

**Pac Roots Cannabis Corp.**

**Condensed Interim Consolidated Financial Statements**

**For the three months ended February 28, 2021 and February 29, 2020**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

**Pac Roots Cannabis Corp.**

## Condensed Interim Consolidated Statements of Financial Position

As at February 28, 2021 and November 30, 2020

(Expressed in Canadian Dollars)

	Note	February 28, 2021	November 30, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 957,634	\$ 27,775
Amount receivable		120,980	111,546
Prepaid expenses		180,449	219,994
		1,265,063	359,315
<b>Non-current assets</b>			
Intangible assets	3	1,460,000	-
Long-term prepaid deposits	7	336,918	336,918
Right-of-use assets	4	118,677	146,387
Property, equipment and land	5	1,018,920	1,018,920
<b>Total assets</b>		<b>\$ 4,199,578</b>	<b>\$ 1,861,540</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 767,316	\$ 826,813
Consideration payable	3	701,472	503,963
Current portion of lease liabilities	4	115,887	124,883
Loan payable	9	287,797	40,000
		1,872,472	1,495,659
<b>Non-current liabilities</b>			
Lease liabilities	4	6,243	33,887
Consideration payable	3	611,071	902,324
<b>Total liabilities</b>		<b>2,489,786</b>	<b>2,431,870</b>
<b>Shareholders' deficiency</b>			
Common Shares	10	13,027,404	9,366,815
Share issuance costs	10	(75,295)	-
Commitment to issue shares	3	479,749	1,056,108
Warrant reserves	10	447,801	781,345
Share-based payments reserves	10	1,129,062	554,461
Deficit		(13,298,929)	(12,329,059)
<b>Total shareholders' deficiency</b>		<b>1,709,792</b>	<b>(570,330)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 4,199,578</b>	<b>\$ 1,861,540</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 15)

**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.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian Dollars)

	Note	Three months ended, February 28,2021	Three months ended, February 29,2020
<b>EXPENSES</b>			
Accretion and interest	3,4	\$ 63,864	\$ 8,197
Advertising and promotion		209,474	-
Amortization of right-of-use asset	4	27,709	23,505
Consulting fees	11	116,450	8,000
Foreign exchange gain		(234)	-
Insurance (recovery)		883	(1,652)
License fees recovery		(1,000)	-
Management fees	11	-	15,000
Office and miscellaneous expense (recovery)		(13,601)	1,806
Professional fees		8,000	14,363
Rent		4,506	10,341
Repairs and maintenance		689	1,806
Regulatory and filing fees		7,680	-
Share-based payments	10,11	574,601	-
Utilities		849	2,459
Total Expenses		(999,870)	(83,825)
<b>Other Expenses</b>			
Gain on write-off of accounts payable	8	30,000	-
Total Other Expenses		(969,870)	(83,825)
<b>Loss and comprehensive loss for the period</b>		<b>\$ (969,870)</b>	<b>\$ (83,825)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>		<b>72,754,547</b>	<b>10,000,000</b>

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

**Pac Roots Cannabis Corp.****Condensed Interim Consolidated Statements of Change in Shareholders' Deficiency**

(Expressed in Canadian Dollars)

	Number of Common Shares	Amount	Commitment to issue shares	Warrants reserve	Share based payment reserves	Deficit	Total
Balance as at August 31, 2019	10,000,000	\$ 493,685	\$ -	\$ -	\$ -	\$ (2,829,875)	\$ (2,336,190)
Net loss for the year	-	-	-	-	-	(198,947)	(198,947)
Balance as at February 28, 2020	10,000,000	493,685	-	-	-	(3,028,822)	(2,535,137)
Balance at November 30, 2020	71,079,644	\$ 9,366,815	\$ 1,056,108	\$ 781,345	\$ 554,461	\$(12,329,059)	\$ (570,330)
Private placement (Note 10)	7,448,255	1,750,340	-	(409,654)	-	-	1,340,686
Share issuance cost (Note 10)	-	(75,295)	-	-	-	-	(75,295)
Warrants issued to finders (Note 10)	-	(76,110)	-	76,110	-	-	-
Shares issued and to be issued for license (Note 3)	2,500,000	576,359	(576,359)	-	-	-	-
Shares issued for Lords of Grasstown Holdings Ltd. (Note 3 and 10)	6,000,000	1,410,000	-	-	-	-	585,925
Share-based payments (Note 10)	-	-	-	-	574,601	-	574,601
Net loss for the period	-	-	-	-	-	(969,870)	(969,870)
<b>Balance as at February 28, 2021</b>	<b>87,027,899</b>	<b>\$ 12,952,109</b>	<b>\$ 479,749</b>	<b>\$ 447,801</b>	<b>\$ 1,129,062</b>	<b>\$(13,298,929)</b>	<b>\$ 1,709,792</b>

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)

	Note	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (969,870)	\$ (198,947)
Items not affecting cash			
Amortization of right-of-use asset	4	27,710	47,010
Interest on lease liabilities	4	5,667	16,007
Accretion on consideration payable	3	74,053	-
Share-based payments	10	574,601	-
Changes in non-cash working capital items			
(Increase) decrease in amount receivable		(15,434)	45,797
(Increase) decrease in prepaid expenses		39,545	(5,672)
Increase (decrease) in accounts payable and accrued liabilities		(59,497)	57,929
Net cash used in operating activities		(323,225)	(37,876)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Consideration paid to 1088	3	(217,797)	-
Property and equipment	5, 12	-	(20,458)
Net cash used in investing activities		(217,797)	(20,458)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan received	9	247,797	-
Private placement	10	1,265,391	-
Advances from MLK prior to RTO		-	120,000
Lease payments	4	(42,307)	(57,831)
Net cash provided by financing activities		1,470,881	62,169
<b>Change in cash during the period</b>		929,859	3,835
Cash, beginning of period		27,775	9,201
<b>Cash, end of period</b>		\$ 957,634	\$ 13,036
<b>Non-cash investing and financing activities:</b>			
Shares issued for Lords of Grasstown Holdings Ltd.	3, 10	\$ 1,410,000	\$ -
Shares issued and to be issued for Phenome license	3, 10	\$ 576,359	\$ -
Fair value of finders warrants	10	\$ 76,110	\$ -

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

## **Pac Roots Cannabis Corp.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Pac Roots Cannabis Corp. (formerly Mountain Lake Minerals Inc., “MLK”), (the “Company” or “Pac Roots”) 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, the Company 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).

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 \$607,409 (November 30, 2020 – working capital deficit of \$1,136,344), has a deficit of \$13,298,929 (November 30, 2020 - \$12,329,059), 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 year. The production and sale of cannabis have been recognized as essential services across Canada and Europe.

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, property, equipment and land. The Company is closely monitoring the impact of the pandemic on all aspects of its business. As at February 28, 2021, 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.

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.

## **Pac Roots Cannabis Corp.**

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

### **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 November 30, 2020.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and effective as of November 30, 2020. The Board of Directors approved the financial statements for issue on April 29, 2021.

### **Basis of measurement and presentation**

The Company changed its fiscal year end from August to November in the prior year. Information included for the prior year in the condensed interim consolidated financial statements reflects the prior fiscal period consisting of the fifteen months ending November 30, 2020, and as a result, are not entirely comparable.

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. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

### **Functional and presentation currency**

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

### **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. Estimates and judgments are consistent with those presented in Note 2 to the Company’s annual consolidated financial statements.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies

The significant accounting policies as described in Note 2 to the annual consolidated financial statements have been consistently applied in the presentation of these condensed interim consolidated financial statements.

### New Accounting Standards

The Company continues to review changes to IFRS standards, there are no other pending IFRSs that are expected to be relevant to the Company's condensed interim consolidated financial statements.

### 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 condensed interim consolidated financial statements include the accounts of the Company and its principal subsidiaries:

	Ownership Interest, February 28, 2021	Ownership Interest, November 30, 2020	Jurisdiction
Go Green B.C. Medicinal Marijuana Ltd. (Note 3)	100%	100%	Canada
1088070 BC Ltd.	100%	100%	Canada
1157630 BC Ltd.	100%	100%	Canada
Lords of Grasstown Holdings Ltd. (Note 3)	100%	0%	Canada
Mountain Lake Minerals Inc. (formerly 1167343 BC Ltd.)	0%	0%	Canada

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

## 3. ASSET ACQUISITION

### 1065703 B.C. Ltd.

On April 20, 2018 1157630 BC Ltd. ("1157630") 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.



## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 3. ASSET ACQUISITION (Continued)

##### 1065703 B.C. Ltd. (Continued)

The details of the purchase have been accounted for as follows during the period ended August 31, 2018:

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

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.

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 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, 1157630 and 1065703 amended the terms of the Agreement, whereby 1157630 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 3,383,333 shares, note 10). 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 loss for the year ended August 31, 2019. 1065703 has security in the form of all the outstanding shares of Go Green.

The balance payable as at February 28, 2021 and November 30, 2020 is \$Nil.

##### Phenome One Corp.

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, and technical and materials owned by Phenome in order to allow the Company to propagate, cultivate, harvest, process, breed and develop, manufacture, produce and use such licensed property (the “Phenome Agreement”) subject to the following terms:

## **Pac Roots Cannabis Corp.**

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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#### **3. ASSET ACQUISITION (Continued)**

##### Phenome One Corp. (Continued)

- a) 2,500,000 common shares on the date on which the Issuer receives the approval of the CSE for the Fundamental Change Transactions (the “approval date”) (Issued, Note 10);
- b) 2,500,000 common shares on the date on which is three months following the approval date (Issued, Note 10);
- c) 2,500,000 common shares on the date on which is six months following the approval date (Issued, Note 10);
- d) 2,500,000 common shares on the date on which is nine months following the approval date (Issued, Note 10);
- 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.

Phenome is a company related to Pac Roots by a common officer.

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.

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 \$2,781,899 representing the discounted fair value of the common share at \$0.30 per share and the cash payable to reflect the time value of money. During the period ended November 30, 2020, the Company issued 7,500,000 common shares with a fair value of \$2,034,666 as a result of the Phenome Agreement (Note 10) and has a remaining commitment to issue 2,500,000 common shares with a discounted value of \$576,360. 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 discounted the share issuances using the average strike put-option model which resulted in a present value of \$2,781,899 on acquisition date. During the period ended November 30, 2020, the Company recognized accretion expense of \$19,176. As at November 30, 2020, the Company had a consideration payable to Phenome of \$190,049.

During the period ended February 28, 2021, the Company recognized accretion expense of \$8,863. As at February 28, 2021, the Company has a consideration payable to Phenome of \$198,912.

During the period ended November 30, 2020, the Company recorded impairment on the intangible assets of \$2,781,899 as the recoverable amount could not be determined reliably. As at February 28, 2021 and November 30, 2020, the balance of intangible assets is \$Nil for the assets acquired from Phenome.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 3. ASSET ACQUISITIONS (Continued)

##### 1088070 BC. Ltd.

On September 18, 2020, the Company closed a share purchase agreement (the “1088 Agreement”) with 1088070 BC. Ltd. (“1088”), a company existing under the laws of the Canada 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 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 “1088 Closing Date”) (Issued on October 5, 2020);
- b) \$200,000\* within three months of the Closing Date (paid) (Note 9);
- c) \$300,000 in cash and 562,500 common shares within 12 months of the 1088 Closing Date;
- d) \$400,000 in cash and 937,500 common shares within 18 months of the 1088 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, the Company will grant a mortgage over its land package in favor of the 1088 Shareholders.

\* On February 24, 2021, the Company and 1088 shareholders agreed to delay the payment by 56 days from the initial payment date at \$318 per day for a total penalty of \$17,797. The amended balance of \$217,797 was paid by the Company on February 24, 2021. The next instalment is not due until September 2021.

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

Cash to be paid, discounted	\$ 1,162,045
Fair Value of common shares to be issued, discounted	585,925
<b>Total consideration</b>	<b>\$ 1,747,970</b>
<b>Land acquired</b>	<b>\$ 1,747,970</b>

During the period ended November 30, 2020, the Company issued 375,000 shares with a fair value of \$106,177 pursuant to terms of the 1088 Agreement (Note 10) and has a remaining consideration payable of 2,625,000 common shares to pay to 1088 Shareholders with a discounted value of \$479,748. 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 share issuances, resulting in a present value of \$1,747,970 and discounted future share issuances using the average strike put-option model at acquisition date. During the period ended November 30, 2020, the Company recognized accretion expense of \$54,193. As at November 30, 2020, the Company has a consideration payable to 1088 of \$1,216,238.

During the period ended February 28, 2021, the Company recognized accretion expense of \$47,392. As at February 28, 2021, the Company has a consideration payable to 1088 of \$1,063,631.

During the period ended November 30, 2020, the Company recorded impairment on the land of \$1,450,000 to management’s best estimate of its recoverable amount of \$297,970.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 3. ASSET ACQUISITIONS (Continued)

##### Lords of Grasstown Holdings Ltd.

On February 22, 2021, the Company closed a share purchase agreement (the “Grasstown Agreement”) with Lords of Grasstown Holdings Ltd. (“Grasstown”), a company existing under the laws of the Canada pursuant to which the Company would acquire all of the issued and outstanding shares of Grasstown. Grasstown owns and holds 100% of the interest in and to intellectual property.

The Company will pay an aggregate of \$50,000 in cash and issued an aggregate of 6 million common shares to the Grasstown Shareholders, pro rata in accordance with their holdings as follows (the “Grasstown Consideration”):

- a) \$50,000 paid within 30 days from the date of Closing (the “Grasstown Closing Date”) (paid subsequent to the period end) (Note 15); and
- b) \$6,000,000 common shares issued on February 22, 2021 (Note 10)

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

Fair Value of the common shares issued	\$ 1,410,000
Cash to be paid	50,000
<b>Total consideration</b>	<b>\$ 1,460,000</b>
<b>Intangible assets acquired</b>	<b>\$ 1,460,000</b>

The consideration payable as at February 28, 2021 is \$50,000.

#### 4. 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 February 28, 2021 was 15% per annum.

##### Go Green Lake Country Lease

The Company acquired a lease in Lake Country, BC as a result of the completion of the RTO (Note 13). The lease commenced on February 1, 2018 and terminates on March 31, 2022. The details of the right-of-use asset and the corresponding lease liability recognized as at February 28, 2021 are as follows. The lease term remaining as at February 28, 2021 is approximately 1.08 years.

**Pac Roots Cannabis Corp.**

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

**4. RIGHT-OF-USE ASSET AND LEASE LIABILITY (Continued)**Go Green Lake Country Lease (Continued)

## 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 February 28, 2021:

	February 28, 2021
<b>Cost</b>	\$
Balance, August 31, 2018 and 2019	-
Additions upon adoption of IFRS 16	242,890
<b>Balance, November 30, 2020 and February 28, 2021</b>	<b>242,890</b>
<b>Accumulated depreciation</b>	
Balance, August 31, 2019	-
Depreciation	(117,525)
<b>Balance, November 30, 2020</b>	<b>(117,525)</b>
Depreciation	(23,505)
<b>Balance, February 28, 2021</b>	<b>(141,030)</b>
<b>Carrying amount as at February 28, 2021</b>	<b>101,860</b>

## b) Lease liability

The following is the continuity of lease liability as at and for the period ended February 28, 2021:

	February 28, 2021
	\$
<b>Balance, August 31, 2018 and 2019</b>	-
Recognized upon adoption of IFRS 16	242,890
Lease payments	(144,578)
Interest expense on lease liability	36,516
<b>Balance, November 30, 2020</b>	<b>134,828</b>
Lease payments	(28,915)
Interest expense on lease liability	5,056
<b>Balance, February 28, 2021</b>	<b>110,969</b>
Less: current portion of lease liability	(104,726)
<b>Lease liability – non current</b>	<b>6,243</b>

**Pac Roots Cannabis Corp.**

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

**4. RIGHT-OF-USE ASSET AND LEASE LIABILITY (Continued)**Go Green Lake Country Lease (Continued)

As at February 28, 2021, minimum lease payments for the lease liability are as follows:

<u>Year ending</u>	
	\$
November 30, 2021	86,746
November 30, 2022	28,915
Total undiscounted lease liability at February 28, 2021	115,661
Less: Interest on lease liability	(4,692)
<b>Total present value of minimum lease payments at February 28, 2021</b>	<b>110,969</b>

Vancouver Lease

The Company entered into a lease agreement for office space in Vancouver, B.C. The lease commenced on October 1, 2020 and terminates on September 30, 2021. The details of the right-of-use asset and the corresponding lease liability recognized as at February 28, 2021 are as follows. The lease term remaining as at February 28, 2021 is approximately 0.59 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 February 28, 2021:

	February 28, 2021
<b>Cost</b>	\$
Balance, August 31, 2018 and 2019	-
Additions	25,226
<b>Balance, November 30, 2020 and February 28, 2021</b>	<b>25,226</b>
<b>Accumulated depreciation</b>	
Balance, August 31, 2018 and 2019	-
Depreciation	(4,204)
<b>Balance, November 30, 2020</b>	<b>(4,204)</b>
Depreciation	(4,204)
<b>Balance, February 28, 2021</b>	<b>(8,409)</b>
<b>Carrying amount as at February 28, 2021</b>	<b>16,817</b>

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

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

##### Vancouver Lease (Continued)

##### b) Lease liability

The following is the continuity of lease liability as at and for the period ended February 28, 2021:

	February 28, 2021
	\$
<b>Balance, August 31, 2018 and 2019</b>	-
Additions	25,226
Lease payments	(1,895)
Interest expense on lease liability	611
<b>Balance, November 30, 2020</b>	<b>23,942</b>
Lease payments	(13,058)
Interest expense on lease liability	276
<b>Balance, February 28, 2021</b>	<b>11,160</b>
Less: current portion of lease liability	(11,160)
Lease liability – non current	-

As at February 28, 2021, minimum lease payments for the lease liability is as follows:

<u>Year ending</u>	\$
November 30, 2021	11,370
Total undiscounted lease liability at February 28, 2021	11,370
Less: Interest on lease liability	(210)
Total present value of minimum lease payments at February 28, 2021	11,160

#### 5. PROPERTY AND EQUIPMENT AND LAND

During the period ended February 28, 2021, the Company purchased certain equipment and incurred leasehold improvement costs of \$Nil (period ended November 30, 2020 - \$47,081) at its Kelowna facility. As at February 28, 2021, the facility is not ready for use and as a result, the Company has not recorded any depreciation for the period ended February 28, 2021 related to these assets.

Pursuant to the RTO, the Company acquired equipment of \$3,470 during the period ended November 30, 2020 (Note 12).

During the period ended November 30, 2020, the Company acquired land from 1088070 BC Ltd. in the Fraser Valley valued at \$1,747,970 (Note 3). During the period ended November 30, 2020, the Company recorded impairment on the land of \$1,450,000.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 5. PROPERTY AND EQUIPMENT AND LAND (CONTINUED)

	Leasehold Improvements	Equipment	Land	Total
	\$	\$	\$	\$
Balance, August 31, 2018	12,208	-	-	12,208
Additions	659,007	-	-	659,007
Balance, August 31, 2019	671,215	-	-	671,215
Acquired through RTO (Note 13)	-	3,470	-	3,470
Acquired through the acquisition of 1088070 BC Ltd.	-	-	1,747,970	1,747,970
Additions	46,265	-	-	46,265
Impairment	-	-	(1,450,000)	(1,450,000)
<b>Balance, November 30, 2020 and February 28, 2021</b>	<b>717,480</b>	<b>3,470</b>	<b>297,970</b>	<b>1,018,920</b>

#### 6. EXPLORATION AND EVALUATION ASSETS

	Grand Falls – Windsor
	\$
Balance, August 31, 2018 and 2019	-
Acquired through RTO (Note 12)	211,516
Spin-Off of assets (Note 13)	(211,516)
<b>Balance, November 30, 2020 and February 28, 2021</b>	<b>-</b>

The Company acquired exploration and evaluation assets through the completion of the RTO (Note 12).

The Company completed a Spin-Off of assets to its subsidiary Mountain Lake Minerals Inc. (“Spinco”) during the period ended November 30, 2020 (Note 13).

#### 7. INVESTMENT

##### Rock Creek Farms Ltd.

On June 30, 2020 and amended March 10, 2021, the Company entered into an agreement (the “Investment Agreement”) with Rock Creek Farms Ltd. (“Rock Creek”) for the formation of 1293953 BC Ltd. (the “Rock Creek Farms Joint Venture”), which will be owned 49% by Pac Roots and 51% by Rock Creek Farms Ltd. The Company’s contribution to the joint venture will be an aggregate of \$300,000 in capital. Rock Creek will contribute two commercial leases, 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.

As at February 28, 2021 the Company made total capital contributions of \$300,000 for the Rock Creek Farms Joint Venture which are recorded as long-term prepaid deposits.



**Pac Roots Cannabis Corp.**

## Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>February 28, 2021</b>	<b>November 30, 2020</b>
Accounts payable	\$ 158,524	\$ 381,485
Amounts due to related parties (Note 11)	514,035	442,965
Accrued liabilities	94,756	2,363
	<b>\$ 767,316</b>	<b>\$ 826,813</b>

**9. LOAN PAYABLE**

On November 4, 2020, Phenome One Corp., a company controlled by a common officer, lent \$40,000 to the Company, without interest payable on the unpaid principal. The condition of the loan is that the loan is to be repaid in full by the Company upon the next close of the private placement. The Company repaid the loan subsequent to the period end (Note 15).

On February 1, 2021, Josh Bromley, an unrelated party, lent \$10,000 to the Company, without interest payable on the unpaid principal. The condition of the loan is that the loan is to be repaid in full by the Company upon the next close of the private placement. The Company repaid the loan subsequent to the period end.

On February 1, 2021, Gregg Bromley, an unrelated party, lent \$20,000 to the Company, without interest payable on the unpaid principal. The condition of the loan is that the loan is to be repaid in full by the Company upon the next close of the private placement. The Company repaid the loan subsequent to the period end.

On February 15, 2021, a company controlled by the CEO, lent \$217,797 to the Company, without interest payable on the unpaid principal to pay the cash consideration owed for the 1088 transaction (Note 3). The condition of the loan is that the loan is to be repaid in full by the Company upon the next close of the private placement. The Company repaid the loan subsequent to the period end (Note 15).

As at February 28, 2021, the Company has total loans payable of \$287,797 (November 30, 2020 - \$40,000).

## **Pac Roots Cannabis Corp.**

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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## **10. SHARE CAPITAL**

### **Common shares**

The Company's authorized capital consists of an unlimited number of common shares without par value. As at February 28, 2021, there were 87,027,899 issued and outstanding common shares.

During the three months ended February 28, 2021, the Company had the following transactions that resulted in the issuance of its common shares:

- On January 28, 2021, the Company issued 2,500,000 common shares valued at \$576,359 issued for the Phenom License pursuant to the terms of the Phenome Agreement (Note 3).
- On February 22, 2021, the Company issued 6,000,000 common shares valued at \$1,410,000 pursuant to the Grasstown acquisition (Note 3).
- On February 23, 2021, the Company closed a non-brokered private placement of 7,448,255 units at a \$0.18 per unit for gross proceeds of \$1,340,686. Each Unit consists of one common share and one share purchase warrant. Each warrant is exercisable at a price of \$0.30 per share until February 23, 2024. The Company assigned \$Nil value to the warrants of the Units. Aggregate finders fees of \$75,295 in cash and 408,303 finders warrants with a fair value of \$76,110 were paid to finders. Each finder warrant is exercisable into one common share at a price of \$0.18 per share until February 23, 2024.

During the fifteen months ended November 30, 2020, the Company had the following transactions that resulted in the issuance of its common shares:

- In April, the Company returned 11,322 common shares previously 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, of which \$417,610 share subscriptions were received in advance by MLK. Each Unit comprises of one common share and one share purchase warrant. Each whole warrant is exercisable at \$0.50 for two years. The Company paid \$63,907 in share issuance costs and issued 213,022 finder warrants with a fair value of \$35,013. The finder warrants are also exercisable at \$0.50 for two years.
- On April 28, 2020, the Company issued 40,000,000 common shares and recorded \$60,000 as transaction cost for 200,000 common shares issued as finder's fees pursuant to the RTO (Note 12).
- 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 Agreement (Note 3).
- On April 28, 2020, October 6, 2020 and October 28, 2020 the Company issued an aggregate of 7,500,000 common shares valued at \$2,034,666 issued for the Phenome License pursuant to the terms of the Phenome Agreement (Note 3).
- On September 2, 2020, the Company closed a non-brokered private placement for gross proceeds of \$470,750 through the issuance of 1,883,000 of Units. Each Unit comprises of one common share and one share purchase warrant. Each whole warrant is exercisable at \$0.40 for two years. The Company paid \$23,100 in share issuance costs and issued 92,400 finder warrants with a fair value of \$16,332. The finder warrants are exercisable at \$0.25 for two years.
- On October 5, 2020, the Company issued 375,000 common shares valued at \$106,177 issued to 1088 Shareholders, pursuant to the terms of the 1088 Agreement (Note 3)

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 10. SHARE CAPITAL (Continued)

##### 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 ten-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 \$554,461. 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; expected volatility – 130.00%; annual rate of dividends – 0%; risk-free rate – 0.32%. Expected volatility was determined based on comparable companies in the same industry.

On January 12, 2021, the Company granted 3,450,000 stock options to directors, officers, and consultants of the Company expiring on January 12, 2024 with an exercise price of \$0.15. The fair value of the stock options granted was \$509,949. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.19; exercise price - \$0.15; expected life – 3 years; expected volatility – 130.00%; annual rate of dividends – 0%; risk-free rate – 0.23%. Expected volatility was determined based on comparable companies in the same industry.

On February 23, 2021, the Company granted 400,000 stock options to directors, officers, and consultants of the Company expiring on February 23, 2024 with an exercise price of \$0.15. The fair value of the stock options granted was \$69,651. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.235; exercise price - \$0.235; expected life – 3 years; expected volatility – 130.00%; annual rate of dividends – 0%; risk-free rate – 0.31%. Expected volatility was determined based on comparable companies in the same industry.

A summary of the Company’s stock option activity for the period ended February 28, 2021 is as follows:

	Number of stock option	Weighted average exercise price
<b>At August 31, 2018 and 2019</b>	-	\$ -
Stock options granted	3,650,000	0.205
<b>At November 30, 2020</b>	3,650,000	\$ 0.205
Stock options granted	3,850,000	0.159
<b>At February 28, 2021</b>	7,500,000	0.1813

The weighted average remaining life of the stock options outstanding is 2.59 years as at February 28, 2021 (November 30, 2020 – 2.52 years).

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 10. SHARE CAPITAL (Continued)

##### Warrants

A summary of the Company's warrant activity for the period ended February 28, 2021 is as follows:

	Number of warrants	Weighted average exercise price
<b>At August 31, 2018 and 2019</b>	-	\$ -
Warrants assumed from RTO (Note 12)	6,914,333	0.50
Warrants issued	7,688,426	0.47
<b>At November 30, 2020</b>	14,602,759	\$ 0.49
Warrants issued	7,866,558	0.294
<b>At February 28, 2021</b>	22,469,317	0.418

On April 28, 2020 the Company issued 5,500,004 warrants pursuant to the private placement described above. Each warrant is exercisable at \$0.50 for two years. Using the residual method, no value was attributed to the warrants.

On April 28, 2020, the Company issued 213,022 finder warrants with a fair value of \$35,013 pursuant to the private placement described above. The finder warrants are also exercisable at \$0.50 for two years. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.30; exercise price - \$0.50; expected life - two years; expected volatility - 130.00%; 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.

On September 2, 2020, the Company issued 1,883,000 warrants pursuant to the private placement on the same date. The warrants are exercisable at \$0.40 for two years. Using the residual method, no value was attributed to the warrants.

On September 2, 2020, the Company issued 92,400 finder warrants with a fair value of \$16,332 pursuant to the private placement on the same date. The finder warrants are exercisable at \$0.25 for two years. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.25; exercise price - \$0.25; expected life - 2 years; expected volatility - 130.00%; annual rate of dividends - 0%; risk-free rate - 0.26%.

On February 23, 2021, the Company issued 7,448,255 warrants pursuant to the private placement on the same date. The warrants are exercisable at \$0.30 for three years. Using the residual method, \$409,654 was attributed to the warrants.

On February 23, 2021, the Company issued 418,303 finder warrants with a fair value of \$76,110 pursuant to the private placement on the same date. The finder warrants are exercisable at \$0.18 for three years. The fair value was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.235; exercise price - \$0.18; expected life - 3 years; expected volatility - 130.00%; annual rate of dividends - 0%; risk-free rate - 0.31%.

Expected volatility was determined based on comparable companies in the same industry.

**Pac Roots Cannabis Corp.**

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

**10. SHARE CAPITAL (Continued)****Warrants (Continued)**

The following is a summary of warrants outstanding as at February 28, 2021:

<b>Number of warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	\$	
6,914,333 Warrants assumed from RTO (Note 12)	0.50	April 28, 2021
5,713,026 Warrants issued	0.50	April 28, 2022
1,883,000 Warrants issued	0.40	September 2, 2022
92,400 Warrants issued	0.25	September 2, 2022
7,448,255 Warrants issued	0.30	February 23, 2024
418,303 Warrants issued	0.18	February 23, 2024
<b>14,602,759</b>	<b>0.49</b>	

The weighted average useful life of the Company's outstanding warrants as at February 28, 2021 is 1.52 years (November 30, 2020 – 1.00 years).

**11. 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 periods ended February 28, 2021 and February 29, 2020:

<b>Three months ended February 28, 2021</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based Compensation</b>
Consulting fees paid/accrued to the CEO	-	87,817
Consulting fees paid/accrued to a company controlled by the CEO	22,500	-
Share-based payments to the CFO	-	14,636
Share-based payments to directors of the Company	-	65,863
Share-based payments to a former director of the Company	-	29,272
	<b>\$ 22,500</b>	<b>\$ 197,588</b>
<b>Three months ended February 29, 2020</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based Compensation</b>
Management fees paid/accrued to the former President and director	15,000	-
	<b>\$ 15,000</b>	<b>\$ -</b>

Included in accounts payable and accrued liabilities at February 28, 2021 is \$514,035 (November 30, 2020 - \$442,965) owing to current and former directors, companies controlled by directors or companies with directors in common (Note 8).

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 12. REVERSE TAKEOVER TRANSACTION

##### 1157630 B.C. Ltd.

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 which had their expiry dates extended to April 28, 2021, these warrants previously had expiry dates between March 29, 2020 to August 16, 2020. Upon completion of the RTO, MLK changed its name to Pac Roots Cannabis Corp. Common shares of 1157630 were exchanged for equivalent securities of the Company on the basis of one Pac Roots Cannabis Corp. share for every 1 share of 1157630.

Prior to the completion of the RTO, MLK paid on behalf of 1157630 certain expenses and made cash advances to fund on-going operations.

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 13).

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 \$2,034,666 and acquired the Phenome License (Note 3).

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 condensed interim 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 paid was the fair value of the equity of the Company retained by the shareholders of MLK. This amount was calculated as follows:

Fair value of 12,249,629 notional common shares at \$0.30 per share	\$	3,674,889
Fair value of 6,914,333 warrants assumed		730,000
Total consideration		4,404,889
Cash		161,516
Amount receivable		41,944
Advances to 1157630		2,262,519
Exploration and evaluation assets		211,516
Equipment		3,470
Accounts payable and accrued liabilities		(589,338)
Notes payable		(66,000)
Loans		(300,000)
Share subscriptions received in advance		(417,610)
Net identifiable assets acquired		1,308,017
		3,096,872
Transaction cost, 200,000 shares issued to finders at \$0.30 per share		60,000
Listing expense	\$	3,156,872

The fair value of the warrants assumed was calculated using the Black-Scholes model with the following assumptions: share price at grant date - \$0.30; exercise price - \$0.50; expected life – 1 year; volatility – 130.00%; annual rate of dividends – 0%; risk-free rate – 0.30%.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 13. 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, \$550,000 for working capital purposes and certain liabilities (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.

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:

Mineral Property Assets transferred:		
Cash payable to Spinco	\$	550,000
Exploration and evaluation properties		211,516
Notes payable		(66,000)
Accounts payable related to exploration and evaluation properties		(52,989)
Total	\$	642,527

After the completion of the Arrangement, the Company does not have any exploration and evaluation properties recorded as at November 30, 2020 and February 28, 2021.

On September 8, 2020, the Company made the cash payment to Spinco of \$550,000.

#### 14. 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.

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.

## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 14. CAPITAL MANAGEMENT (Continued)

There have been no changes to the Company's approach to capital management during the fifteen months ended November 30, 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 and accrued liabilities, amounts payable, consideration payable, lease liabilities and loan payable, 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 condensed interim consolidated statement of financial position as at November 30, 2020 and February 28, 2021 are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
<b>November 30, 2020</b>				
Assets				
Cash	\$ 27,775	\$ -	\$ -	\$ 27,775
<b>February 28, 2021</b>				
Assets				
Cash	\$ 957,634	\$ -	\$ -	\$ 957,634

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

##### 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.

The Company's credit risk is primarily attributable to cash. Management believes that the credit risk concentration with respect to cash 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 February 28, 2021, the Company had current liabilities of \$1,872,472 (November 30, 2020 - \$1,495,659). 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.



## Pac Roots Cannabis Corp.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 14. CAPITAL MANAGEMENT (Continued)

##### Liquidity risk (Continued)

The following is a table of the Company's maturity of its liabilities as at February 28, 2021.

	Phenome Agreement	1088 Agreement	Grasstown Agreement	Go Green Lake County Lease	Vancouver Lease	Total
	\$	\$	\$	\$	\$	\$
Due in 1 year	50,000	300,000	50,000	86,746	11,370	489,116
Due in 2 years	200,000	1,000,000	-	28,915	-	1,228,915
Due in 3 or more years	-	-	-	-	-	-
	<b>250,000</b>	<b>1,300,000</b>	<b>50,000</b>	<b>115,661</b>	<b>11,370</b>	<b>1,727,031</b>

##### 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 does not hold any equity securities and therefore does not have significant exposure to price risk.

## **Pac Roots Cannabis Corp.**

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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#### **15. SUBSEQUENT EVENTS**

- a. On March 1, 2021, the Company repaid the \$40,000 loan to Phenome One Corp. (Note 9).
- b. On March 11, 2021, the Company was issued 300,000 shares of 1293953 BC Ltd. Pursuant to the Investment Agreement signed with Rock Creek Farms Ltd. (Note 7), these shares effectively represent 49% of the Rock Creek Farms Joint Venture owned by the Company.
- c. On March 22, 2021, the Company paid the \$50,000 cash consideration to Grasstown pursuant to the Grasstown acquisition (Note 3).