HIGHHAMPTON

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS)

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3
Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
High Hampton Holdings Corp.

We have audited the accompanying consolidated financial statements of High Hampton Holdings Corp. which comprise the consolidated statements of financial position as at August 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Hampton Holdings Corp. as at August 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
December 28, 2018

High Hampton Holdings Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	August 31, 2018	August 31, 2017
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	6	15,078,822	4,978,685
Accounts and other receivables		415,900	83,116
Inventory		156,683	-
Prepaid expenses and deposits	7	972,748	174,931
Total current assets		16,624,153	5,236,732
Non-current assets			
Goodwill	8	3,510,190	-
Intangible assets	8,9	14,469,096	-
Property, plant and equipment	10	7,104,308	4,774,256
Total Non-Current Assets		25,083,594	4,774,256
Total Assets		**41,707,747**	**10,010,988**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payables and accrued liabilities		1,672,677	489,274
Deferred rent liability		59,951	-
Loan payable		66,465	18,367
Due to related parties	14	395,798	86,415
Total current liabilities		2,194,891	594,056
Non-current liabilities			
Secured convertible debentures	11	-	1,246,501
Deferred income tax liability	13	1,828,048	-
Total Liabilities		4,022,939	1,840,557
Shareholders' equity			
Capital stock	12	47,467,971	10,261,578
Subscriptions receivable		(50,000)	-
Common shares issuable	8,12	690,800	116,800
Stock options and warrants reserve	12	5,891,620	4,930,664
Accumulated other comprehensive loss		(13,355)	-
Deficit		(16,302,228)	(7,138,611)
Total shareholders' equity		37,684,808	8,170,431
Total Liabilities and Shareholder's Equity		**41,707,747**	**10,010,988**

Commitments (Note 16)
Subsequent Events (Note 18)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on December 28, 2018.

APPROVED ON BEHALF OF THE BOARD:

/s/ Christian Scovenna
Christian Scovenna, Director

/s/ Robert Allen
Robert Allen, Director

The accompanying notes form an integral part of these consolidated financial statements

High Hampton Holdings Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	Year Ended August 31, 2018	Year Ended August 31, 2017
		$	$
REVENUE			
Sales		52,211	-
Cost of goods sold		(37,287)	-
Gross profit		14,924	-
EXPENSES			
Professional and consulting fees	14,15	2,450,894	731,358
Advertising and promotion		1,886,520	24,014
Share-based compensation	12	1,787,035	-
Management fees	14	1,526,748	5,425
Office and general	15	552,145	44,703
Communications and travel		370,200	26,157
Amortization		259,741	-
Bad debt expense		68,854	-
Building permits and licenses		-	36,778
Total expenses		8,902,137	868,435
Loss before other income (expenses)		(8,887,213)	(868,435)
OTHER INCOME (EXPENSES)			
Interest income		37,550	5,049
Interest and accretion expense	11	(139,006)	(9,763)
Foreign exchange loss		(188,853)	(3,807)
Gain on settlement of debts		-	75,000
Net loss before income taxes		(9,177,522)	(801,956)
Deferred income tax recovery	13	13,905	-
Net loss for the year		**(9,163,617)**	**(801,956)**
OTHER COMPREHENSIVE LOSS			
Foreign exchange loss on translation of subsidiaries		(13,355)	**-**
Comprehensive loss for the year		**(9,176,972)**	**(801,956)**
Loss per share - basic and diluted		**(0.18)**	**(0.13)**
Weighted average number of shares outstanding		**50,710,447**	**6,413,756**

The accompanying notes form an integral part of these consolidated financial statements

High Hampton Holdings Corp.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Capital Stock							
	Number of Common Shares	**Amount**	**Subscriptions Receivable**	**Common Shares Issuable**	**Stock Options and Warrants Reserve**	**Accumulated Other Comprehensive Loss**	**Deficit**	**Total**
		$	$	$	$	$	$	$
Balance at August 31, 2016	606,684	1,644,190	-	-	4,468,592	-	(6,336,655)	(223,873)
Issue of shares	19,357,000	7,657,000	-	-	-	-	-	7,657,000
Share issuance costs	-	(1,217,112)	-	-	450,117	-	-	(766,995)
Shares issued for acquisition of Coachellagro Corp.	6,000,000	1,920.000	-	116,800	-	-	-	2,036,800
Shares issued on debt settlement	540,000	135,000	-	-	-	-	-	135,000
Shares issued for interest	195,000	97,500	-	-	11,955	-	-	109,455
Exercise of warrants	100,000	25,000	-			-	-	25,000
Net loss for the year	-	-	-	-	-	-	(801,956)	(801,956)
Balance at August 31, 2017	**26,798,685**	**10,261,578**	**-**	**116,800**	**4,930,664**	**-**	**(7,138,611)**	**8,170,431**
Issue of shares for cash	31,653,565	18,992,139	(50,000)	-	-	-	-	18,942,139
Share issuance costs	-	(1,275,197)	-	-	-	-	-	(1,275,197)
Brokers' warrants	-	(677,998)	-	-	677,998	-	-	-
Shares issued for acquisitions	25,338,004	14,322,933	-	-	-	-	-	14,322,933
Shares issued for services	383,876	145,873	-	-	-	-	-	145,873
Exercise of warrants and options	7,402,669	3,926,254	-	-	(446,622)	-	-	3,479,632
Vested restricted share units	1,150,000	471,500	-	(471,500)	-	-	-	-
Conversion of debentures	2,166,665	1,300,889	-	-	(11,955)	-	-	1,288,934
Share-based compensation	-	-	-	1,045,500	741,535	-	-	1,787,035
Other comprehensive loss	-	-	-	-	-	(13,355)	-	(13,355)
Net loss for the year	-	-	-	-	-	-	(9,163,617)	(9,163,617)
Balance at August 31, 2018	**94,893,464**	**47,467,971**	**(50,000)**	**690,800**	**5,891,620**	**(13,355)**	**(16,302,228)**	**37,684,808**

The accompanying notes form an integral part of these consolidated financial statements

High Hampton Holdings Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended August 31, 2018	Year ended August 31, 2017
	$	$
Operating activities		
Net loss for the year	(9,163,617)	(801,956)
Items not affecting cash:		
Amortization	259,741	-
Bad debt expense	68,854	-
Deferred income tax recovery	(13,905)	
Share-based compensation	1,787,035	-
Shares issued for services	145,873	-
Accretion expense	42,433	9,763
Gain on settlement of debt	-	(75,000)
Net change in non-cash working capital:		
Amounts and other receivables	(317,058)	(64,674)
Prepaid expenses and deposits	(727,514)	(85,178)
Inventory	(30,219)	-
Accounts payables and other accrued liabilities	581,512	489,204
Deferred rent liability	59,951	-
Due to related parties	309,383	41,142
Net cash flows used in operating activities	(6,997,531)	(486,699)
Investing activities		
Cash paid for acquisitions	(660,400)	-
Pre-acquisition advances	(1,072,061)	(2,711,541)
Cash acquired from acquisitions	465,001	-
Purchase of equipment	(186,926)	-
Land development costs	(2,066,365)	-
Net cash flows used in investing activities	(3,520,751)	(2,711,541)
Financing activities		
Shares issued for cash, net of issuance costs	21,146,574	6,915,005
Loans payable	(528,155)	-
Proceeds from convertible debentures, net of issuance costs	-	1,256,440
Net cash provided by financing activities	20,618,419	8,171,445
Increase in cash and cash equivalents	10,100,137	4,973,205
Cash and cash equivalents, beginning of year	4,978,685	5,480
Cash and cash equivalents, end of year	15,078,822	4,978,685
Supplemental cash flow information:		
Interest paid in cash	-	-
Income taxes paid in cash	-	-

The accompanying notes form an integral part of these consolidated financial statements

1. Nature of Business

High Hampton Holdings Corp. (the "Company") was incorporated in British Columbia on November 12, 2010. The corporate office and principal place of business address is Suite 804 - 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T7. The Company is a reporting issuer in British Columbia, Ontario and Alberta, and its common shares are traded on the Canadian Securities Exchange under the symbol "HC", on the Frankfurt Exchange under symbol "FSE: 0HCN" and the USA: OTC under the symbol "HPHF".

The Company is focused on the development of its land located in Coachella, California, and its newly acquired facility in Cudahy, California held by 420 Realty LLC which was acquired during the year ended August 31, 2018 with a planned business to manufacture, deliver and distribute various flower strains and cannabis concentrates. During the year the Company made two further acquisitions, HS Airways/California Gold Bar Inc. ("CaliGold") and 8 Points Management LLC/Bravo Distribution LLC (see Note 8). HS Airways/California Gold Bar Inc. is involved in the manufacturing of multi-strain chocolate bars which are dispensed across California. The Company intends on expanding CaliGold's market position, brand development, revenue growth and diversifying its' product line. Bravo Distribution LLC and 8 Points Management LLC is in the development stage and plans to serve the cannabis industry with sales, marketing, transportation and supply chain management services. The Company intends to build a strong cannabis distribution network in California. The Company plans to continue to seek out other potential strategic alliances, joint venture, acquisition or merger opportunities with existing licensed producers or entities offering products or services in the cannabis industry.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

2. Basis of Presentation and Statement of Compliance

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

The consolidated financial statements have been prepared on a going concern basis, under historical cost convention. The principal accounting policies and critical estimate and judgments, used when compiling these financial statements are set out below. These consolidated financial statements were approved by the Board of Directors on December 28, 2018.

3. Significant Accounting Policies

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All material intercompany transactions and balances have been eliminated on consolidation.

3. Significant Accounting Policies (continued)

a) Principles of Consolidation (continued)

Subsidiaries

The legal subsidiaries of the Company as of August 31, 2018 are as follows:

Name of Subsidiary	Place of Incorporation	Ownership Interest	Functional Currency
420 Realty LLC	USA	100%	US Dollar
8 Points Management LLC	USA	100%	US Dollar
Bravo Distribution LLC	USA	100%	US Dollar
Advanced Greenhouse Technologies Ltd (i)	Canada	100%	Canadian Dollar
Advanced Greenhouse Technologies Inc (i)	USA	100%	US Dollar
California Gold Bar Inc	USA	100%	US Dollar
Coachellagro Corp	USA	100%	US Dollar
The Herbal Clone Bank Inc (i)	Canada	100%	Canadian Dollar
HS Airways	USA	100%	US Dollar

(i) The subsidiary is inactive and had no transactions during the years ended August 31, 2018 and 2017.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions are eliminated upon consolidation.

b) Functional and Presentation Currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"), which was determined to be Canadian dollars for the Company. The functional currencies of the Company's subsidiaries are noted in Note 3(a) above. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Transactions in currencies other than the functional currency are recorded as follows:

(i) Monetary assets and liabilities are translated at current rates of exchange with the resulting gain or losses recorded in foreign exchange gain/loss in the statement of loss and comprehensive loss;

(ii) Non-monetary items are translated at historical exchange rates;

(iii) Expense items are translated at the average rates of exchange with any gains or losses recognized within foreign exchange gain/loss in the statement of loss and comprehensive loss.

Subsidiaries that have functional currencies other than the Canadian dollar translate their statement of comprehensive loss items at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange rate variations resulting from the retranslation at the closing rate of the net investment in these subsidiaries, together with differences between their statement of comprehensive loss items translated at actual and average rates, are recognized in accumulated other comprehensive income (loss). On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference is recognized in the statement of comprehensive loss.

3. Significant Accounting Policies (continued)

c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

d) Accounts and Other Receivables

Accounts and other receivables consists primarily of GST/HST receivable from government authorities in Canada in respect of the Company's expenses and cost reimbursement from third parties.

e) Critical Accounting Estimates and Judgements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates and judgments. 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.

Areas requiring a significant degree of estimation and judgment by the Company's management relate to but are not limited to:

- whether an indication of impairment loss or a reversal of an impairment loss exists for property, plant and equipment and finite lived intangible assets;
- determining the fair values of identifiable assets acquired, liabilities assumed, contingent consideration for business combinations and asset acquisitions;
- judgments used in determining if an acquisition constitutes a business combination or asset acquisition
- discount rates and cash flows used to calculate the recoverable amounts for cash generating units for the purposes of determining whether an impairment of goodwill and indefinite lived intangible assets exists;
- amortization methods and periods used for property, plant and equipment and finite lived intangible assets;
- the collectability of accounts or loans receivable;
- the fair value measurements for financial instruments;
- the recognition and valuation of qualifying expenditures for refundable and non-refundable tax credits and the timing of receipt of refundable tax credits;
- the recoverability and measurement of deferred tax assets and liabilities;
- the fair value estimation of share-based payments and awards; and
- whether the Company has sufficient financing to operate as a going concern.

Actual results may differ from those estimates and judgments.

3. Significant Accounting Policies (continued)

f) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration.

In certain situations goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in the consolidated statements of comprehensive loss as a bargain purchase gain.

Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

g) Intangible Assets

Intangible assets consist mainly of favorable leases, customer relationships, management contracts, trademarks and non-compete covenants acquired by the Company. Intangible assets with finite lives are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are reviewed annually for impairment. Any impairment of indefinite intangible assets is recognized in the consolidated statement of comprehensive loss in the period it is incurred. In allocating a reversal of an impairment loss, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior period.

Estimated useful lives of intangible assets are shorter of the economic life and the period the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The useful lives of the Company's intangible assets are as follows:

Customer relationships	8 years
Favorable leases	Lease term
Management contracts	Contract term
Non-compete covenants	Period of non-compete agreement

Trademarks have an indefinite useful life.

3. Significant Accounting Policies (continued)

g) Intangible Assets (continued)

At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs.

h) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating units ("CGU") to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use of the related CGU. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in the consolidated statement of comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

i) Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss ("FVTPL") when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The Company has designated its cash and cash equivalents as FVTPL.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost less any provision for impairment. Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company has designated its any assets as loans and receivables.

3. Significant Accounting Policies (continued)

i) Financial Instruments (continued)

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has not designated any assets as held-to-maturity.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income (loss), except for impairment losses and foreign exchange gains and losses. The Company has not designated any assets as available-for-sale.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payables and due to related parties. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

The Company has classified its accounts payable, loan payable, due to related parties and secured convertible debentures as other financial liabilities.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

3. Significant Accounting Policies (continued)

j) Property, Plant and Equipment

Equipment is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided over the related assets' estimated useful life using the following methods and annual rates:

Automobiles	20% declining balance
Computer equipment	20% - 30% declining balance
Equipment	20% - 30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	Lease term

k) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of the value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

l) Revenue Recognition

Revenue is recognized when the Company has transferred to the customer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

m) Share-Based Payments

The Company's share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purpose (direct employee) or provides services similar to those performed by a direct employee.

The Company accounts for stock options issued to employees at the fair value determined on the grant date using the Black-Scholes option pricing model. The fair value of the options is recognized as an expense using the graded vesting method where the fair value of each tranche is recognized over its respective vesting period. When stock options are forfeited prior to becoming fully vested, any expense previously recorded is reversed.

3. Significant Accounting Policies (continued)

m) Share-Based Payments (continued)

Share-based payments made to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured. These payments are recorded at the date of the goods and services are received.

Proceeds from unit placements are allocated between share and warrants using the residual method.

n) Income Taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Canadian taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current tax is recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial exporting purposes.

Deferred tax is recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

o) Net Loss Per Share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. In periods where a net loss is incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive and basic and diluted loss per common share is the same. In a profit year, under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average price during the year.

3. Significant Accounting Policies (continued)

p) Recent Accounting Pronouncements

The following amended accounting standards were adopted during the year ended August 31, 2018. The adoption of these amendments did not have a significant impact on the Company's consolidated financial statements.

IAS 7 – Statement of Cash Flows

The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

q) Accounting Standards and Amendments Issued but not yet Applied

The following standards have not been adopted by the Company.

New accounting standards effective September 1, 2018:

IFRS 9 – Financial Instruments

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedging requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC-31 – Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 establishes a single five–step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The adoption of these standards is not expected to have any material impact on the Company's consolidated financial statements.

New accounting standards effective September 1, 2019:

IFRS 2 – Shared-Based Payments

In June 2016 the Board issued the final amendments to IFRS 2 which amended (a) the effects that vesting conditions have on the measurement of a cash-settled share-based payment; (b) the accounting for modification to the terms of a share-based payment that changes the classification of the transaction

3. Significant Accounting Policies (continued)

q) Accounting Standards and Amendments Issued but not yet Applied (continued)

from cash-settled to equity settled; and (c) classification of share-based payment transactions with net settlement features.

IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in substantially all leases being recognized on the balance sheet, as the distinction between operating and finance lease in removed. Under the new standard, an asset (the right to use a leased item) and a financial liability to pay rentals are recognized. The only exceptions are short term and low-value leases.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined. The Company does not intend to adopt these standard before their effective dates.

4. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of the Company's land in Coachella, California, the Company's facility in Cudahy, California and the growth and development of its subsidiaries and additional acquisition opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include all components of its shareholders' equity.

The Company is not exposed to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2018.

5. Financial Risk Management

<u>*Fair value hierarchy*</u>

The following summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based upon observable market data.

Cash and cash equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of accounts payable, due to related parties and loan payable approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

5. Financial Risk Management (continued)

Risk Management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate). Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash in bank accounts with reputable financial institutions with strong credit ratings which are closely monitored by management and in trust accounts with the Company's legal representatives.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2018, the Company had sufficient cash and cash equivalents on hand to meet its current liabilities. The Company's accounts payable, loan payable and due to related parties have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that might arise from changes in market factors such as interest rates and foreign exchange rates.

i. Interest Rate Risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as its cash equivalents bear fixed interest rates.

ii. Foreign Currency Risk:

The Company holds cash and cash equivalents in bank and investment accounts denominated in United States dollars. The Company's subsidiaries are domiciled in the United States and have a US dollar functional currency. Therefore, the Company is subject to risk in fluctuations in the exchange rate of the United States dollar.

6. Cash and Cash Equivalents

	August 31, 2018	August 31, 2017
	$	$
Bank deposits	5,066,086	95,478
Guaranteed investment certificates	9,660,396	-
Cash held in trust accounts	352,340	4,883,207
	15,078,822	**4,978,685**

(Expressed in Canadian Dollars)

7. Prepaid Expenses and Deposits

	August 31, 2018	August 31, 2017
	$	$
Professional and consulting fees	218,046	66,667
Insurance	63,667	-
Land development	573,843	7,098
Security deposit and rent	91,056	-
Other	26,136	101,166
	972,748	**174,931**

8. Acquisitions

a) Coachellagro Corp.

On August 29, 2017 the Company acquired all of the issued and outstanding shares of Coachellagro Corp. (“Coachellagro”). In consideration, the Company issued an aggregate of 6,000,000 common shares of the Company to the shareholders of Coachellagro with an estimated fair value of $1,920,000. In connection with the acquisition, the Company had advanced loans totalling $2,711,540 to Coachellagro prior to its acquisition to fund the purchase of 10.82 acres of land in the city of Coachella, California (the “Coachellagro Property”). The Company is also committed to issuing 365,000 common shares as finders’ fees. The Coachellagro Property is located in the Coachella Cultivation Zone. Coachellagro is required to obtain a Conditional Use Permit in order to begin any cultivation activity on the Coachellagro Property.

For accounting purposes, the acquisition of Coachellagro was treated as an asset acquisition as the Company determined that Coachellagro did not meet the definition of a business. The following table summarizes the consideration transferred, the fair value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	$
Loans advanced to Coachellagro prior to the acquisition	2,711,540
Common shares issued	1,920,000
Finders’ shares issuable (recorded as shares issuable)	116,800
Total consideration	**4,748,340**
Assets acquired:	
Land	4,774,256
Less liabilities assumed:	
Accounts payable	(25,916)
Net assets acquired	**4,748,340**

b) 420 Realty, LLC

On June 21, 2018 the Company acquired 100% of 420 Realty, LLC (“420 Realty”). In consideration, the Company issued an aggregate of 8,047,099 common shares of the Company (“the Payment Shares”) to the shareholders of 420 Realty and made cash payments totalling $660,400.

All Payment Shares issued in connection with the Acquisition are subject to a voluntary escrow period expiring December 21, 2018, except for the Payment Shares issued to the insider which are subject to a voluntary escrow period expiring on December 21, 2018 and June 21, 2019.

(Expressed in Canadian Dollars)

8. Acquisitions (continued)

b) 420 Realty, LLC (continued)

For accounting purposes, the acquisition of 420 Realty was treated as an asset acquisition as the Company determined that 420 Realty did not meet the definition of a business. The following table summarizes the consideration transferred, the estimated fair value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	$
Common shares issued	5,479,546
Cash payment	660,400
Total consideration	**6,139,946**
Assets acquired:	
Intangible asset	6,139,946
Less liabilities assumed	-
Net assets acquired	**6,139,946**

As part of the Company's acquisition of 420 Realty, the Company acquired a lease of a building in the city of Cudahy, California (the "Lease"), which has been granted conditional approval to cultivate, manufacture, distribute and deliver medicinal cannabis by the city of Cudahy. The Lease is valid for a period of ten years plus an option period of five years. The lease payments required by the underlying Lease commitment are significantly lower than the market value of comparable premises and as a result, the Company has recorded a favorable lease asset of $6,139,946. The favorable lease has been recorded as an intangible asset on the consolidated statement of financial position. Refer to Note 9 for details.

c) 8 points Management LLC & Bravo Distro LLC

On July 9, 2018, the Company acquired all issue and outstanding shares of 8 Points Management LLC and Bravo Distro LLC (together, "Bravo Distro") (the "Acquisition"). In consideration, the Company issued a total of 4,200,000 common shares of the Company (the "Payment Shares"). All Payment Shares issued in connection with the Acquisition are subject to a statutory hold period of 4 months expiring November 10th, 2018, and are to be held in escrow with 50% of the Payment Shares released 12 months from the closing of the Acquisition, subject to meeting certain conditions, and the remaining 50% Payment Shares released 24 months from the closing of the Acquisition, subject to meeting certain conditions.

For accounting purposes, the acquisition of Bravo Distro was treated as an asset acquisition as the Company determined that the Acquisition did not meet the definition of a business. The following table summarizes the total consideration, the fair value of the identifiable assets acquired and liabilities assumed as of the date of the Acquisition:

	$
Common shares issued	1,119,753
Cash advances	264,108
Total consideration	**1,383,861**
Assets acquired:	
Cash	37,344
Deposits	65,485
Intangible assets	2,201,730
Less liabilities assumed:	
Accounts payable and accrued liabilities	(527,788)
Notes payable	(392,910)
Net assets acquired	**1,383,861**

(Expressed in Canadian Dollars)

8. Acquisitions (continued)

c) 8 points Management LLC & Bravo Distro LLC (continued)

As part of the Company's acquisition of Bravo Distro, the Company acquired intangible assets consisting of management contracts, non-compete agreements with employees of Bravo Distro and a favorable lease asset resulting from a lease held by Bravo Distro for a premise in Sacramento for which the payments required by the underlying lease commitment are significantly lower than the market value of comparable premises. Refer to Note 9 for details of the intangible assets acquired.

d) HS Airways Holding and California Gold Bar Inc.

On July 31, 2018, the Company acquired all of the issued and outstanding shares of HS Airways Holding and California Gold Bar Inc. (together, "CaliGold"). In consideration, the Company issued 13,090,905 common shares and such shares are subject to escrow and released on certain dates or conditions.

For accounting purposes, the acquisition of CaliGold was treated as a business combination. The following table summarizes the total consideration, the book value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition of CaliGold:

	$
Common shares issued	7,723,634
Cash advances	815,006
Total consideration	**8,538,640**
Assets acquired:	
Cash	427,657
Accounts receivable and other	91,091
Inventory	126,464
Deposits	4,818
Property and equipment	77,122
Intangible assets	6,386,800
Goodwill	3,510,190
Less liabilities assumed:	
Accounts payable and accrued liabilities	(60,205)
Loans payable	(183,344)
Deferred income taxes	(1,841,953)
Net assets acquired	**8,538,640**

As part of the Company's acquisition of CaliGold, the Company acquired intangible assets consisting of customer relationships, non-compete agreements with employees of CaliGold and Trademarks. Refer to Note 9 for details of the intangible assets acquired.

The resulting goodwill represents corporate synergies and expected sales growth of CaliGold.

(Expressed in Canadian Dollars)

9. Intangible assets

	Customer Relationships	Favorable Leases	Management Contracts	Non-compete	Trademarks	Total
	$	$	$	$	$	$
Balance, August 31, 2017 and 2016	-	-	-	-	-	**-**
Additions	-	-	-	-	-	**-**
Obtained through acquisition:						
CaliGold	4,401,098	-	-	45,573	1,940,129	**6,386,800**
Bravo Distro	-	512,217	1,650,222	39,291	-	**2,201,730**
420 Realty	-	6,139,946	-	-	-	**6,139,946**
Subtotal	4,401,098	6,652,163	1,650,222	84,864	1,940,129	**14,728,476**
Amortization	(48,215)	(91,354)	(119,811)	-	-	**(259,380)**
Balance, August 31, 2018	**4,352,883**	**6,560,809**	**1,530,411**	**84,864**	**1,940,129**	**14,469,096**

10. Property, Plant and Equipment

	Automobiles	Computer equipment	Furniture and Fixtures	Equipment	Land	Leasehold Improvements	Total
	$	$	$	$	$	$	$
Balance, August 31, 2016	-	-	-	-	-	-	**-**
Obtained through acquisition:							
Coachellagro	-	-	-	-	4,774,256	-	**4,774,256**
Balance, August 31, 2017	**-**	**-**	**-**	**-**	**4,774,256**	**-**	**4,774,256**
Additions	-	13,005	3,735	93,662	1,886,644	256,046	**2,253,092**
Obtained through acquisition:							
CaliGold	47,761	-	-	29,361	-	-	**77,122**
Amortization	-	(361)	-	-	-	-	**(361)**
Change in foreign exchange rate	122	-	-	77	-	-	**199**
Balance, August 31, 2018	**47,883**	**12,644**	**3,735**	**123,100**	**6,660,900**	**256,046**	**7,104,308**

11. Secured Convertible Debentures

On August 2, 2017 the Company closed a private placement of secured convertible debentures (the "Debentures") in the aggregate amount of $1,300,000 (the "Offering"). In addition, the Company also issued 1,083,332 share purchase warrants to holders of the Debentures to purchase common shares of the Company at an exercise price of $0.85 per share for a period of three years. The Debentures bore interest at 7.5% per annum and matured two years following the date of issuance (the "Maturity Date"). The Debentures were convertible at the holders' option into common shares of the Company at any time prior to the Maturity Date, subject to acceleration provisions, at a conversion price of $0.60 per common share. Under the terms of the Debentures, if any common shares of the Company were sold for a price less than $0.50 per common share prior to the conversion or repayment of the Debentures, the conversion price of the Debentures would be adjusted to equal the price of the common shares sold. The Debentures were guaranteed by Coachellagro Corp. pursuant to a guarantee agreement, and secured by a general security agreement of the Company issued in favour of the holders of Debentures and a deed of trust lien on the Coachellagro Property from Coachellagro Corp.

For accounting purposes, the Debentures were separated into their liability and equity components using the residual method. The fair value of the liability component on the date of issuance was determined based on an estimated interest rate of 8% for debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the Debentures and the fair value of the liability component. After initial recognition, the liability component was carried on an amortized cost basis and accreted over the term to maturity at an effective interest rate of approximately 11%.

In January 2018, the Debentures were converted into 2,166,665 common shares. Accordingly, the carrying values of the liability and equity components of the Debentures on the date of conversion of $1,288,934 and $11,955, respectively, were reclassified to capital stock.

12. Capital Stock

a) Authorized – Unlimited common shares without par value.

b) Issued – 94,893,464 common shares

(i) On August 29, 2017 the Company the Company consolidated its outstanding common shares on a one-new-for-five-old basis. All share and per share figures in these consolidated financial statements have been presented on a retroactive basis showing the effect of the share-consolidation.

(ii) In December 2017, the Company issued 383,876 common shares with an estimated fair market value of $145,873 to Infrastructure Engineers as a retainer for future engineering services to be rendered on the Coachella Property.

(iii) In January 2018, the Company issued 2,166,665 common shares as a result of the conversion of the secured debenture (See Note 11).

(iv) In March, 2018, the Company closed a private placement of 31,653,565 units of the Company (the "Units") at a price of $0.60 per unit for gross proceeds of $18,992,139 of which $50,000 remains receivable at August 31, 2018. Each unit consists of one common share of the Company and one common share purchase warrant. Each Warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.90 for a period of 24 months following the closing of the Offering. In connection with the Offering, the Company paid to eligible finders $1,213,286 in cash and issued 1,863,814 non-transferable finder's warrants (the "Finder's Warrants") with an estimated fair value of $677,998. Each Finder's Warrant entitles the holder

(Expressed in Canadian Dollars)

12. Capital Stock (continued)

b) Issued (continued)

thereof to acquire one Common Share at an exercise price of $0.90 for a period of 24 months following the closing of the Offering. The Company also incurred other share issuance costs of $61,911.

(v) On June 21, 2018, the Company issued 8,047,099 common shares pursuant to its acquisition of 420 Realty (see Note 8(b)).

(vi) On July 9, 2018, the Company issued 4,200,000 common shares pursuant to its acquisition of Bravo Distro (see Note 8(c)).

(vii) On July 31, 2018, the Company issued 13,090,905 common shares pursuant to its acquisition of CaliGold (see Note 8(d)).

(viii) The Company issued 7,127,669 common shares for gross proceeds of $3,342,132 pursuant to the exercise of warrants.

(ix) The Company issued 275,000 common shares for gross proceeds of $137,500 pursuant to the exercise of stock options.

(x) The Company issued 1,150,000 common shares pursuant to its restricted share units plan (See Note 10(e)).

c) Shares held in escrow

As at August 31, 2018 there were 28,908,806 common shares were held in escrow, of which 5,580,000 form part of the 6,000,000 shares issued by the Company in relation to the acquisition of Coachellagro (see Note 8a), 8,047,099 shares issued as part of the acquisition of 420 Realty (see Note 8b), 4,200,000 shares issued by the Company in relation to the acquisition of Bravo Distro (see Note 8c) and 11,081,707 shares which form part of the 13,090,905 shares issued by the Company in relation to the acquisition of HS Airways Holding and CaliGold (see Note 8d).

d) Stock options

The Company's Board of Directors approved the implementation of the fixed stock option plan (the "Fixed Plan"). The Fixed Plan allows the board of directors to grant up to an aggregate of 2,679,868 stock options of the Company to encourage equity participation among senior officers, employees, consultants and directors through the acquisition of Common shares of the Company. Any stock options granted pursuant to the Fixed Plan after the date hereof and prior to shareholder approval will also be subject to, and will not be exercisable until disinterested shareholder approval has been obtained. If such approval is not obtained, the stock options granted under the Fixed Plan will terminate.

A summary of the Company's stock option activity is as follows:

	Number of stock options	**Weighted average exercise price**
		$
Balance, August 31, 2016 and 2017	-	-
Granted	2,500,000	0.50
Exercised	(275,000)	0.50
Balance, August 31, 2018	2,225,000	0.50

(Expressed in Canadian Dollars)

12. Capital Stock (continued)

d) Stock options (continued)

The following table details the stock options outstanding as at August 31, 2018:

Stock options	**Price**	**Expiry Date**
	$	
2,225,000	0.50	September 15, 2019

The weighted average remaining life of stock options outstanding at August 31, 2018 is 1.04 years.

During the year ended August 31, 2018, the Company recorded share-based compensation of $741,535 related to the issuance and vesting of stock options (August 31, 2017 - $Nil).

The fair value assigned to the stock options granted and vested during the year ended August 31, 2018 was estimated using the following assumptions:

Dividend yield	0%
Expected volatility	151.54%
Risk free interest rate	1.59%
Expected life	2 years
Forfeiture rate	0%

e) Performance Share Units and Restricted Share Units

The Company's Board of Directors approved the implementation of a restricted share unit plan (the "RSU Plan"). Under the RSU Plan, eligible persons may (at the discretion of the Board) be allocated a number of RSUs as the Board deems appropriate, with vesting provisions also to be determined by the Board, subject to a maximum vesting term of three (3) years from the end of the calendar year in which RSUs were granted. Upon vesting, eligible participants shall be entitled to a cash payment equal to the number of RSUs granted, multiplied by the fair market value of the Company's common shares on the redemption date. The Company shall also have the option (at the discretion of the Board) to settle amounts owing to eligible persons via the issuance of common shares of the Company.

On December 1, 2017, 2,550,000 Restricted Share Units ("RSUs") were granted to a senior officers, directors and consultants of the Company. The share price on December 1, 2017 was $0.41. The RSUs were fully vested upon grant and as a result, the Company recorded share-based compensation expense of $1,045,500. Of the total RSUs granted, the Company has issued 1,150,000 common shares and a total of 1,400,000 common shares remain issuable as at August 31, 2018.

f) Warrants

The changes in share purchase warrants outstanding during the year ended August 31, 2018 are as follows:

	Number of warrants	**Weighted average exercise price**
		$
Balance, August 31, 2016 and 2017	12,206,152	0.55
Granted	33,567,379	0.90
Exercised	(7,152,569)	0.48
Balance, August 31, 2018	38,620,962	0.87

(Expressed in Canadian Dollars)

12. Capital Stock (continued)

f) Warrants (continued)

The following table details the warrants outstanding as at August 31, 2018:

Warrants	Price	Expiry Date
	$	
728,680	0.25	January 3, 2019
217,820	0.50	May 31, 2019
3,945,000	0.75	August 29, 2019
162,083	0.85	August 2, 2019
33,567,379	0.90	March 13, 2020
38,620,962		

The weighted average remaining life of the warrants outstanding as at August 31, 2018 is 1.45 years.

Included in the warrants granted were 1,863,814 warrants granted to brokers in connection with the private placement described in Note 10b. The fair value of these warrants was estimated using the following assumptions:

Dividend yield	0%
Expected volatility	73.06%
Risk free interest rate	1.59%
Expected life	2 years
Forfeiture rate	0%

The fair value of the warrants granted to the brokers was estimated to be $677,998.

13. Income Taxes

The difference between tax expense for the periods and the expected income taxes based on the combined federal and provincial statutory tax rate of 27% (2017 – 27%) for British Columbia, Canada arises as follows:

	2018	2017
	$	$
Income tax recovery based on substantively enacted rates	(2,434,905)	(208,000)
Permanent differences and other	144,000	(186,000)
Effect of change in income tax rate	-	(36,000)
Changes in tax benefits not recognized	2,277,000	430,000
Net deferred tax (recovery)	(13,905)	-

Significant components of the company's deferred income tax assets (liabilities) are as follows:

	2018	2017
	$	$
Deferred income tax assets (liabilities):		
Non-capital loss carry forward	2,845,000	815,000
Share issuance costs and other	414,000	181,000
Convertible debentures	-	(14,000)
Gross deferred income tax assets (liabilities)	3,259,000	982,000
Unrecognized deferred income tax assets	(3,259,000)	(982,000)
Deferred income tax assets	-	-
Deferred income tax liabilities:		
Intangible assets	1,828,048	-
Deferred income tax liability	1,828,048	-

(Expressed in Canadian Dollars)

13. Income Taxes (continued)

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $9,796,000 and United States non-capital losses of $692,000 which will begin to expire in 2035.

14. Related party transactions and balances

During the years ended August 31, 2018 and 2017, the Company incurred the following expenses as compensation to directors, officers and companies that are controlled by directors of the Company:

Key management personnel compensation

	August 31, 2018	August 31, 2017
	$	$
Management and director fees	1,526,748	5,425
Professional fees	83,350	112,775
Share-based compensation	1,065,590	-
	2,675,688	**118,200**

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include directors, the chief executive officer, chief financial officer and chief operation officer.

As at August 31, 2018, the Company has a balance payable of $373,944 to former officers and to a Company controlled by a former Officer (August 31, 2017 - $12,523) which is due on demand, unsecured and is non-interest bearing.

As at August 31, 2018, the Company has a balance payable of $21,854 to certain directors (August 31, 2017 - $73,892) which is due on demand, unsecured and is non-interest bearing.

During the year ended August 31, 2018, the Company acquired 420 Realty, whereby the former CEO of the Company, David Argudo, was also part of the management team of 420 Realty LLC. Refer to Note 8(b).

15. Supplementary Expense Information

Office and General:

	August 31, 2018	August 31, 2017
	$	$
Salaries and wages	118,690	-
Insurance	10,103	990
Administration and other expenses	331,233	16,381
Regulatory and shareholder filing fees	92,119	27,332
	552,145	**44,703**

Professional Fees:

	August 31, 2018	August 31, 2017
	$	$
Consulting fees	1,858,599	525,571
Legal fees	458,581	153,658
Audit and accounting fees	133,714	52,129
	2,450,894	**731,358**

(Expressed in Canadian Dollars)

16. Commitments

i. The Company's subsidiary Bravo Distro maintains a lease at a building located at 2545 Boatman Avenue, City of Wet Sacramento, California 95691. The lease expires on June 31, 2028 and can be extended by one year with an option term.

ii. The Company's subsidiary 420 Realty LLC maintains a lease at a building located at 4311-4315 Santa Ana St., Cudahy, California 90201. The lease expires on July 31, 2027 and can be extended by five years with an option term.

The lease commitments for the above noted leases are as follows:

	$
Less than one year	567,864
Two to five years	2,444,050
Greater than five years	3,050,227
	6,062,141

17. Segment Reporting

Operating segments

Year ended August 31, 2018	Cannabis production	Cannabis distribution	Cannabis infused products	Corporate	**Total**
	$	$	$	$	**$**
Revenue	-	-	52,211	-	**52,211**
Gross profit	-	-	14,924	-	**14,924**
Net income (loss)	(84,582)	(580,228)	(288,167)	(8,210,640)	**(9,163,617)**
Year ended August 31, 2017					
Revenue	-	-	-	-	**-**
Gross profit	-	-	-	-	**-**
Net income (loss)	-	-	-	(801,956)	**(801,956)**

Geographical Segments

Year ended August 31, 2018	United States of America	Canada	**Total**
	$	$	**$**
Non-current assets			**-**
Intangibles	14,469,096	-	**14,469,096**
Land	6,660,900	-	**6,660,900**
Goodwill	3,510,190	-	**3,510,190**
Property, plant and equipment	414,516	28,892	**443,408**
Revenue	-	-	**-**
Gross profit	-	-	**-**
Net income (loss)	(952,977)	(8,210,640)	**(9,163,617)**

(Expressed in Canadian Dollars)

17. Segment Reporting (continued)

Year ended August 31, 2017	United States of America	Canada	**Total**
	$	$	**$**
Non-current assets	-	-	**-**
Land	4,774,256	-	**4,774,256**
Revenue	-	-	**-**
Gross profit	-	-	**-**
Net income (loss)	-	(801,956)	**(801,956)**

18. Subsequent Events

On November 12, 2018 the Company acquired 100% of Mojave Jane, LLC (“Mojave Jane”) (the "Acquisition"). Under the terms of the Acquisition, all of Mojave Jane’s issued and outstanding member interests were exchanged for 8,974,352 common shares of the Company with the common shares being subject to escrow until certain milestone conditions are met, triggering a staggered share release. Due to the timing of this acquisition being subsequent to August 31, 2018, the Company is unable to provide additional disclosure as the accounting for this acquisition is complex and uncompleted.