Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc.)

Condensed Interim Consolidated Financial Statements

For the twelve months ended August 31, 2020 and 2019

(Expressed in Canadian Dollars)

(Unaudited)

Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc.)
Condensed Interim Consolidated Statements of Financial Position
As at August 31, 2020 and August 31, 2019
(Expressed in Canadian Dollars)
(Unaudited)

	Note	August 31, 2020	August 31, 2019
ASSETS			
Current assets			
Cash		$ 173,965	$ 9,201
Amount receivable		150,038	61,743
Prepaid expenses		40,859	3,059
		364,862	74,003
Non-current assets			
Long term deposits		36,918	36,918
Right-of-use asset	5	148,870	-
Property and equipment	6	720,950	671,215
Intangible assets	4	3,168,981	-
Investment in Rock Creek Farms	8	300,000	-
Total assets		**$ 4,740,581**	**$ 782,136**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 560,685	$ 280,121
Amounts payable		-	1,823,205
Consideration payable	4	2,250,000	1,015,000
Current portion of lease liability	5	86,215	-
		2,896,900	3,118,326
Non-current liabilities			
Due to 1167343 B.C. Ltd.	14	480,495	-
Lease liability	5	71,547	-
Consideration payable	4	168,981	-
Notes Payable	10	66,000	-
Total liabilities		3,683,923	3,118,326
Shareholders' deficiency			
Common Shares	11	7,379,668	493,685
Share-based payments reserves	11	665,001	-
Deficit		(6,988,011)	(2,829,875)
Total shareholders' equity (deficiency)		1,056,658	(2,336,190)
Total liabilities and shareholders' equity (deficiency)		**$ 4,740,581**	**$ 782,136**

Nature of operations and going concern (Note 1)
Subsequent events (Note 16)

On behalf of the Board:

"Patrick Elliott" Director *"Matt McGill"* Director

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

Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

		Three months ended,		Twelve months ended,	
	Note	August 31,2020	August 31, 2019	August 31,2020	August 31,2019
EXPENSES					
Accretion and interest	5	$ 7,822	$ 80,242	$ 33,663	$ 81,237
Advertising and promotion		39,906	2,440	83,950	10,636
Amortization of right-of-use asset	5	23,505	-	94,020	-
Consulting fees	12	34,785	70,120	126,000	106,570
Insurance		883	4,244	996	8,948
License fees		2,150	-	2,150	-
Management fees	12	-	33,000	40,000	93,000
Office and miscellaneous		-	4,586	52,640	9,628
Professional fees		17,132	45,445	43,710	63,166
Rent		6,057	39,139	15,881	148,537
Repairs and maintenance		1,340	7,729	6,413	11,924
Regulatory and filing fees		24,689	-	24,689	-
Share-based payments	11	665,001	-	665,001	-
Travel		2,997	3,807	11,661	15,253
Utilities		1,023	1,319	6,101	12,976
Total Expenses		(827,290)	(292,071)	(1,206,875)	(561,875)
Other Expenses					
Interest earned		379	-	1,156	-
Write-down of intangible asset		-	(15,000)	-	(15,000)
Write-off of accounts receivable		-	-	(67,647)	-
Transaction cost		-	-	(60,000)	-
Listing expense	13	-	-	(2,185,748)	-
Loss and comprehensive loss for the period		$ (826,911)	$ (307,071)	$ (3,519,114)	$ (576,875)
Basic and diluted loss per share		$ (0.01)	$ (0.01)	$ (0.07)	$ (0.01)
Weighted average number of shares outstanding		63,821,644	40,000,000	48,158,097	40,000,000

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

Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc.)

Condensed Interim Consolidated Statements of Change in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Common Shares	Amount	Share subscriptions received in advance	Share based payment reserves	Deficit	Total
Balance as at August 31, 2018	40,000,000	443,285	-	-	(2,253,000)	(1,809,715)
Share subscriptions received	-	50,400	(200,000)	-	-	(149,600)
Net loss for the year	-	-	-	-	(576,875)	(576,875)
Balance as at August 31, 2019	40,000,000	493,685	(200,000)	-	(2,829,875)	(2,536,190)
Reclassification of share subscriptions received in advance	-	(200,000)	200,000		-	-
Share issued for RTO (Note 13)	12,249,629	3,674,889	-		-	3,674,889
Shares returned to treasury (Note 11)	(11,322)	-	-		-	-
Private placement (Note 11)	5,500,004	1,650,000	-		-	1,650,000
Share issuance cost (Note 11)	-	(63,906)	-		-	(63,906)
Shares issued for Go Green (Note 13)	3,383,333	1,015,000	-		-	1,015,000
Transaction cost (Note 13)	200,000	60,000	-		-	60,000
Shares issued for license (Note 13)	2,500,000	750,000	-		-	750,000
Distribution to Shareholders (Note 14)	-	-	-		(639,022)	(639,022)
Share-based payments (Note 11)	-	-	-	665,001	-	665,001
Net loss for the period	-	-	-	-	(3,519,114)	(3,519,114)
Balance as at August 31, 2020	**63,821,644**	**$ 7,379,668**	**-**	**$ 665,001**	**$ (6,988,011)**	**$ 1,056,658**

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

Pac Roots Cannabis Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Twelve Months Ended August 31, 2020	Twelve Months Ended August 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		$ (3,519,114)	$ (576,875)
Items not affecting cash			
Amortization of right-of-use asset	5	94,020	-
Amortization of equipment		816	-
Interest on lease liability	5	30,534	-
Amounts settled through RTO	13	15,414	-
Transaction cost		60,000	-
Expenses paid for by MLK		-	77,986
Accretion on consideration payable		-	80,000
Listing expense	13	2,185,748	-
Share-based payments	11	665,001	-
Write-down of accounts receivable		67,647	-
Write-down of intangible asset		-	15,000
Changes in non-cash working capital items			
Increase (decrease) in amount receivable		(87,998)	(61,743)
Increase in prepaid expenses		(14,706)	16,709
Increase in accounts payable and accrued liabilities		(255,785)	242,581
Net cash used in operating activities		(758,423)	(206,342)
CASH FLOWS FROM INVESTING ACTIVITIES			
Long term deposits		-	(23,099)
Cash acquired from RTO	13	(164)	-
Investment in Rock Creek	8	(300,000)	-
Property and equipment	5, 6, 13	(47,081)	(659,007)
Net cash used in investing activities		(347,245)	(682,106)
CASH FLOWS FROM FINANCING ACTIVITIES			
Private placement	11	1,386,094	-
Issuance of common shares		-	50,400
Amounts payable		-	750,000
Lease payments	5	(115,662)	-
Net cash provided by financing activities		1,270,432	800,400
Change in cash during the period		164,764	(88,048)
Cash and cash equivalents, beginning of period		9,201	97,249
Cash and cash equivalents, end of period		$ 173,965	$ 9,201
Distribution To shareholders	14	$ 639,022	$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc.), (the "Company") was incorporated on May 16, 2012 in British Columbia under the Business Corporations Act. The address of the Company's corporate office and its principal place of business is 1055 Hastings Street, Unit 300, Vancouver, British Columbia, Canada.

The Company is in the process of applying for a license to produce cannabis. Operations have not commenced as of the date of these condensed interim consolidated financial statements

On June 6, 2018, Mountain Lake Minerals Inc. ("MLK"), a publicly listed entity on TSX-V, executed a definitive share exchange agreement with 1157630 B.C. Ltd. ("1157630"), a private company, and its shareholders for the acquisition of all of the issued and outstanding shares of 1157630 and its subsidiary Go Green (the "Go Green Transaction") and completed a reverse take-over ("RTO") (Note 13).

On April 28, 2020, the Go Green Transaction was completed whereby MLK acquired 100% of the issued and outstanding common shares of 1157630 in exchange for 40,000,000 common shares issued. Immediately prior to the completion of the RTO, MLK had 12,249,629 common shares and 7,141,976 share purchase warrants with a strike price between $0.50 and $1.50 expiring on April 28, 2021. Upon completion of the RTO, MLK changed its name to Pac Roots Cannabis Corp. Common shares and share purchase warrants were exchanged for equivalent securities of 1157630 on the basis of one Pac Roots Cannabis Corp. share for every 1 share of 1157630.

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

Management believes the Company will be successful at securing additional funding to continue its operations and intended to advance its new business opportunities in the area of cannabis production, however, the Company has incurred significant operating losses since inception, has a working capital deficit of $2,870,000 (August 31, 2019 – working capital deficit of $3,044,323), has a deficiency of $6,988,011 (August 31, 2019 - $2,829,875), has limited resources, no source of operating cash flows and no assurances that sufficient funding will be available to further its goals and objectives. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company's ability to successfully complete its manufacturing process, commercialize its products and receive regulatory approvals for its business, the outcome of which cannot be predicted at this point. As a result, it may be necessary for the Company to obtain additional capital, such as issuance of equity and/or debt securities, or alternative financing sources of financing. There is no assurance that the Company will be able to obtain sufficient funds to continue its operating activities.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the third quarter of 2020. The production and sale of cannabis have been recognized as essential services across Canada and Europe. As at August 31, 2020, we have also not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on our business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

These condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these condensed interim consolidated financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended August 31, 2019.

These condensed interim consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on October 29, 2020.

Basis of measurement and presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the annual audited financial statements for the year ended August 31, 2019, except for those noted below.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiary's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

2. BASIS OF PREPARATION (Continued)

Use of estimates and judgements

The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and notes. By their nature, these estimates, judgments and assumptions are subject to measurement uncertainty and affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenues and expenses. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The more significant areas are as follows:

Critical accounting estimates and judgements:

a) **Recoverability of asset carrying values**
When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

b) **Estimated useful lives and impairment considerations**
Depreciation and amortization of equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

c) **Business combination vs asset acquisition**
Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

d) **Share-based payments**
The amounts recorded for share-based payments are based on estimates. The Black Scholes model is based on estimates of assumptions for expected volatility, expected number of options to vest, dividend yield, risk-free interest rate, expected forfeitures and expected life of the options. Changes in these assumptions may result in a material change to the amounts recorded for the issuance of stock options.

e) **Exploration and evaluation assets**
Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for the mineral properties. Once technical feasibility and commercial viability of a property can be demonstrated, exploration costs will be reclassified to mineral properties under exploration and subject to different accounting treatment. As at August 31, 2020, the Company had no exploration and evaluation assets as a result of the Spin-Off transaction (Note 14).

2. BASIS OF PREPARATION (Continued)

g) Impairment of exploration and evaluation assets

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's exploration and evaluation assets are impaired. External sources of information management consider includes changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its mining interests. Internal sources of information management consider include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Company's exploration properties, management makes estimates of the discounted future pre-tax cash flows expected to be derived from the Company's exploration properties, and the appropriate discount rate.

h) Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assess whether it is probably that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

i) Discount rate used for consideration payable

The carrying value of the convertible debentures is subject to management's estimates in determining an appropriate discount rate based on similar instruments with no conversion features.

j) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

Basis of Consolidation

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. These consolidated financial statements include the accounts of the Company and its principal subsidiaries:

	Ownership Interest	Jurisdiction
Go Green B.C. Medicinal Marijuana Ltd. (Note 4)	100%	Canada

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(Expressed in Canadian Dollars)

4. ASSET ACQUISITION

1065703 B.C. Ltd.

On April 20, 2018 the Company entered into a share purchase agreement (the "Agreement") with 1065703 B.C. Ltd. ("1065703") to acquire 100% of all the issued and outstanding shares of Go Green B.C. Medicinal Marijuana Ltd. ("Go Green") from 1065703 in exchange for $2,000,000 paid in cash and the issuance of common shares. The consideration is detailed as follows:

- $275,000 in cash (paid);
- $225,000 in cash three months following the closing date (paid);
- $500,000 in cash on or before the earlier of November 15, 2018 or the issuance of a cultivation license by Health Canada (paid); and
- $1,000,000 in common shares on the earlier of December 15, 2018 or such time as that the Company completes a going public transaction (the "Delivery Date"). The number of common shares issued will be based on the Company's stock price on the Delivery Date.

The details of the purchase have been accounted for as follows:

Cash paid	$	500,000
Cash to be paid November 15, 2018		420,000
Fair Value of common shares issued		1,000,000
Total consideration	**$**	**1,920,000**
Intangible asset acquired	**$**	**1,920,000**

The Company has accounted for the purchase as an asset acquisition as it did not meet the criteria under IFRS 3 "Business Combinations" to be classified as a business acquisition. Of the consideration exchanged, $500,000 was paid during the period ended August 31, 2018 and the remaining balance of $1,500,000 was set up as a current liability. The Company discounted the liability at a rate of approximately 20% in order to provide for its current present value. The liability will be accreted based on the payment terms noted above. During the year ended August 31, 2019, the Company recorded an accretion expense of $80,000 and made cash payment of $500,000.

4. ASSET ACQUISITION (CONTINUED)

The intangible asset consisted of in-process licensing application relating to the Go Green's license application to produce cannabis in Canada ("Intangible Asset"). In accordance with the Company's accounting policy, the Intangible Asset is subject to an annual impairment test and as a result the full value of the intangible asset purchased of $1,920,000 was impaired and charged to the consolidated statement of comprehensive loss for the period ended August 31, 2018. As of the date of approval of these condensed interim consolidated financial statements, the approval of the processing and cultivation license has not been granted.

During the year ended August 31, 2019, the Company and 1065703 amended the terms of the Agreement, whereby the Company agreed to increase the share consideration to $1,015,000, payable on the earlier of November 30, 2019 or such time as the Company completes a going public transaction (Issued). Pursuant to the amended Agreement, the market value of the common shares was determined to be $0.30 per common share. The additional $15,000 was impaired and charged to the consolidated statement of comprehensive loss for the year ended August 31, 2019. Currently the Company is in default as it has not delivered the share consideration to 1065703 by November 30, 2019. 1065703 has not taken any legal action as of the date of these condensed interim consolidated financial statements. Both parties continue to negotiate and 1065703 has not executed upon its security as a result of the default. 1065703 has security in the form of all the outstanding shares of Go Green.

Pursuant to the completion of the RTO, shares were issued to 1065703 valued at $1,015,000 (Notes 11 and 14). The balance payable as at August 31, 2020 is $Nil (August 31, 2019 - $1,015,000).

<u>Phenome One Corp.</u>

On April 8, 2019, MLK entered into a license agreement with Phenome One Corp. ("Phenome") in order to obtain a license (the "Phenome License") from Phenome in respect of a genetic cannabis library of certain cultivars, technical and materials owned by Phenome in order to allow MLK to propagate, cultivate, harvest, process, breed and develop, manufacture, produce and use such licensed property (the "Phenome Agreement") subject to the following terms:

Pursuant to the provisions of the Phenome Agreement, the Resulting Issuer ("Pac Roots") acquired from Phenome, the Phenome License in consideration of the payment of an aggregate of $250,000 in cash and the issuance of 10,000,000 Pac Roots Shares as follows:

(a) 2,500,000 Pac Roots Shares on the date on which the Issuer receives the approval of the CSE for the Fundamental Change Transactions (the "approval date") (Issued, Notes 11 and 13);
(b) 2,500,000 Pac Roots Shares on the date on which is three months following the approval date;
(c) 2,500,000 Pac Roots Shares on the date on which is six months following the approval date; and
(d) 2,500,000 Pac Roots Shares on the date on which is nine months following the approval date;
(e) $50,000 in cash on the date which is 18 months following the approval date;
(f) $100,000 in cash on the date which is 24 months following the approval date; and
(g) $100,000 in cash on the date which is 30 months following the approval date.

In addition, Pac Roots will make non-refundable, non-creditable royalty payments to Phenome equal to 5% of gross sales of products, which royalty shall be payable within 60 days of each calendar quarter. The Phenome License Agreement will continue for as long as the Pac Roots has payment obligations, including the royalty payments, to Phenome, unless earlier terminated as a result of breach of the agreement or other circumstances, including where gross sales of products in any two consecutive calendar quarters, after 2019, are less than $1,000,000. Pac Roots has been granted a right of first refusal in respect of any of the licensed cultivars, technology or materials (the "licensed material"), subject to certain exceptions as set forth in the Phenome License Agreement, such that should Phenome receive a bona fide offer from an independent third party dealing with it arm's length to acquire such licensed material, it must first offer the licensed material to Pac Roots on terms no less favorable than those offered to it. Pac Roots will have a period of 30 days to accept such offer, failing which Phenome will be entitled to sell the licensed material on the terms specified for a period of 60 days.

(Expressed in Canadian Dollars)

4. ASSET ACQUISITION (Continued)

Phenome One Corp. (Continued)

Under the Phenome License Agreement, Pac Roots will have the sole responsibility and decision-making authority in relation to development and commercialization activities in respect of the licensed materials, at its own cost, but shall provide progress reports to Phenome of its activities within 60 days of each calendar quarter.

Pursuant to terms of the Phenome license, the Company recorded intangible assets of $3,168,981 representing the common share and discounted the cash payable to reflect the time value of money. During the period ended August 31, 2020, the Company issued 2,500,000 common shares with a fair value of $750,000 and recorded consideration payable of $2,250,000. The Company discounted the cash consideration using a discount rate of 20% to reflect the time value of money related to future cash outlays and resulted in a present value of $168,981.

5. RIGHT-OF-USE ASSET AND LEASE LIABILITY

In accordance with IFRS 16 *Leases*, the Company has recognized certain leases meeting the criteria of IFRS 16 as right-of-use assets, and recognized corresponding lease liabilities. The right-of-use assets and lease liabilities were measured at the present value of the lease payments, discounted using the Company's incremental borrowing rates applied at the date of inception of the leases. The weighted average incremental borrowing rate applied to the right-of-use assets and lease liabilities for the period ended August 31, 2020 was 15% per annum. The details of the right-of-use asset and the corresponding lease liability recognized as at August 31, 2020 are as follows. The lease term remaining as at August 31, 2020 is approximately 1.58 years.

a) Right-of-use assets

The following is the continuity of the cost and accumulated depreciation of right-of-use assets as at and for the period ended August 31, 2020:

	August 31, 2020
Cost	$
Balance, August 31, 2019	-
Additions upon adoption of IFRS 16	242,890
Balance, August 31, 2020	242,890
Accumulated depreciation	
Balance, August 31, 2019	-
Amortization	(94,020)
Balance, August 31, 2020	(94,020)
Carrying amount as at August 31, 2020	148,870

(Expressed in Canadian Dollars)

5. RIGHT-OF-USE ASSET AND LEASE LIABILITY (Continued)

b) Lease liability

The following is the continuity of lease liability as at and for the period ended August 31, 2020:

	August 31, 2020
	$
Balance, August 31, 2019	-
Recognized upon adoption of IFRS 16	242,890
Lease payments	(115,662)
Interest expense on lease liability	30,534
Balance, August 31, 2020	157,762
Less: current portion of lease liability	(86,215)
Lease liability – non current	71,547

As at August 31, 2020, minimum lease payments for the lease liabilities are as follows:

Year ending	
	$
November 30, 2020	28,915
November 30, 2021	115,662
November 30, 2022	28,915
Total undiscounted lease liability at August 31, 2020	173,492
Less: Interest on lease liability	(15,730)
Total present value of minimum lease payments at August 31, 2020	157,762

6. PROPERTY AND EQUIPMENT

During the period ended August 31, 2020, the Company purchased certain equipment and incurred leasehold improvement costs of $47,081 (year ended August 31, 2019 - $659,007) at its Kelowna facility. As at August 31, 2020, the facility is not ready for use and as a result, the Company has not recorded any depreciation for the period ended August 31, 2020 related to these assets.

Pursuant to the RTO, the Company acquired equipment of $3,470 (Note 13).

7. EXPLORATION AND EVALUATION ASSETS

	Grand Falls – Windsor	Little River	Total
	$	$	$
Balance, August 31, 2019	-	-	-
Acquired through RTO (Note 13)	211,516	-	211,516
Spin-Off of assets (Note 14)	(211,516)	-	(211,516)
Balance, August 31, 2020	**-**	**-**	**-**

The Company acquired exploration and evaluation assets through the completion of the RTO (Note 14).
The Company completed a Spin-Off of assets to its subsidiary 1167343 B.C. Ltd. during the period (Note 15).

(Expressed in Canadian Dollars)

8. INVESTMENTS

Rock Creek Farms Ltd.

On June 30, 2020, the Company entered into an agreement (the "Investment Agreement") with Rock Creek Farms Ltd. ("Rock Creek") for the formation of the Rock Creek Farms joint venture, which will be owned 60% by Pac Roots and 40% by BC Co. The Company's contribution to the joint venture will be an aggregate of $450,000 in capital, of which $100,000 was funded upon the execution of the letter of intent on May 29, 2020. Rock Creek will contribute two commercial leases for over 100 acres of growing space, consulting services, cultivation equipment, agricultural infrastructure and intellectual property relating to commercial scale hemp operations and proprietary biomass storage techniques (the "Rock Creek Capital Contribution"). Profits generated from the joint venture will be distributed first to the Company until its capital contributions have been repaid and thereafter in accordance with the interests in the joint venture held by the parties.

On July 7, 2020 (the "Closing Date"), the Company announced the execution of the Investment Agreement. On the Closing Date, an aggregate of 750,000 shares ("JV Shares") for an aggregate purchase price equal to $750,000, each JV Share will be purchased at a price of $1 per JV Share. 450,000 JV Shares will be purchased by the Company and 300,000 JV Shares will be purchased by Rock Creek through the contribution of the Rock Creek Capital Contribution, which shall have a deemed value of $300,000.

As at August 31, 2020 the Company made total capital contributions to the investment of $300,000 for the Rock Creek Farms joint venture which are recorded as long-term prepaid deposits.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		August 31, 2020		**August 31, 2019**
Accounts payable	$	147,897	$	268,165
Amounts due to related parties (Note 12)		410,425		11,956
Accrued liabilities		2,363		-
	$	**560,685**	**$**	**280,121**

10. NOTES PAYABLE

The amount of the notes payable has been included in the Company as a result of the completion of the RTO (Note 13). As at August 31, 2020, the balance of the notes payable was $66,000 (2019 - $Nil). The amounts owing are non-interest bearing, unsecured, and due on demand.

11. SHARE CAPITAL

Common shares

The Company's authorized capital consists of an unlimited number of common shares without par value. As at August 31, 2020, there were 63,821,644 issued and outstanding common shares.

During the twelve months ended August 31, 2020, the Company had the following transactions that resulted in the issuance of its common shares:

- On April 27, 2020, the Company returned 11,322 common shares previously intended to be issued to Sunset Lake Resources pursuant to terms of a prior arrangement by MLK. During the period, the terms expired without issuance of these shares.
- On April 28, 2020, the Company issued 5,500,004 Units for gross proceeds of $1,650,000. Each Unit comprises one common share and one share purchase warrant. Each whole warrant is exercisable at $0.50 for one year. The Company paid $63,906 in share issuance costs and issued 213,022 finder warrants with a fair value of $20,656. The finder warrants are also exercisable at $0.50 for one year.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (CONTINUED)

- On April 28, 2020, the Company issued 40,000,000 common shares valued at $3,674,889 and recorded $60,000 as transaction cost for 200,000 common shares issued as finder's fees pursuant to the RTO (Note 13).
- On April 28,2020, the Company issued 3,383,333 common shares valued at $1,015,000 issued to Go Green, pursuant to terms of the RTO (Note 13).
- On April 28, 2020, the Company issued 2,500,000 common shares valued at $750,000 issued to Phenome License pursuant to the terms of the agreement (Note 13).

Stock Options

The Company has a Stock Option Plan (the "Plan) which provides that the number of options granted may not exceed 10% of the issued and outstanding shares. Options granted under the Plan generally have a five-year term and are granted at a price no lower than the market price of the common shares at the time of the grant.

On June 8, 2020, the Company granted 3,650,000 stock options to directors, officers, and consultants of the Company expiring on June 8, 2023 with an exercise price of $0.205. The fair value of the stock options granted was $665,001. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - $0.205; exercise price - $0.205; expected life – 3 years; volatility – 183.62%; annual rate of dividends – 0%; risk-free rate – 0.32%.

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

	Number of stock option		Weighted average exercise price
At August 31, 2019	-	$	-
Stock options granted	3,650,000		0.205
At August 31, 2020	3,650,000	$	0.205

The weighted average remaining life of the stock options outstanding is 2.77 years as at August 31, 2020.

Warrants

A summary of the Company's warrant activity for the period ended August 31, 2020 is as follows:

	Number of warrants		Weighted average exercise price
At August 31, 2019	-	$	-
Warrants transferred per RTO (Note 13)	6,914,333		0.50
Warrants granted	5,713,026		0.50
At August 31, 2020	12,627,359	$	0.50

On April 28, 2020 the Company granted 5,500,004 warrants pursuant to the private placement described above. Each warrant is exercisable at $0.50 for one year. Using the residual method, $825,001 was attributed to the warrants.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (CONTINUED)

Warrants (Continued)

On April 28, 2020, the Company granted 213,022 finder warrants with a fair value of $20,656 pursuant to the private placement described above. The finder warrants are also exercisable at $0.50 for one year. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - $0.45; exercise price - $0.50; expected life – 2 years; volatility – 45.32%; annual rate of dividends – 0%; risk-free rate – 0.32%.

On April 28, 2020, the Company also extended the term of 6,914,333 existing warrants exercisable at $0.50 per share expiring on dates ranging from March 29, 2020 to August 16, 2020 to April 28, 2021.

The following is a summary of warrants outstanding as at August 31, 2020:

Number of warrants	Exercise Price	Expiry Date
	$	
6,914,333 Warrants transferred per RTO (Note 13)	0.50	April 28, 2021
5,713,026 Warrants granted	0.50	April 28, 2022
12,627,359	0.50	

The weighted average useful life of the Company's outstanding warrants as at August 31, 2020 is 1.11 years.

12. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the twelve months ended August 31, 2020:

Twelve months ended August 31, 2020	Consulting and Management Fees	Share-based Compensation
Management fees paid/accrued to the former President and director	40,000	18,219
Consulting fees paid/accrued to the CEO	73,500	136,644
Share-based payments to the CFO	-	36,438
Share-based payments to directors of the Company	-	91,096
Share-based payments to a former director of the Company	-	45,548
	$ 113,500	$ 327,945

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS (CONTINUED)

Twelve months ended August 31, 2019	Consulting and Management Fees	Share-based Compensation
Management fees paid/accrued to the CEO	90,000	-
Management fees paid/accrued to the former President and director	60,000	-
	$ 150,000	$ -

Included in accounts payable and accrued liabilities at August 31, 2020 is $410,425 (August 31, 2019 - $11,956) owing to current and former directors, companies controlled by directors or companies with directors in common (Note 9).

13. REVERSE TAKEOVER TRANSACTION

1157630 B.C. Ltd.

On June 6, 2018, MLK, a publicly listed entity on TSX-V, executed a definitive share exchange agreement with 1157630, a private company, and its shareholders for the acquisition of all of the issued and outstanding shares of 1157630 and its subsidiary Go Green (the "Go Green Transaction") and completed a RTO.

On April 28, 2020, the Go Green Transaction was completed whereby MLK acquired 100% of the issued and outstanding common shares of 1157630 and Go Green in exchange for 40,000,000 common shares issued to 1157630. Immediately prior to the completion of the RTO, MLK had 12,249,629 common shares and 6,914,333 share purchase warrants with a strike price between $0.50 and $1.50 expiring between March 29, 2020 to October 30, 2020. Upon completion of the RTO, MLK changed its name to Pac Roots Cannabis Corp. Common shares and share purchase warrants were exchanged for equivalent securities of 1157630 on the basis of one Pac Roots Cannabis Corp. share for every 1 share of 1157630.

Concurrent with the Go Green Transaction, the Company spun off its interest in mineral properties interest to its subsidiary 1167343 B.C. Ltd. ("Newco") (the "Spin-Off") (Note 14).

In addition, immediately prior to the RTO, MLK paid $250,000 in cash and issued 2,500,000 common shares with a fair value of $1,015,000 and acquired the Phenome License (Note 4).

The RTO has been accounted for as a share-based payment transaction on the basis that MLK did not meet the definition of a business as it had no ongoing business operations. As 1157630 is deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. MLK's results of operations have been included from April 28, 2020, the date of the RTO. For purposes of this transaction, the consideration received was the fair value of the net assets of MLK which on April 28, 2020, was $1,489,414. This amount was calculated as follows:

(Expressed in Canadian Dollars)

13. REVERSE TAKEOVER TRANSACTION (CONTINUED)

Fair value of 12,249,629 of common share consideration	$	3,674,889
Cash		(164)
Advances		2,138,619
Receivables		67,944
Prepaid expenses		23,094
Exploration and evaluation assets		211,516
Equipment		3,470
Accounts payable and accrued liabilities		(589,338)
Notes payable		(66,000)
Loans		(300,000)
Net identifiable assets acquired	$	1,489,141
Listing expense	$	2,185,748

14. PLAN OF ARRANGEMENT

On May 22, 2020, the Company completed the plan of arrangement ("Arrangement") with Spinco. The Company transferred all of its interest in mineral properties and $1,000,000 for working capital purposes (the " Mineral Property Assets"). As consideration for the Mineral Property Assets, all shareholders' of the Company as of April 28, 2020 received common shares of the Spinco on a one-for-one basis.

The distribution date for the Spinco shares was May 27, 2020 (the "Distribution Date"). The shares of Spinco will not be listed on any exchange on the Distribution Date. The cash payable to Spinco consists of the remaining balance of $1,000,000 in working capital plus deposits owed of $10,000 less previously made advances of $450,000 and expenses paid by the Company of $79,503 related to the RTO.

As the Arrangement occurred between companies under common control and the transfer was reflected at carrying values and was recorded as a capital transaction through equity. The carrying values of the net assets and liabilities transferred and acquired pursuant to the Arrangement consisted of the following:

Exploration and evaluation assets transferred:		
Cash payable to Spinco	$	480,495
Exploration and evaluation properties		211,516
Accounts payable related to exploration and evaluation properties		(52,989)
Total	$	639,022

After the completion of the Arrangement, the Company does not have any exploration and evaluation properties recorded as at August 31, 2020.

15. CAPITAL MANAGEMENT

The Company's shareholders' equity comprises its capital under management. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue new business opportunities in the area of cannabis production and distribution and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

(Expressed in Canadian Dollars)

15. CAPITAL MANAGEMENT (CONTINUED)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. 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.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

To fund future operating activities, the Company will need to become profitable in perusing its new business and/or raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the twelve months ended August 31, 2020. The Company is not subject to externally imposed capital requirements.

Fair value

The Company classifies its cash as fair value through profit or loss. The carrying values of accounts payable, amounts payable, consideration payable and lease liability, which have been classified as financial liabilities at amortized cost, are measured at amortized cost using the effective interest method.

Assets measured at fair value on a recurring basis were presented on the Company's statement of financial position as at August 31, 2020 and August 31, 2019 are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
August 31, 2019				
Assets				
Cash	$ 9,201	$ -	$ -	$ 9,201
August 31, 2020				
Assets				
Cash	$ 173,965	$ -	$ -	$ 173,965
Amounts receivable	150,038	-	-	150,038
Prepaid expenses	40,859	-	-	40,859

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

15. CAPITAL MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk of potential loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and other receivables.

The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes that the credit risk concentration with respect to cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. As at August 31, 2020, the Company had current liabilities of $2,896,900 (August 31, 2019 - $3,118,326). Based on the current funds held, the Company does not have sufficient working capital for the short term, and thus will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company’s monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company’s monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk.

(ii) Foreign currency risk

The Company is not exposed to foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its investments, as they are carried at fair values based on quoted market prices, and investments, as they are carried at fair values based on quoted market prices.

16. SUBSEQUENT EVENTS

a) On September 18, 2020, the Company closed the share purchase agreement with 1088070 BC. LTD., a company existing under the laws of the Canada ("1088") and Dave Jonkman and Norm Tapp (together, the "1088 Shareholders" and each, a "1088 Shareholder") pursuant to which the Company would acquire all of the issued and outstanding shares of 1088. 1088 owns and controls nine parcels of land comprised of 250 acres of land suitable for cultivation in the Fraser Valley Region of British Columbia.

The Company will pay an aggregate of $1.5 million in cash and issue an aggregate of 3 million common shares to the 1088 Shareholders, pro rata in accordance with their holdings as follows (the "Consideration"):

a) 375,000 shares to be issued on or before the date which is 30 days from the date of Closing (the "Closing Date") (Issued on October 5, 2020);
b) $200,000 within three months of the Closing Date;
c) $300,000 in cash and 562,500 common shares within 12 months of the Closing Date;
d) $400,000 in cash and 937,500 common shares within 18 months of the Closing Date; and
e) $600,000 and 1,125,000 common shares within 24 months after the Closing Date. Pending the payment of the Consideration in full, 1088 will grant a mortgage over its land package in favor of the 1088 Shareholders.

b) On September 3, 2020, the Company closed the first tranche of its non-brokered private placement as previously announced on August 31, 2020. In the first tranche aggregate gross proceeds of $470,750 CAD were raised through the issuance of 1,883,000 of units (the "Units"). Each Unit consists of one Share and one Warrant exercisable at CDN$0.40 per share for 24 months from issue of the Units. The Units issued under the financing will be subject to a four month hold period. The Company paid finder's fees totaling $23,100 CAD and issued 92,400 finder's warrants (the "Finders Warrants") to arm's-length parties. Each Finders Warrant is exercisable into one common share for a period of up to two (2) years at a price of $0.25.