# MOJAVE BRANDS INC.

(formerly Mojave Jane Brands Inc.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended May 31, 2021

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

## MANAGEMENT’S RESPONSIBILITY FOR INTERIM FINANCIAL REPORT

The accompanying unaudited condensed consolidated interim financial report of Mojave Brands Inc. (the “Company”) has been prepared by and is the responsibility of the Company’s management.

**MOJAVE BRANDS INC.**
(formerly Mojave Jane Brands Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

| | Note | May 31, 2021 | August 31, 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 98,863 | $ 56,841 |
| GST recoverable | | 10,659 | - |
| Prepaid | | 5,002 | - |
| Assets held for sale | 4 | 585,000 | 604,453 |
| | | 699,524 | 661,294 |
| **Non-current assets** | | | |
| Investment in associate | 5 | - | 1 |
| **Total assets** | | $ 699,524 | $ 661,295 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payables and accrued liabilities | 6 | $ 394,120 | $ 403,187 |
| Amounts due to related parties | 8 | 128,250 | 41,250 |
| Liabilities related to assets held for sale | 4 | - | 9,704 |
| | | 522,370 | 454,141 |
| **Non-current liabilities** | | | |
| Loans payable | 7 | 40,000 | 40,000 |
| **Total liabilities** | | 562,370 | 494,141 |
| **Equity** | | | |
| Share capital | 9 | 55,247,788 | 55,267,241 |
| Share-based payments reserve | 10 | 7,020,615 | 7,020,615 |
| Accumulated other comprehensive income | | - | 12,094 |
| Deficit | | (62,131,249) | (62,132,796) |
| **Total equity** | | 137,154 | 167,154 |
| **Total liabilities and equity** | | $ 699,524 | $ 661,295 |

**Nature of business** (Note 1)
**Contingencies** (Note 15, 16)
**Events after the reporting period** (Note 16)

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

**MOJAVE BRANDS INC.**
(formerly Mojave Jane Brands Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

| | Note | Three Months Ended May 31, 2021 | Three Months Ended May 31, 2020 | Nine Months Ended May 31, 2021 | Nine Months Ended May 31, 2020 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Accounting and audit | | 15,500 | 36,000 | 71,305 | 346,025 |
| Consulting | | 40,000 | 20,834 | 55,000 | 170,434 |
| Depreciation | | - | 9,608 | - | 32,054 |
| Filing and transfer agent | | 8,020 | 6,512 | 21,320 | 32,166 |
| Insurance | | - | 46,630 | - | 138,976 |
| Legal fees | | 25,825 | 19,297 | 54,723 | 184,201 |
| Management fees | 8 | - | 21,300 | 45,000 | 34,543 |
| Marketing and promotion | | - | - | - | 606,054 |
| Office and general | | 1,078 | 2,148 | 3,971 | 62,093 |
| Rent | | - | 1,814 | - | 177,158 |
| Salaries and benefits | 8 | - | (15,010) | - | 352,956 |
| Travel | | - | - | - | 44,235 |
| | | (90,423) | (149,133) | (251,319) | (2,180,895) |
| **Other items** | | | | | |
| Foreign exchange gain (loss) | | 3,695 | (4,021) | 2,886 | (9,153) |
| Interest and other income | | 8,805 | 6,977 | 19,076 | 6,977 |
| Loss from investment in associate | | - | (532,329) | (1) | (532,329) |
| Reversal of provision for doubtful receivables | | 210,958 | - | 210,958 | - |
| Write-off of equipment | | - | - | - | (28,680) |
| Write-off of deposit | | - | - | - | (66,445) |
| | | 223,458 | (529,373) | 232,919 | (629,630) |
| Net income (loss) from continuing operations | | 133,035 | (678,506) | (18,400) | (2,810,525) |
| Net income (loss) from discontinued operations | 4 | - | (2,893,630) | 19,947 | (3,782,160) |
| **Net income (loss) for the period** | | 133,035 | (3,572,136) | 1,547 | (6,592,685) |
| **Other comprehensive income** | | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | | |
| Foreign currency translation adjustment | | - | (732) | (12,094) | 23,254 |
| **Comprehensive loss for the period** | | $ 133,035 | $ (3,572,868) | $ (10,547) | $ (6,569,431) |
| **Basic and diluted loss per common share** | | | | | |
| Continuing operations | | $ 0.03 | $ (0.01) | $ (0.00) | $ (0.02) |
| Discontinued operations | | $ (0.00) | $ (0.00) | $ 0.00 | $ (0.01) |
| | | $ 0.03 | $ (0.01) | $ (0.00) | $ (0.03) |

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

**MOJAVE BRANDS INC.**
(formerly Mojave Jane Brands Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

| | Note | Number of Shares | Share capital | Subscriptions received (receivable) | Commitment to issue shares | Share-based payments reserve | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, August 31, 2020 | | 4,651,655 | $ 55,267,241 | $ - | $ - | $ 7,020,615 | $ 12,094 | $ (62,132,796) | $ 167,154 |
| Shares returned to treasury | 9 | (155,627) | (19,453) | - | - | - | - | - | (19,453) |
| Shares returned to treasury | 9 | (3,600) | - | - | - | - | - | - | - |
| Net income for the period | | - | - | - | - | - | - | 1,547 | 1,547 |
| Other comprehensive loss for the period | | - | - | - | - | - | (12,094) | - | (12,094) |
| Balance, May 31, 2021 | | 4,492,428 | $ 55,247,788 | $ - | $ - | $ 7,020,615 | $ - | $ (62,131,249) | $ 137,154 |

| | Note | Number of Shares | Share capital | Subscriptions received (receivable) | Commitment to issue shares | Share-based payments reserve | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, August 31, 2019 | | 4,281,569 | $ 52,336,779 | $ 1,109,800 | $ 403,800 | $ 6,996,645 | $ (16,968) | $ (55,829,142) | $ 5,000,914 |
| Private placements | 9 | 637,220 | 3,186,100 | (1,209,800) | - | - | - | - | 1,976,300 |
| Share issuance costs | 9 | - | (124,156) | - | - | 23,970 | - | - | (100,186) |
| Exercise of restricted share units | 9 | 6,000 | 61,500 | - | (61,500) | - | - | - | - |
| Shares returned to treasury | 9 | (71,615) | - | - | - | - | - | - | - |
| Shares returned to treasury | 9 | (181,519) | (108,380) | - | - | - | - | - | (108,380) |
| Share repurchase | 9 | - | - | (32,400) | - | - | - | - | (32,400) |
| Cancelation of restricted share units | 10 | - | - | - | (342,300) | 342,300 | - | - | - |
| Loss for the period | | - | - | - | - | - | - | (6,592,685) | (6,592,685) |
| Other comprehensive loss for the period | | - | - | - | - | - | 23,254 | - | 23,254 |
| Balance, May 31, 2020 | | 4,671,655 | $ 55,351,843 | $ (132,400) | $ - | $ 7,362,915 | $ 6,286 | $ (62,421,827) | $ 1,318,950 |

The number of shares have been restated to reflect the 25:1 share consolidation (Note 9)

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

**MOJAVE BRANDS INC.**
(formerly Mojave Jane Brands Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MAY 31
(Unaudited – Prepared by Management)

| | 2021 | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss from continuing operations for the period | $ (18,400) | $ (2,810,525) |
| Items not affecting cash: | | |
| Depreciation | - | 32,054 |
| Foreign exchange loss (gain) | - | (40,978) |
| Lease interest | - | 3,793 |
| Loss from investment in associate | 1 | 532,330 |
| Write-off of equipment | - | 28,680 |
| Changes in non-cash working capital items: | | |
| GST recoverable | (10,659) | (68,988) |
| Prepaid expenses | (5,002) | 157,431 |
| Trade and other payables | (9,067) | (294,565) |
| Amounts due to related parties | 87,000 | (160,833) |
| Net cash used in operating activities | 43,873 | (2,621,601) |
| Net cash used in operating activities of discontinued operations | (1,851) | (269,995) |
| | 42,022 | (2,891,596) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment in associate | - | (532,329) |
| Net cash used in investing activities | - | (532,329) |
| Net cash used in investing activities of discontinued operations | - | 267,752 |
| | - | (264,577) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of share capital | - | 1,976,300 |
| Share issuance costs | - | (100,186) |
| Loan proceeds from related party | - | - |
| Loan proceeds (repayment) | - | 40,000 |
| Repurchase of shares | - | (32,400) |
| Payment of lease liability | - | (27,455) |
| Net cash provided by financing activities | - | 1,856,259 |
| Net cash used in financing activities of discontinued operations | - | (57,980) |
| | - | 1,798,279 |
| **Change in cash during the period** | 42,022 | (1,357,894) |
| **Cash, beginning of the period** | 56,841 | 1,612,270 |
| **Cash, end of the period** | $ 98,863 | $ 254,376 |

There are no significant non-cash investing and financing transactions during the nine months ended May 31, 2021 and 2020.

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

## 1. NATURE OF BUSINESS

Mojave Brands Inc., (the "Company") was incorporated in British Columbia on November 12, 2010. The registered office address of the Company is 1500 – 1055 West Georgia Street, P.O. Box 11117, Vancouver, BC, V6E 4N7. The principal place of business address is 2050 – 1055 West Georgia Street, P.O. Box 11121, Royal Centre, Vancouver, BC, V6E 3P3. 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 "MOJO" and on the Frankfurt Exchange under symbol "FSE: 0HCN".

On March 30, 2021, the Company changed its name from Mojave Jane Brands Inc. to Mojave Brands Inc. On April 5, 2021, the Company completed a consolidation of the Company's issued and outstanding common shares, stock options and warrants on a basis of one (1) post-consolidation common share, stock option and warrant for every twenty-five (25) pre-consolidation common shares, stock options and warrants.

The Company's principal business was the manufacturing, processing and sale of cannabis extracts. Currently the Company is not generating revenues as it has closed down all its operations in the US, and plans to seek out other potential strategic alliances, joint venture, acquisition, or merger opportunities.

These consolidated financial statements have been prepared based on 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. The Company has incurred losses since inception with an accumulated deficit as at May 31, 2021 of $62,131,249. The Company will be dependent on additional financing to meet its operating requirements over the next twelve months. Several alternatives including, but not limited to completing a financing and selling of assets, are being evaluated with the objective of funding potential acquisition activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. These material uncertainties cast significant doubt on the entity's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

COVID-19 uncertainty

In March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. Additionally, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business but anticipates that COVID-19 may impact the Company's ability to raise financing.

These consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on July 19, 2021.

## 2. BASIS OF PREPARATION

### Statement of compliance

These condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

## 2. BASIS OF PREPARATION (cont'd…)

The condensed interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual financial statements for the year ended August 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Coachellagro Corp. 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 inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

The Company's subsidiary, HS Airway, was dissolved on October 30, 2020.

**Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency for the subsidiary of the Company is the United States dollar ("USD"), and the financial statement items of the subsidiary are measured using that functional currency.

**Basis of measurement**

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

**Significant accounting estimates and judgments**

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;
- judgments used in determining if an acquisition constitutes a business combination or asset acquisition;
- judgments used in determining whether the Company has acquired significant influence over an entity;
- 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 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

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended August 31, 2020 were consistently applied to all the periods presented unless otherwise noted below.

New accounting standards

There were no new or amended IFRS pronouncements effective January 1, 2020 that impacted the Company's interim consolidated financial statements.

## 4. ASSETS HELD FOR SALE AND DISCOUNTINUED OPERATIONS

During the year ended August 31, 2019, the Company initiated a plan to dispose of certain asset groups and as a result, certain asset groups were reclassified as assets held for sale. As at August 31, 2020 and May 31, 2021, the following asset groups are classified as held for sale or discontinued operations.

Coachellagro Corp. ("Coachellagro")

Coachellagro owns a parcel of land in Coachella, California, where the Company intended to build a facility. During the year ended August 31, 2019, the Company determined that it would no longer pursue the development of the land and committed to a plan to locate a buyer for the land. As a result, the Company reclassified Coachellagro as an asset held for sale and recorded an impairment of $5,077,872 to write down the asset group to the lesser of its carrying value and fair value less cost to sell, which was determined through an assessment of the market value of similar parcels of land. During the year ended August 31, 2020, the Company assessed a further impairment of $889,215 due to the decrease in value of the land.

HS Airway Holdings ("HS Airway")

HS Airway owned intellectual properties of the GALIGOLD edible brand and had manufacturing operations of multi-strain cannabis infused chocolate bars. During the year ended August 31, 2020, as part of the outcome of the Company's strategic review of operations and assets, the Company divested the GALIGOLD brands back to its former founding owner in consideration of the former founding owner settling certain liabilities of the Company and returning 3,890,664 common shares of the Company back to the Company's treasury for cancellation. During the year ended August 31, 2020, the Company recognized a loss of $1,116,271 from the discontinued operation of HS Airway. On October 30, 2020, the Company dissolved HS Airway.

The recoverable amount, which represents the lesser of the carrying value and fair value less costs of sell, of the above noted assets groups are as follows.

| As at May 31, 2021 | | Coachellagro |
|---|---|---|
| Assets | | |
| Land | $ | 585,000 |
| Total assets held for sale | $ | 585,000 |

| As at August 31, 2020 | | Coachellagro | | HS Airway | | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Land | $ | 585,000 | $ | - | $ | 585,000 |
| Property and equipment | | - | | 19,453 | | 19,453 |
| Total assets held for sale | $ | 585,000 | | 19,453 | $ | 604,453 |
| Current liabilities | $ | - | $ | 9,704 | $ | 9,704 |
| Total liabilities held for sale | $ | - | $ | 9,704 | $ | 9,704 |

## 4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (cont'd…)

During the nine month periods ended May 31, 2021 and 2020, net loss attributable to the asset groups held for sale and discontinued operations are summarized as follows.

| Nine months ended May 31, 2021 | Coachellagro | HS Airway | Total |
|---|---|---|---|
| | $ | $ | $ |
| Insurance | (1,851) | - | (1,851) |
| Extinguishment of accounts payables | - | 9,853 | 9,853 |
| Other income | - | 11,945 | 11,945 |
| Net income (loss) from discontinued operations | (1,851) | 21,798 | 19,947 |

| Nine months ended May 31, 2020 | Coachellagro | Bravo/8 Points | 420 Realty | Mojave LLC | HS Airway | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Sales | - | - | - | 68,344 | 1,177 | 69,521 |
| Cost of goods sold | - | - | - | (118,111) | (10,225) | (128,336) |
| Consulting and professional fees | - | - | - | (51,376) | (7,646) | (59,022) |
| Depreciation | - | - | (192,735) | (189,860) | (24,367) | (406,962) |
| Insurance | (1,864) | - | - | (5,736) | - | (7,600) |
| Lease interest | - | - | (175,639) | - | - | (175,639) |
| Office and general | - | (22,510) | (11,589) | (30,156) | (80,803) | (145,058) |
| Salaries | - | - | - | - | (194,148) | (194,148) |
| Travel | - | - | - | - | (10,607) | (10,607) |
| Gain from sale | - | 70,308 | - | - | - | 70,308 |
| Impairment loss | (846,060) | - | (568,854) | (50,220) | (533,060) | (1,998,194) |
| Loss on sale of equipment | - | - | - | (796,423) | - | (796,423) |
| Net loss from discontinued operations | (847,924) | 47,798 | (948,817) | (1,173,538) | (859,679) | (3,782,160) |

## 5. INVESTMENT IN ASSOCIATE

During the year ended August 31, 2019, the Company acquired a 20.75% strategic minority interest in the 2083 Group, Inc. ("2083 Group"), a California based entity, best known for their Speed Weed delivery platform and services. To acquire the 20.75% interest, the Company made cash payments totaling $658,450 ($500,000 USD) and issued 2,260,869 common shares of the Company with a fair value of $723,478 for total consideration of $1,381,928. As at the date of the acquisition, the 2083 Group had a net liability position of $36,494 USD. The excess of the cost over the Company's share of the net fair value of the 2083 Group's identifiable assets and liabilities was allocated to goodwill.

The Company's investment in the 2083 Group is recorded using the equity method as management determined that the Company has significant influence over the 2083 Group. During the period from the Company's acquisition of 20.75% interest to August 31, 2019, 2083 Group incurred a loss of $72,875, of which $20,042 is attributable to the Company before impairment of goodwill (see below).

As at August 31, 2019, 2083 Group had total assets of $69,866 USD and total liabilities of $183,309 USD. The Company evaluated the carrying value of its goodwill in 2083 Group and estimated the net recoverable amount to be $1 of the cash generating unit and the Company recorded an impairment of $1,361,886 which has been included in net loss from investment in associate.

Pursuant to the terms of the underlying share purchase agreement with shareholders of the 2083 Group, the Company was committed to investing an additional $1,580,000 USD upon the achievement of certain milestones by the 2083 Group. In October 2019, the Company invested additional $532,329 ($400,000 USD) to increase its ownership interest in 2083 Group to just over 26%. In May 2020, as part of the outcome of the Company's strategic review of operations and assets, the Company decided not to proceed with further investment in 2083 Group and thus wrote off the investment costs of $532,330 for the year ended August 31, 2020. During the nine months ended May 31, 2021, the Company further wrote off the investment costs to $nil.

## 6. TRADE AND OTHER PAYABLES

| | May 31, 2021 | August 31, 2020 |
|---|---|---|
| Trade payables | $ 394,120 | $ 366,187 |
| Accrued liabilities | - | 37,000 |
| | $ 394,120 | $ 403,187 |

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to general operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

## 7. LOANS PAYABLE

In May 2020, the Company opened a Canada Emergency Business Account ("CEBA") and received a loan of $40,000 from the Canadian Government. The loan is unsecured and non-interest bearing until December 31, 2022. The principal amount of the loan will be reduced to $30,000 if it is repaid before December 31, 2022.

## 8. RELATED PARTY TRANSACTIONS AND BALANCES

Amounts due to related parties of $128,250 (August 31, 2020 - $41,250) were consulting and management fees due to the CEO and a company controlled by a close family member of a director of the Company and are unsecured, non-interest bearing, and have no specific terms of repayment.

Key management personnel include directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the nine months ended May 31 is as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Management and director fees | $ | 45,000 | $ | 34,543 |
| Consulting fees | | 40,000 | | - |
| Salaries and benefits | | - | | 257,007 |
| Total | $ | 85,000 | $ | 291,550 |

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the nine months ended May 31, 2021:

a) Incurred management fees of $45,000 (2020 - $18,750) and director fees of $nil (2020 - $14,493) to the former CEO of the Company.

b) Incurred consulting fees of $40,000 (2020 - $nil) to a company controlled by a close family member of a director of the Company.

c) Incurred salaries of $nil (2020 - $128,434) to the former Chief Executive Officer of the Company.

d) Incurred salaries of $nil (2020 - $128,573) to the former Chief Operating Officer of the Company.

## 9. SHARE CAPITAL

**Authorized share capital**

The Company has authorized an unlimited number of common shares with no par value.

**Issued share capital**

At May 31, 2021, the Company had 4,492,428 common shares outstanding (August 31, 2020 - 4,651,655).

**Share issuance and cancellation**

During the nine months ended May 31, 2021, the Company:

a) Received 155,627 common shares of the Company with a fair value of $19,453 and returned them to the Company's treasury for cancellation pursuant to the settlement agreement with the two former owners of HS Airway (Note 4).

b) Received 3,600 common shares of the Company and returned them to the Company's treasury pursuant to an agreement signed on July 30, 2019.

During the year ended August 31, 2020, the Company:

a) Completed a non-brokered private placement of 15,430,500 units at a price of $0.20 per unit for gross proceeds of $3,086,100. Each unit is comprised of one common share and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 24 months at an exercise price of $0.30. In connection with the private placement, the Company paid a finder's fee of $100,186 and issued 347,430 agent's warrants. The agent's warrants were valued at $23,970 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.6%, an expected life of 1 years, annualized volatility of 107.63% and a dividend rate of 0%). Each agent's warrant entitles the holder to acquire one common share at a price of $0.20 until September 9, 2020.

b) Issued 150,000 common shares pursuant to its restricted share units plan.

c) Paid $32,400 for 90,000 common shares held in escrow for cancellation pursuant to an agreement signed on July 30, 2019.

d) 5,990,384 common shares formerly held under voluntary escrow agreements were released and returned to treasury for cancellation.

e) 337,978 common shares were returned to treasury for cancellation pursuant to the Bravo/8 Point settlement agreement.

## 10. SHARE-BASED PAYMENTS

### Stock options

The Company's Board of Directors approved the implementation of an aggregate maximum of 10% of the issued and outstanding common shares may be issued for granting of options to directors, senior officers, full time employees of the Company, affiliates or subsidiaries, or any consultants to the Company. The terms of the awards under the Plan are determined by the Board of Directors.

Stock option transactions are summarized as follows:

| | Number of options | Weighted Average Exercise Price |
|---|---|---|
| Balance, August 31, 2019 | 190,000 | $ 8.75 |
| Cancelled / Expired | (170,000) | 9.00 |
| Balance, August 31, 2020 and May 31, 2021 | 20,000 | $ 8.50 |
| Exercisable at August 31, 2020 and May 31, 2021 | 20,000 | $ 8.50 |
| Weighted average fair value of options granted during the period | $ nil | (2020 - $nil) |

The options outstanding at May 31, 2021 have an exercise price of $8.50 and a weighted average remaining contractual life of 2.94 years.

As at May 31, 2021, the following stock options were outstanding:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 20,000 | $ 8.50 | May 8, 2024 |

## 10. SHARE-BASED PAYMENTS (cont'd…)

### 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 several 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, 102,000 Restricted Share Units ("RSUs") were granted to a senior officers, directors and consultants of the Company. The share price on December 1, 2017 was $10.25. The RSUs were fully vested upon grant and as a result, the Company recorded share-based compensation expense of $1,045,500 during the year ended August 31, 2018. Of the total RSUs granted, the Company has issued 80,000 common shares. The remaining 22,000 RSUs were cancelled during the year ended August 31, 2020. There were no RSUs outstanding as at August 31, 2020 and May 31, 2021.

### Warrants

Warrants are issued as private placement incentives. Agents' warrants are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Warrant transactions are summarized as follows:

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, August 31, 2019 | 1,349,178 | $ | 22.49 |
| Warrants issued | 637,220 | | 7.50 |
| Agent's warrants issued | 13,897 | | 5.00 |
| Expired | (1,349,178) | | 22.49 |
| Balance, August 31, 2020 | 651,117 | $ | 7.45 |
| Agent's warrants expired | (13,897) | | 5.00 |
| Balance, May 31, 2021 | 637,220 | $ | 7.50 |

The warrants outstanding at May 31, 2021 have an exercise price of $7.50 and a weighted average remaining contractual life of 0.28 year.

## 10. SHARE-BASED PAYMENTS (cont'd…)

**Warrants** (cont'd…)

As at May 31, 2021, the following warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 637,220 | $ 7.50 | September 9, 2021 |

## 11. SEGMENTED INFORMATION

**Operating segments**

The Company operates in a single reportable segment – manufacturing, processing and sale of cannabis extracts.

| | Cannabis production | Cannabis distribution | Cannabis infused products | Corporate | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Nine months ended May 31, 2021 | | | | | |
| Revenue | - | - | - | - | - |
| Gross profit (loss) | - | - | - | - | - |
| Net loss from continuing operations | - | - | - | (18,400) | (18,400) |
| Net income from discontinued operations | (1,851) | - | 21,798 | - | 19,947 |
| Year ended August 31, 2020 | | | | | |
| Revenue | - | - | 69,521 | - | 69,521 |
| Gross profit (loss) | - | - | (64,801) | - | (64,801) |
| Net loss from continuing operations | - | - | - | (3,056,189) | (3,056,189) |
| Net loss from discontinued operations | (1,384,893) | - | (2,088,072) | - | (3,472,965) |

## 11. SEGMENTED INFORMATION (cont'd…)

### Geographic segments

The Company's non-current assets are located in Canada and the United States as follows:

At May 31, 2021:

| | Canada | USA | Total |
|---|---|---|---|
| Property | $ - | $ 585,000 | $ 585,000 |
| | $ - | $ 585,000 | $ 585,000 |

At August 31, 2020:

| | Canada | USA | Total |
|---|---|---|---|
| Property | $ - | $ 604,453 | $ 604,453 |
| Investment in associate | - | 1 | 1 |
| | $ - | $ 604,454 | $ 604,454 |

## 12. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it, based on the funds available to the Company to support 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.

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 period. The Company is not subject to externally imposed capital requirements.

## 13. FINANCIAL INSTRUMENTS

As of May 31, 2021, the carrying amounts of accounts payables, amounts due to related parties and loan payable carried at amortized cost are considered a reasonable approximation of their fair values due to the relatively short period to maturity of these financial instruments.

### Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. 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 potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash and receivables. The credit risk with respect to its cash is minimal as they are held with high-credit quality financial institutions. The GST recoverable is due from the Canadian Government. Management does not expect these counterparties to fail to meet their obligations.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have enough liquidity to meet liabilities when due. as they fall due. As at May 31, 2021, the Company has a cash balance of $98,863 and current liabilities of $522,370. The Company's financial liabilities include trade payables and amounts due to related parties which have contractual maturities of 30 days or are due on demand. The Company's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. The loan payable is not contractually repayable before December 31, 2022.

*Interest rate risk*

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

*Foreign currency exchange risk*

Foreign currency exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and administrative expenditures are transacted in Canadian dollars. The Company funds its operations in the United States by using USD converted from its Canadian bank accounts. At May 31, 2021, the Company had financial assets of $nil and financial liabilities of $49,676 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $5,000. The Company does not hedge its foreign exchange risk.

## 14. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Financial instruments measured at fair value on the statement of financial position are summarized in levels of fair value hierarchy as follows. There have been no changes in these levels and no changes in classifications during the nine months ended May 31, 2021.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| May 31, 2021 | | | | |
| Cash | $ 98,863 | $ - | $ - | $ 98,863 |
| August 31, 2020 | | | | |
| Cash | $ 56,841 | $ - | $ - | $ 56,841 |

## 15. CONTINGENCIES

From time to time, the Company is engaged in various legal proceedings and claims that have arisen in the normal course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company.

In July 2020, a former consultant of the Company filed a claim against a subsidiary of the Company in California claiming an unpaid settlement amount related to consulting services provided. During the nine months ended May 31, 2021, the Company settled the claim with the former consultant.

## 16. EVENTS AFTER THE REPORTING PERIOD

i) In July 2021, the Company was served by the Court of California a claim naming the Company as one of the defendants. The claim was filed by the former owners of 420 Realty, a former subsidiary of the Company. The Company is currently reviewing the claim.

ii) In July 2021, the Company completed a non-brokered private placement of 5,750,000 units at a price of $0.12 per unit for gross proceeds of $690,000. Each unit is comprised of one common share and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 24 months at an exercise price of $0.15.