,111,481)** | **$ (996,119)** | **$ (3,305,245)** | **$ (3,002,335)** |
| **Other Comprehensive Loss** | | | | |
| Foreign currency translation | 5,688 | - | 15,322 | - |
| **Net Comprehensive Loss** | **$ (1,105,793)** | **$ (996,119)** | **$ (3,289,923)** | **$ (3,002,335)** |
| **Net Loss Attributable to:** | | | | |
| Non-controlling interest (Note 11) | **$ (29,197)** | **$ (71,228)** | **$ (165,510)** | **$ (216,798)** |
| Shareholders of the Company | **$ (1,082,283)** | **$ (924,891)** | **$ (3,139,735)** | **$ (2,785,537)** |
| | **$ (1,111,480)** | **$ (996,119)** | **$ (3,305,245)** | **$ (3,002,335)** |
| **Weighted Average Number of Common Shares Outstanding – Basic and Diluted (Note 12)** | **90,852,923** | **84,743,603** | **87,166,450** | **84,743,603** |
| **Basic and Fully Diluted Loss per Share** | **$ (0.01)** | **$ (0.01)** | **$ (0.04)** | **$ (0.03)** |

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

## LEVIATHAN NATURAL PRODUCTS INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED MAY 31, 2022 AND 2021**

(Unaudited - Amounts Expressed in Canadian Dollars)

| | 2022 | 2021 |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Net loss | $ (3,305,245) | $ (3,002,335) |
| Add-back (deduct) non-cash items | | |
| Amortization (note 16) | 418,112 | 523,686 |
| Interest and accretion | 1,416,830 | 970,131 |
| Gain on debt extinguishment | (9,930) | - |
| Share based compensation | 216,914 | 67,944 |
| Deferred revenue | (280,733) | (163,995) |
| Changes in non-cash working capital: | | |
| Other receivable | 74,650 | (47,365) |
| Prepaid expenses | 12,204 | (39,026) |
| HST recoverable | 42,165 | (98,112) |
| Inventory | 29,638 | (240,754) |
| Accounts payable & accrued liabilities | 239,660 | 156,925 |
| | (1,145,735) | (1,872,899) |
| **Cash Flow from Financing Activities** | | |
| Lease payments | (18,283) | (29,103) |
| Issuance of shares on exercise of warrants | 451,000 | - |
| Issuance of shares on private placement | 5,000,000 | - |
| Issuance of shares on exercise of options | 22,500 | - |
| Proceeds from related party loans and long-term debt (note 9 and 13) | 35,000 | 2,005,511 |
| Repayment of loans (note 9 and 13) | (158,741) | - |
| | 5,331,476 | 1,976,408 |
| **Cash Flow from Investing Activities** | | |
| Investment | - | (105,322) |
| Acquisition of subsidiary | (32,035) | - |
| Purchase of property, plant & equipment | (226,357) | (3,137) |
| | (258,392) | (108,459) |
| **Increase (decrease) in cash** | **3,927,349** | **(4,949)** |
| **Effect of foreign exchange translation** | **15,322** | **17,843** |
| **Cash, Beginning of period** | **162,459** | **24,840** |
| **Cash, End of period** | **$ 4,105,130** | **$ 37,734** |

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

## 1. NATURE OF BUSINESS AND GOING CONCERN

**Nature of Business**

Leviathan Natural Products Inc. (the "Company" or "Leviathan") is a multi-jurisdictional cannabis company, focused on becoming a leader in the Cannabis industry. The Company is focused on expanding its current operations through organic growth and by way of merger and acquisition transactions.

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 and on the OTCQB under the symbol "LVCNF".

**Going Concern**

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

Since 2020, there was a global outbreak of the novel strain of coronavirus ("COVID-19"), a pandemic, which has 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. The pandemic has had a limited effect on the construction phase of its operations in Tennessee.

For the nine months ended May 31, 2022, the Company reported a net loss of $3,305,245 (May 31, 2021 - $3,002,335) and, as at May 31, 2022, had a deficit of $40,546,703 (August 31, 2021 - $39,417,531) and a working capital deficiency of $3,124,762 (August 31, 2021 - $2,389,872). Management has forecasted that the expected expenditure levels and contracted commitments will exceed the Company's net cash inflows and working capital for the next twelve months 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 to become cash flow positive. 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 from the issuance of common shares, proceeds from the exercise of share purchase warrants, and short and long term debt issuances, however, there can be no assurances that the Company will be achieve this. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed interim 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. Such adjustments may be material.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

These condensed interim consolidated financial statements were approved by the Board of Directors on July 29, 2022.

### (b) Basis of presentation and consolidation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except where otherwise disclosed. These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. Additional information on the Company's subsidiaries is provided in Note 11.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### (c) Functional and presentation currency

The condensed interim 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 translated at the functional currency rate of exchange prevailing at the condensed interim 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 condensed interim consolidated statements of operations and comprehensive loss.

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

The preparation of the 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 condensed interim consolidated 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:

<u>Value of investment property</u>

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.

<u>Value of inventory</u>

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.

<u>Warrants and stock options</u>

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.

<u>Useful lives and impairment of long-lived assets</u>

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.

<u>Going concern assumption</u>

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.

<u>Functional and presentation currency</u>

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

### (e) Recent and future accounting pronouncements

*Amendments to IAS 1: Classification of Liabilities as Current or Non-Current*

The amendments clarify the requirements relating to determining if a liability should be presented as current or non-current on the statement of financial position. Under this new requirement, the assessment of whether a liability is presented current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition.

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 on the Company's financial statements has not yet been determined.

*Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract*

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 on the Company's financial statements 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**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due within one year. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at May 31, 2022, there is substantial doubt about the Company's ability to continue as a going concern primarily due to its history of losses and negative working capital. Liquidity risk continues to be a key concern in the development of future operations.

**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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates on all of the Company's existing debt are fixed, and there not currently subject to any significant interest rate risk.

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.

(Unaudited – Amounts Expressed in Canadian Dollars)

## 4. AQUISITIONS

### 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. 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 with the entire amount allocated to the cannabis licenses (Note 7).

## 5. INVENTORY

The components of inventory are as follows:

| | | **May 31, 2022** | | **August 31, 2021** |
|---|---|---|---|---|
| Hemp, raw material | $ | - | $ | 30,281 |
| Packaging | | 262,364 | | 261,721 |
| **Total** | **$** | **262,364** | **$** | **292,002** |

## 6. 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. The Company last completed a valuation as at August 31, 2021.

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

| | | **May 31, 2022** | | **August 31, 2021** |
|---|---|---|---|---|
| Opening balance | $ | 4,425,000 | $ | 3,984,390 |
| Expenditure recognized in the carrying value | | - | | 280,957 |
| Fair value adjustments | | - | | 159,653 |
| **Closing balance** | **$** | **4,425,000** | **$** | **4,425,000** |

## 7. LICENSE

The Company owns three (August 31, 2021 – three) licenses received from the Colombian Ministry of Health and Social Welfare with a cost of $137,303. 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. Amortization for the nine months ended May 31, 2022 was $40,137 (Nine months ended May 31, 2021 - $Nil) and have net book value of $67,744 (August 31, 2021 - $107,881).

(Unaudited – Amounts Expressed in Canadian Dollars)

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Land and Building (b) | Right of Use Asset | Growing Equipment | Furniture | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **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** |
| Additions | - | - | 226,357 | - | 226,357 |
| **At May 31, 2022** | **2,570,705** | **101,042** | **2,127,906** | **109,966** | **4,909,619** |
| | | | | | |
| **Accumulated Amortization** | | | | | |
| **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** |
| Amortization for the period | 39,106 | 22,636 | 299,293 | 16,940 | 377,975 |
| **At May 31, 2022** | **99,592** | **101,042** | **862,353** | **53,115** | **1,116,102** |
| | | | | | |
| **Net Book Value** | | | | | |
| At August 31, 2021 | 2,510,219 | 22,636 | 1,338,489 | 73,791 | 3,945,135 |
| **At May 31, 2022** | **2,471,113** | **-** | **1,265,553** | **56,851** | **3,793,517** |

a) During the year ended August 31, 2021, the Company recorded an impairment of $569,489 on its facility in Tennessee. The impairment was based on the fair value less disposal costs of the Tennessee facility based on assumptions derived 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 nine months ended May 31, 2022. Accordingly, no amortization will be charged on these assets until they are placed in use.

c) Amortization for the period includes $26,685 (Nine months ended May 31, 2021 - $28,936) allocated to cost of sales.

(Unaudited – Amounts Expressed in Canadian Dollars)

## 9. LONG-TERM DEBT

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

| | | May 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| Woodstock (a) | $ | 4,626,184 | $ | 4,403,728 |
| Bridge Loan (b) | | 7,549,164 | | 6,485,345 |
| Colombia Mortgage (c) | | 680,326 | | 701,586 |
| Lease Liability (d) | | - | | 17,564 |
| Government Loan (e) | | 62,086 | | 64,892 |
| US Loan (f) | | 608,593 | | 588,362 |
| Related party loan (g) | | - | | - |
| **Closing balance** | $ | 13,526,353 | $ | 12,261,477 |
| Less: current portion | | 6,254,818 | | 1,694,841 |
| **Non-current portion** | $ | 7,271,535 | $ | 10,566,636 |

### 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 ended August 31, 2021, 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.

| | | May 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| Opening balance | $ | 4,403,728 | $ | 4,070,781 |
| Interest expense | | 222,456 | | 294,540 |
| Accretion expense | | - | | 38,407 |
| Payments | | - | | - |
| **Closing balance** | **$** | **4,626,184** | **$** | **4,403,728** |
| Less: current portion | | 4,626,184 | | 237,081 |
| **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%. On December 31, 2021, $738,045 of interest payable was added to the principal amount of the loan.

(Unaudited – Amounts Expressed in Canadian Dollars)

### 9. LONG-TERM DEBT - continued

#### b) Bridge Loan - continued

| | | May 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| Opening balance | $ | 6,485,345 | $ | 5,234,642 |
| Draws | | - | | 1,905,521 |
| Discount | | - | | (507,549) |
| Gain on modification | | - | | (1,097,254) |
| Interest expense | | 589,517 | | 699,093 |
| Accretion expense | | 474,302 | | 461,413 |
| Payments | | - | | (210,521) |
| **Closing balance** | **$** | **7,549,164** | **$** | **6,485,345** |
| Less: current portion | | 339,715 | | 738,610 |
| **Non-current portion** | **$** | **7,209,449** | **$** | **5,746,735** |

#### 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%.

| | | May 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| Opening balance | $ | 701,586 | $ | 723,149 |
| Interest expense | | 38,154 | | 64,699 |
| Accretion expense | | - | | 18,616 |
| Payments | | (38,154) | | (64,699) |
| Effect of changes in foreign exchange rates | | (21,260) | | (40,179) |
| **Closing balance** | **$** | **680,326** | **$** | **701,586** |
| Less: current portion | | 680,326 | | 701,586 |
| **Non-current portion** | **$** | **-** | **$** | **-** |

As at May 31, 2022, the remaining principal payments are $680,326 (COP 2,110,000,000 (August 31, 2021 - $701,568 (COP 2,110,000,000) that were payable in June and July 2021.

#### d) Lease Liability

The following is a reconciliation of the lease liability:

| | | May 31, 2022 | | August 31, 2021 |
|---|---|---|---|---|
| Opening balance | $ | 17,564 | $ | 56,693 |
| Interest expense | | 719 | | 3,673 |
| Lease payments | | (18,283) | | (42,802) |
| **Closing balance** | **$** | **-** | **$** | **17,564** |
| Less: current portion | | - | | 17,564 |
| **Non-current portion** | **$** | **-** | **$** | **-** |

(Unaudited – Amounts Expressed in Canadian Dollars)

**9. LONG-TERM DEBT - continued**

**e) Government Loan**

As at May 31, 2022, the Company had a $120,000 (August 31, 2021 - $120,000) loan outstanding from the Canada Emergency Business Account ("CEBA"). The CEBA loan is an interest-free loan provided by the Canadian Government through the Company's bank in the context of the COVID-19 pandemic outbreak to finance operating costs. The CEBA loan had an initial repayment date of December 31, 2022 which was extended to December 31, 2023 on January 12, 2022. The repayment of the CEBA loan on or before December 31, 2023 will result in an aggregate forgiveness of $40,000 of the total $120,000 loan. If the CEBA loan is not repaid by December 31, 2023, it will automatically extend for three additional years with an interest rate of 5%. 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%.

| | | **May 31, 2022** | | **August 31, 2021** |
|---|---|---|---|---|
| Opening balance | $ | 64,892 | $ | 40,000 |
| Draws | | - | | 80,000 |
| Discount | | - | | (60,357) |
| Modification of debt | | (9,930) | | - |
| Accretion expense | | 7,124 | | 5,249 |
| **Closing balance** | **$** | **62,086** | **$** | **64,892** |
| Less: current portion | | - | | - |
| **Non-current portion** | **$** | **62,086** | **$** | **64,892** |

**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.

| | | **May 31, 2022** | | **August 31, 2021** |
|---|---|---|---|---|
| Opening balance | $ | 588,362 | $ | - |
| Draws | | - | | 629,588 |
| Discount | | - | | (52,397) |
| Interest expense | | 64,608 | | 40,885 |
| Accretion expense | | 19,198 | | 11,411 |
| Payments | | (61,908) | | (41,125) |
| Effect of changes in foreign exchange rate | | (1,667) | | - |
| **Closing balance** | **$** | **608,593** | **$** | **588,362** |
| Less: current portion | | 608,593 | | - |
| **Non-current portion** | **$** | **-** | **$** | **588,362** |

(Unaudited – Amounts Expressed in Canadian Dollars)

## 9. LONG-TERM DEBT - continued

### g) Related party loans

In December 2021, the Company entered into loan agreements with two officers of the Company for $27,000 and $8,000. The loans bears interest at a rate of 10% per annum, payable on April 20, 2022, August 31, 2022 and on December 31, 2022. The $27,000 loan issue due and payable in full on December 8, 2022 and the $8,000 loan is due and payable on December 23, 2022. The loans were repaid in April 2022.

| | | May 31, 2022 |
|---|---|---|
| Opening balance | $ | - |
| Draws | | 35,000 |
| Discount | | (313) |
| Interest expense | | 753 |
| Accretion expense | | 313 |
| Payment | | (35,753) |
| **Closing balance** | **$** | **-** |

## 10. SHARE CAPITAL AND RESERVES

### a. Share Capital

**Authorized:**

Unlimited number of common shares.

**Issued and outstanding:**

As at May 31, 2022 - 93,866,102 (August 31, 2021 – 84,743,603)

**Activity:**

Nine months ended May 31, 2022

On March 11, 2022, the Company issued 5,000,000 common shares at a price of $0.60 per common share for gross aggregate proceeds of $3,000,000.

On May 5, 2022, the Company issued 3,333,333 common shares at a price of $0.60 per common share for gross aggregate proceeds of $2,000,000.

During the nine months ended May 31, 2022, 751,666 warrants were exercised at a price of $0.60 per share for gross aggregate proceeds of $451,000 (see Note 10(c)).

During the nine months ended May 31, 2022, 37,500 stock options were exercised at a price of $0.60 per share for gross aggregate proceeds of $22,500 (see Note 10(b)).

Nine months ended May 31, 2021

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

### 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.

Nine months ended May 31, 2022

The total share-based compensation during the nine months ended May 31, 2022 amounted to $216,914 (May 31, 2021 - $67,944).

(Unaudited – Amounts Expressed in Canadian Dollars)

## 10. SHARE CAPITAL AND RESERVES – continued

### b. Stock options - continued

**Activity:**

On March 21, 2022, the Company issued 2,000,000 stock options to a director. 1,000,000 of these stock options vest on March 21, 2023 and expire on March 21, 2025. The remaining 1,000,000 of these stock options vest on March 21, 2024 and expire on March 21, 2026. The value of these stock options was determined at $906,600 using 71% volatility, 3-year expected life, 0.53% discount rate, 0% expected dividend.

A summary of the Company's stock option activity for the period ended May 31, 2022 and the year ended August 31, 2021 is as follows:

| | Number of Options | Weighted-Average Exercise Price ($) |
|---|---|---|
| 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 |
| Expired | (262,500) | 0.60 |
| Exercised | (37,500) | 0.60 |
| Issued | 2,000,000 | 0.82 |
| Outstanding, May 31, 2022 | 8,700,000 | 0.66 |

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at May 31, 2022 are as follows:

| Date of Grant | Exercise Price ($) | Number Outstanding | Number Exercisable | Remaining Life (Years) |
|---|---|---|---|---|
| Nov 8, 2018 | 0.60 | 75,000 | 75,000 | 0.19 |
| May 22, 2019 | 0.60 | 75,000 | 75,000 | 0.23 |
| Mar 21, 2021 | 0.60 | 1,000,000 | 1,000,000 | 1.81 |
| Aug 27, 2021 | 0.65 | 5,550,000 | 5,550,000 | 2.24 |
| Mar 21, 2022 | 0.82 | 2,000,000 | - | 3.31 |
| | | 8,700,000 | 6,700,000 | |

### 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.

During the nine months ended May 31, 2022, 751,666 warrants were exercised at a price of $0.60 per share and 14,248,334 warrants expired. As at May 31, 2022, there were no warrants outstanding.

(Unaudited – Amounts Expressed in Canadian Dollars)

## 11. INTEREST IN SUBSIDIARIES

These condensed interim 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. (100%) (i) | USA | 100% | April 15, 2019 |
| LCG Holdings Inc. (65%) (ii) | Canada | 65% | August 1, 2019 |
| Grupo LCG SAS | Colombia | 65% (iii) | August 21, 2019 |
| Natural Origins SAS | Colombia | 65% (iv) | August 17, 2021 |

(i) During the nine months ended May 31, 2022, the Company acquired the remaining 10% of Leviathan US, Inc. for US$25,000. The non-controlling interest related to Leviathan US, Inc. prior to the acquisition was $375,099. As a result of this transaction, $407,135 was recognized directly in deficit.

(ii) 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.

(iii) A 100% interest of Grupo LCG SAS is held through LCG Holdings Inc.

(iv) 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 nine months ended May 31, 2022 was based on the net loss attributable to common shareholders of $3,139,735 (May 31, 2021 – $2,785,537) and the weighted average number of common shares outstanding of 87,166,450 (May 31, 2021 – 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:

| Nine Months Ended | | May 31, 2022 | | May 31, 2021 |
|---|---|---|---|---|
| Salaries, consulting and benefits (a) | $ | 396,097 | $ | 373,500 |
| Share based compensation | | 216,914 | | 1,176 |
| | **$** | **613,011** | **$** | **374,676** |

| Three Months Ended | | May 31, 2022 | | May 31, 2021 |
|---|---|---|---|---|
| Salaries, consulting and benefits (a) | $ | 60,097 | $ | 124,500 |
| Share based compensation | | 216,914 | | 12 |
| | **$** | **277,011** | **$** | **124,512** |

(a) As at May 31, 2022, $52,857 (August 31, 2021 - $156,150) due to directors, officers and shareholders is included in accounts payable and accrued liabilities.

(b) In December 2021, the Company entered into loan agreements with two officers of the Company for $27,000 and $8,000. The loans bear interest at a rate of 10% per annum, payable on April 20, 2022, August 31, 2022 and on December 31, 2022. The $27,000 loan is due and payable in full on December 8, 2022 and the $8,000 loan is due and payable on December 23, 2022. The loans were repaid during the nine months ended May 31, 2022 (see Note 9(g)).

(Unaudited – Amounts Expressed in Canadian Dollars)

## 14. OPERATING SEGMENTS

The Company currently has three business segments:

1) Corporate and other, which relates to general public company costs and expenses associated with other subsidiaries with insignificant operations ("Corporate and Other");
2) Cultivation, processing, and distribution division in Canada, United States & South America ("Cultivation"). As at May 31, 2022, 100% of the Company's cultivation operations are in the development stage; and
3) Investment Property ("Investment"), which is solely relates to the investment property as per Note 6.

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 | $ - | $ 498,636 | $ - | $ 498,636 | $ 265,593 | $ - | $ 764,229 |
| Share-based compensation | 216,914 | - | - | - | - | - | 216,914 |
| Interest expense, net of discount | 1,057,727 | 83,806 | 38,154 | 121,960 | 222,456 | 4,757 | 1,406,900 |
| Amortization | - | 326,220 | 40,137 | 366,357 | - | 23,070 | 389,427 |
| All other expenses | 743,536 | 1,151,701 | 150,832 | 1,302,533 | 2,186 | 7,978 | 2,056,233 |
| **Net Loss** | **$ (2,018,177)** | **$ (1,063,091)** | **$ (229,123)** | **$ (1,292,214)** | **$ 40,951** | **$ (35,805)** | **$ (3,305,245)** |
| | | | | | | | |
| Current Assets | 4,193,786 | 333,976 | 15,988 | 349,964 | 57,093 | 2,280 | 4,603,123 |
| Investments | - | - | - | - | - | 25,000 | 25,000 |
| Investment property | - | - | - | - | 4,425,000 | - | 4,425,000 |
| License | - | - | 67,744 | 67,744 | - | - | 67,744 |
| Property, plant, and equipment | - | 2,672,955 | 1,120,562 | 3,793,517 | - | - | 3,793,517 |
| **Total Assets** | **$ 4,193,786** | **$ 3,006,931** | **1,204,294** | **$ 4,211,225** | **$ 4,482,093** | **$ 27,280** | **$ 12,914,384** |
| | | | | | | | |
| Current liabilities | 742,356 | 454,103 | 970,258 | 1,424,361 | 4,951,115 | 1,460 | 7,119,292 |
| Intercompany payable (receivable) | (10,430,403) | 6,072,254 | 980,527 | 7,052,781 | 2,742,895 | 634,727 | - |
| Long-term debt | 7,235,050 | 608,593 | - | 608,593 | - | 36,485 | 7,880,128 |
| **Total liabilities** | **$ (2,452,997)** | **$ 7,134,950** | **$ 1,950,785** | **$ 9,085,735** | **$ 7,694,010** | **$ 672,672** | **$ 14,999,420** |

## 15. CONTINGENCIES

The Company, through its wholly owned subsidiary, Woodstock Biomed Inc. ("Woodstock"), initiated legal proceedings against the Corporation of the Town of Pelham (the "Town"). This litigation, filed through the Ontario Superior Court of Justice, follows Town 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.

On March 25, 2022, the matter was adjourned until April 1, 2022 for procedural and scheduling matters, whereupon a trial date has been scheduled for June 20, 2022 and June 21, 2022. The Company remains committed to protecting its stakeholders' interests and remains committed to pursuing legal remedies against the Town. On June 20th and June 21st 2022, a final trial was held. The Company continued to protect the stakeholders' interest during the proceeding. The judgement date for this litigation has been set for September 23rd, 2022.

## 16. COMPARATIVE INFORMATION

Certain profit and loss items from the prior periods have been reclassified for consistency with the current period presentation. The result of these reclassifications did not have an impact on the reported net loss and comprehensive loss for all presented periods.

## 17. SUBSEQUENT EVENTS

a) On June 3, 2022, the Company granted, to an officer of the Company, 1,000,000 stock options at an exercise price of $0.95 per share. 50% of these stock options vest on June 3, 2023 while the remaining 50% of these stock options vest on June 3, 2024. These stock options expire two years from the date of vesting;

b) On June 9, 2022, the Company acquired all of the issued and outstanding shares of One Cannabis Market Inc. ("OCM") for a total consideration of 500,000 common shares of the Issuer (the "OCM Acquisition"). In connection with the OCM Acquisition, the Company granted 500,000 stock options to an Officer of the Company at an exercise price of $1.10 per share, vesting over a two-year period. 250,000 of these stock options expire on June 9, 2025 while the remaining 250,000 stock options expire on June 9, 2026;

c) During June 2022, 37,500 stock options were exercised at a price of $0.60 per common share; and

d) During June 2022, 6,337,500 stock options issued to previous directors and officers and exercisable at a price of $0.60 per common share expired.