# INTEGRATED CANNABIS COMPANY, INC.

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 JULY 2019
(Expressed in Canadian Dollars)

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**A CHAN AND COMPANY LLP**
**CHARTERED PROFESSIONAL ACCOUNTANT**

## INDEPENDENT AUDITORS' REPORT

To: the Shareholders of
Integrated Cannabis Company, Inc.

**Opinion**
We have audited the consolidated financial statements of Integrated Cannabis Company, Inc. and its subsidiaries (together, the "Company"), which comprise the consolidated statements of financial position as at July 31, 2019 and July 31, 2018, and the consolidated statements of loss and comprehensive loss for the period ended July 31, 2019, July 31, 2018 and from the date of incorporation on July 20, 2017 to November 30, 2017, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the period ended July 31, 2019 and July 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and July 31, 2018, and its financial performance and its cash flow for the period ended July 31, 2019 and July 31, 2018 in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**
We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net comprehensive loss of $4,619,150 during the period ended July 31, 2019 and, as of that date, the Company had not yet achieved profitable operations, had accumulated losses of $20,910,757 since its inception, and expects to incur further losses in the development of its business. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**
Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to

influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement practitioner on the audit resulting in this independent auditors' report is Anthony Chan, CPA, CA.

***"A Chan & Company LLP"***
Chartered Professional Accountant

Unit# 114B (2nd floor) – 8988 Fraserton Court
Burnaby, BC, Canada V5J 5H8
November 28, 2019

**INTEGRATED CANNABIS COMPANY, INC.**
**Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**

| AS AT: | July 31, 2019 | July 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 4,681,677 | $ 1,719,569 |
| Accounts receivable | 582,420 | - |
| Government HST recoverable | 48,954 | 26,292 |
| Prepaid expenses and deposits | 156,479 | 309,935 |
| Inventory (note 14) | 454,115 | - |
| Promissory note receivable (note 14) | 1,447,268 | - |
| Loans receivable (note 7) | 4,305,303 | - |
| | 11,676,216 | 2,055,796 |
| **Investments** | 2 | - |
| **Property and equipment** (note 6) | 2,704,188 | - |
| **Brands and licenses** (notes 13 and 14) | 52,300,945 | - |
| **Total Assets** | $ 66,681,351 | $ 2,055,796 |
| **EQUITY AND LIABILITIES** | | |
| **Current liabilities** | | |
| Amounts payable and other liabilities (note 10) | $ 619,564 | $ 28,499 |
| Loan payable (note 10) | 83,748 | 18,009 |
| Notes payable (note 13) | 12,500,000 | - |
| **Total liabilities** | 13,203,312 | 46,508 |
| **Shareholders' Equity** | | |
| Common share capital (note 11) | 52,491,279 | 15,170,422 |
| Shares to be issued (note 14) | 17,600,000 | - |
| Share subscriptions receivable | (95,286) | - |
| Reserves | 4,392,803 | 3,173,916 |
| Deficit | (20,910,757) | (16,335,050) |
| **Total shareholders' equity** | 53,478,039 | 2,009,288 |
| **Total liabilities and shareholders' equity** | $ 66,681,351 | $ 2,055,796 |

Nature of operations (note 1)
Going concern (note 2)
Subsequent events (Note 18)

Approved on behalf of the Board of Directors November 28, 2019:

"Eugene Beukman" (signed)
**Eugene Beukman, Director**

"Nishal Kumar" (signed)
**Nishal Kumar, Director**

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

**INTEGRATED CANNABIS COMPANY, INC.**
**Consolidated Statements of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**

| | For the year ended July 31, 2019 | For the eight months ended July 31, 2018 | From date of Incorporation on July 20, 2017 to November 30, 2017 |
|---|---|---|---|
| **Sales** | $ 108,346 | $ - | $ - |
| **Cost of sales** | (99,763) | - | - |
| | 8,583 | - | - |
| **Operating Expenses** | | | |
| Advertising and promotion | 295,514 | 49,727 | - |
| Bank charges | 2,299 | 14 | - |
| Filing and listing fees | 32,627 | 10,650 | - |
| Office and general expenses | 488,341 | 6,528 | - |
| Legal and professional fees | 229,442 | 27,980 | 4,850 |
| Share based payments | 1,766,041 | 1,989,657 | - |
| Transfer agent fees | 14,581 | 4,925 | - |
| Management and consulting fees (note 10) | 1,169,636 | 711,529 | - |
| **Total operating expenses** | (3,998,481) | (2,801,010) | (4,850) |
| **Net loss before other items** | (3,989,898) | (2,801,010) | (4,850) |
| Impairment loss on advances to Critical Mass Industries, LLC (note 12) | (597,310) | - | - |
| Interest revenue | 6,651 | 21,197 | - |
| Listing expense | - | (13,550,387) | - |
| Write-off accounts payable | 4,850 | - | - |
| **Net loss** | (4,575,707) | (16,330,200) | (4,850) |
| Foreign currency translation | (43,443) | - | - |
| **Comprehensive loss** | $ (4,619,150) | $ (16,330,200) | $ (4,850) |
| **Basic and diluted net loss per share** | (0.10) | (0.76) | (0.00) |
| **Weighted average number of common shares outstanding** | 47,434,643 | 21,399,387 | 5,048,508 |

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

**INTEGRATED CANNABIS COMPANY, INC.**
**Consolidated Statements of Cash Flows**
**(Expressed in Canadian Dollars)**

| | For the year ended July 31, 2019 | For the eight months ended July 31, 2018 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the period | $ (4,575,707) | $ (16,330,200) |
| Amortization of prepaid expense | - | 9,879 |
| Impairment loss on advances to Critical Mass Industries, LLC (note 12) | 597,310 | - |
| Listing expense | - | 13,550,387 |
| Share based payments | 1,766,041 | 1,989,657 |
| Shares issued for consulting services | 201,192 | - |
| Write-off of accounts payable | (4,850) | - |
| Net changes in non-cash working capital | | |
| Accounts receivable | (43,700) | - |
| Government HST recoverable | (22,662) | (17,050) |
| Prepaid expenses and deposits | 284,936 | (309,935) |
| Accounts payable and accrued liabilities | 191,110 | (211,869) |
| **Net cash used in operating activities** | (1,606,330) | (1,319,131) |
| **Investing activities** | | |
| Advances to Critical Mass Industries, LLC (note 12) | (597,310) | - |
| Cash received on acquisition upon Reverse-Takeover | - | 2,702,300 |
| Cash received on acquisition of subsidiaries | 917,769 | - |
| Loans receivable | (1,501,132) | - |
| **Net cash provided by (used in) investing activities** | (1,180,673) | 2,702,300 |
| **Financing activities** | | |
| Proceeds from issuance of shares | 5,471,799 | 330,000 |
| Exercise of warrants | 395,708 | 6,400 |
| Repayment of loans payable | (74,953) | - |
| **Net cash provided by financing activities** | 5,792,554 | 336,400 |
| **Net change in cash** | 3,005,551 | 1,719,569 |
| Effect of foreign exchange on cash | (43,443) | - |
| **Cash, beginning of period** | 1,719,569 | - |
| **Cash, end of period** | $ 4,681,677 | $ 1,719,569 |
| **Supplemental information** | | |
| Interest paid | $ - | $ - |
| Tax paid | $ - | $ - |

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

**INTEGRATED CANNABIS COMPANY, INC.**
**Consolidated Statements of Changes in Equity**
**(Expressed in Canadian Dollars)**

| | Common Share Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Shares to be issued | Share subscriptions receivable | Reserve for foreign currency translation | Reserve for share-based payments | Deficit | TOTAL |
| **Balance, July 20, 2017** | **1** | **$ 1** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 1** |
| Shares issued | 16,500,000 | 330,000 | - | - | - | - | - | 330,000 |
| Loss for the period | - | - | - | - | - | - | (4,850) | (4,850) |
| **Balance at November 30, 2017** | **16,500,001** | **330,001** | **-** | **-** | **-** | **-** | (4,850) | 325,151 |
| Reverse takeover ("RTO") (note 3) | | | | | | | | |
| Recapitalization upon RTO | 17,857,786 | 13,571,917 | - | - | - | - | - | 13,571,917 |
| Cancellation of shares upon RTO | (1) | (1) | - | - | - | - | - | (1) |
| Reissuance of warrants upon RTO | - | - | - | - | - | 1,082,312 | - | 1,082,312 |
| Reissuance of finder's warrants upon RTO | - | - | - | - | - | 110,052 | - | 110,052 |
| Shares issued as finder's fee upon RTO | 1,650,000 | 1,254,000 | - | - | - | - | - | 1,254,000 |
| Stock options granted | - | - | - | - | - | 1,989,657 | - | 1,989,657 |
| Exercise of warrants | 16,000 | 14,505 | - | - | - | (8,105) | - | 6,400 |
| Loss for the period | - | - | - | - | - | - | (16,330,200) | (16,330,200) |
| **Balance at July 31, 2018** | **36,023,786** | **15,170,422** | **-** | **-** | **-** | **3,173,916** | **(16,335,050)** | **2,009,288** |
| Shares issued to acquire Ganja Gold (note 14) | 43,200,000 | 19,008,000 | 17,600,000 | - | - | - | - | 36,608,000 |
| Shares issued to acquire 1200665BC (note 13) | 30,645,161 | 11,645,161 | - | - | - | - | - | 11,645,161 |
| Private placements | 22,504,000 | 5,701,000 | - | (95,286) | - | - | - | 5,605,714 |
| Exercise of warrants | 1,226,769 | 987,020 | - | - | - | (591,312) | - | 395,708 |
| Share issue costs | - | (221,516) | - | - | - | 87,601 | - | (133,915) |
| Shares for services | 609,677 | 201,192 | - | - | - | - | - | 201,192 |
| Share based payments | - | - | - | - | - | 1,766,041 | - | 1,766,041 |
| Foreign currency translation | - | - | - | - | (43,443) | - | - | (43,443) |
| Loss for the period | - | - | - | - | - | - | (4,575,707) | (4,575,707) |
| **Balance at July 31, 2019** | **134,209,393** | **$ 52,491,279** | **$17,600,000** | **$ (95,286)** | **$ (43,443)** | **$ 4,436,246** | **$(20,910,757)** | **$53,478,039** |

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

## 1. Nature of Operations

Integrated Cannabis Company, Inc. (“iCannaCo” or the “Company”) was incorporated on September 15, 2011 under the laws of the province of British Columbia and is registered extra-provincially under the laws of Ontario. The Company was a mineral exploration company engaged in the acquisition and exploration of mineral resource properties in Canada. Prior to January 29, 2016, the Company was 85% owned by Winston Resources Inc. ("Winston" or the "Parent Company"). On January 18, 2016, Winston declared a special dividend to its shareholders by distributing all of its shareholding interest in the Company. The record date for the dividend is January 29, 2016. Winston no longer has any shareholder interest in the Company. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol “ICAN”. The head office of the Company is located at Suite 810 - 789 West Pender Street, Vancouver, BC V6C 1H2, Canada.

During the period ended July 31, 2018, the Company completed the acquisition of all of the issued and outstanding shares of 1127466 B.C. Ltd., which holds a world-wide, exclusive license for X-Sprays a brand of state-of-the-art life enhancement products administered via an optimal oral spray delivery system (Note 3).

During the year ended July 31, 2019, the Company completed the acquisition of all of the issued and outstanding shares of 1200665 B.C. Ltd. (note 13), which intends to complete the acquisition of a Nevada cultivation manufacturing and real property interests of V6E Holdings LLC (“V6E”) and Sullivan Park Capital LLC. (“Sullivan Park”), and also completed the acquisition of all of the issued and outstanding shares of Ganja Gold Inc. (note 14), which holds a California cannabis manufacturing interests.

## 2. Going Concern Assumption

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. As at July 31, 2019, the Company has yet to generate a positive net income and had an accumulated deficit of $20,910,757 (July 31, 2018 - $16,335,050). The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

## 3. Reverse Takeover

On October 25, 2017, the Company and 1127466 B.C. Ltd. (“1127466BC”) signed a share exchange agreement whereby the Company would acquire all of the issued and outstanding shares of the 1127466BC which holds, through a wholly owned subsidiary, a world-wide, exclusive license for X-SPRAYS – a brand of life-enhancement products administered via an optimal oral spray delivery system. Pursuant to the terms of the agreement, Integrated Cannabis issued an aggregate of 16,500,000 common shares in the capital of the Company (the “payment shares”). Also, as part of the transaction, the Company also issued a finder’s fee of 1,650,000 common shares in the capital of the Company.

**(Expressed in Canadian Dollars)**

For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* ("IFRS 3") since the Company, formerly known as CNRP Mining Inc., ("CNRP") was considered as a shell company whose activities, prior to the acquisition, were limited to the management of cash resources and maintenance of its reporting issuer status and did not constitute a business. The transaction is accounted for in accordance with IFRS 2 *Share-based Payment* ("IFRS 2") whereby 1127466BC is deemed to have issued shares in exchange for the net assets of the Company together with its reporting issuer status at the fair value of the consideration received by 1127466BC. The accounting for this transaction resulted in the following:

(i) The financial statements of the consolidated entities are considered a continuation of the financial statements of 1127466BC.

(ii) Since 1127466BC is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the financial statements at their historical carrying values.

(iii) As part of the completion of the reverse acquisition with CNRP to facilitate the reporting issuer status of 1127466BC, the original shareholders of CNRP retained 17,857,786 common shares and 2,425,230 warrants of the Company. A finders' fee of 1,650,000 common shares were also issued to finders.

Since the share and share-based consideration allocated to the former shareholders of CNRP on closing the reverse acquisition is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares, the value in excess of the net identifiable assets of CNRP acquired on closing was expensed in the statement of comprehensive loss as listing expense.

The share-based compensation of $13,550,387 recorded as listing expense included the fair value of the 17,857,786 common shares retained by the former shareholders of CNRP and 1,650,000 common shares issued to the finders at $0.76 per share, the fair value of 2,136,457 private placements warrants and 288,733 finders' warrants at a fair value of $0.507 and $0.381 per warrant respectively and the net assets acquired. The $0.76 value for the shares was based on the most recent closing price prior to the reverse acquisition. The fair value of warrants were calculated using Black Scholes option pricing model using the assumptions at the time of the RTO of risk free interest rates of 1.29%, expected life of between 0.32 to 1.04 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%.

| **Assets acquired, and liabilities assumed** | | |
|---|---|---|
| Cash | $ | 2,702,300 |
| Prepaid expense | | 9,879 |
| GST receivable | | 9,242 |
| Loan receivable | | 4,000 |
| Accounts payable | | (87,548) |
| Accrued liabilities | | (151,970) |
| Due to related party | | (18,008) |
| | $ | 2,467,895 |

| **Purchase price consideration** | | |
|---|---|---|
| Consideration issued | $ | 14,825,917 |
| Re-issuance of warrants | | 1,192,365 |
| Listing expense | | (13,550,387) |
| | $ | 2,467,895 |

## 4. Statement of Compliance and Basis of Presentation

**Statement of compliance**

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

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. Furthermore, these consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company.

**Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and the entity controlled by the Company as follows:

| Name | Date of acquisition |
|---|---|
| 1127466 B.C. Ltd. | October 25, 2017 |
| X-Sprays Industries Inc. | October 25, 2017 |
| 1200665 B.C. Ltd. | May 21, 2019 |
| Ganja Gold Inc. | July 31, 2019 |

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

**Use of Estimates**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

*Critical accounting estimates*

i. Share-based payments and fair value adjustment to contingent liability are subject to estimation of the value of the award and warrants at the date of grant and measurement date using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

ii. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

iii. Management reviews the useful lives of depreciable assets including property and equipment and customer contracts at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence.

*Critical accounting judgments*

i. The determination that the Company will continue as a going concern for the next year.
ii. The revenue recognition of sale revenue.
iii. The determination of related parties.

## 5. Significant Accounting Policies

### Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be realized.

### Intangible assets

Intangible assets acquired are measured on initial recognition at cost, while the cost of intangible assets acquired in a business combination is initially recorded at their fair values as at the date of acquisition.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

### Impairment of non-financial assets

Impairment tests on non-financial assets, including property, plant and equipment, and intangible assets are subject to impairment tests at least annually or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down to its recoverable amount.

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

**Share-based payments**

As part of its remuneration, the Company grants stock options and warrants to buy common shares of the Company to its employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value of employee services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted or vested if the option vests over a period. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

All share-based remuneration is ultimately recognized as an expense in the statements of comprehensive loss with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transactions costs and the amount originally credited to contributed surplus are allocated to share capital. When options expire unexercised the related value remains in contributed surplus.

**Foreign currency**

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. Each subsidiary determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

i) <u>Transactions and Balances in Foreign Currencies</u>

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) <u>Foreign operations</u>

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings and recognized as part of the gain or loss on disposal.

**Share capital and share subscriptions**

Share capital includes cash consideration received for share issuances, net of commissions and issue costs. Share subscriptions represent proceeds received for shares that have not yet been issued as at the reporting date.

**Loss per share**

Loss per share is calculated using the weighted average number of common shares issued and outstanding during the reporting period. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

**Reserves**

Stock options reserve and share purchase warrants reserve are used to recognize the fair value of stock options and finders' warrants prior to their exercise, expiry, or cancellation. Fair value of stock options and finder's warrants is determined on the date of grant using the Black-Scholes Model.

**Financial instruments**

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instrument depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

*Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

<u>Impairment</u>

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

**Changes in accounting policies**

IFRS 9 – Financial Instruments

The Company adopted IFRS 9, which replaced IAS 39 – Financial Instruments: Recognition and Measurement, in its financial statements beginning January 1, 2018. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, however it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9 there are three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and lost ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measure at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The adoption of IFRS 9 did not have a material impact on the Company's financial statements.

IFRS 15 – Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

The adoption of IFRS 15 did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

**Future changes in accounting policies**

IFRS 16 – Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019, with early application permitted. The impact of adoption of IFRS 16 will not be material as the Company only has one lease commitment.

**(Expressed in Canadian Dollars)**

## 6. Property and Equipment

During the year ended July 31, 2019, the Company acquired 1200665BC (note 13) resulting in the acquisition of certain property and equipment with a carrying value of $2,704,188.

The business of 1200665BC through its investments in V6E and Sullivan Park has yet to commence as of July 31, 2019 and, as a result, the Company did not amortize the property and equipment that was acquired during the year.

## 7. Loans Receivable

During the year ended July 31, 2019, the Company acquired 1200665BC (note 13) and Ganja Gold (note 14) resulting in the acquisition of certain loans receivable as follows:

| Entity | Amount |
|---|---|
| 1200665BC | $ 4,241,505 |
| Ganja Gold | 63,798 |
| **Total** | **$ 4,305,303** |

The loans receivable acquired from 1200665BC are due from V6E and Sullivan Park as the closing conditions for the acquisitions of V6E and Sullivan Park by 1200665BC have not been met as of July 31, 2019. The loans receivable acquired from Ganja Gold are due from the shareholders. The loans are unsecured, non-interest bearing and due on demand.

## 8. Financial Risk Management

### Classification of financial instruments

| As at July 31, 2019 | Financial assets - FVTPL | Financial assets – amortized costs | Financial liabilities – amortized costs |
|---|---|---|---|
| | $ | $ | $ |
| Cash | 4,681,677 | - | - |
| Accounts receivable | - | 582,420 | - |
| Promissory note receivable | - | 1,447,268 | - |
| Loans receivable | - | 4,305,303 | - |
| Accounts payable and accrued liabilities | - | - | 619,564 |
| Loans payable | - | - | 83,748 |
| Notes payable | - | - | 12,500,000 |

| As at July 31, 2018 | Financial assets - FVTPL | Financial assets – amortized costs | Financial liabilities – amortized costs |
|---|---|---|---|
| | $ | $ | $ |
| Cash | 1,719,569 | - | - |
| Accounts payable and accrued liabilities | - | - | 28,499 |
| Loans payable | - | - | 18,009 |

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

**Financial Risk Management Objectives and Policies**
The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

**Financial Risks**
The Company's main financial risk exposure and its financial risk management policies are as follows:

**Credit risk**
Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the statement of financial position. The Company's assets most susceptible to credit risk is its advances to Critical Mass Industries, LLC as part of the LOI to acquire all of the issued and outstanding securities of Critical Mass Industries, LLC (note 12). The Company terminated the LOI and, as such, the advances were written down as impaired.

**Market and Other Risks**
Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

**Liquidity Risk**
Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at July 31, 2019, the Company has sufficient funds to meet general and administration expenses for the next twelve months.

## 9. Capital Management

The Company considers its capital to be comprised of shareholders' equity.

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. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate 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.

There have been no changes to the Company's approach to capital management during the period.

## 10. Related Party Transactions and Disclosures

As of July 31, 2019, the amount due to related parties is $18,009 (July 31, 2018 - $18,009). This amount consists of amounts due to a former director of the Company. These amounts were made to provide working capital and are non-interest bearing and without fixed terms of repayment.

During the year ended July 31, 2019, the Company paid/accrued management and consulting fees of $99,123 (2018 - $Nil) to the former Chief Executive Officer of the Company.

During the year ended July 31, 2019, the Company paid/accrued management and consulting fees of $104,450 (2018 - $Nil) to companies controlled by the Chief Financial Officer of the Company. As at July 31, 2019, $578 (July 31, 2018 - $8,895) remained outstanding.

## 11. Share Capital

### (i) Authorized capital

The Company's authorized share capital consists of:

- an unlimited number of common shares without par value; and
- an unlimited number of preferred shares issuable in series. No preferred shares are issued as of July 31, 2019.

### (ii) Common shares

a) On June 13, 2017, the Company prior to the RTO completed a non-brokered private placement of 9,012,500 units at a price of $0.115 per unit for aggregate gross proceeds of $1,036,438. On September 26, 2017, the Company announced that the price per unit had been voluntarily adjusted by the subscribers from $0.115 to $0.30 per unit. Some securities issued in connection with this offering have been cancelled. In total, the Company issued 3,731,950 adjusted units for proceeds of $1,119,585. Each unit consists of one common share and three-quarter common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of $0.30 for a period of twelve (12) months. These warrants were assigned a value of $1,192,364 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.29%;
- Expected life: 1.04 year;
- Expected volatility: 100% based on historical trends; and
- Weighted average share price: $0.30.

b) On July 4, 2017, the Company prior to the RTO completed a non-brokered private placement of 3,000,000 shares at a price of $0.20 per share for aggregate gross proceeds of $600,000. On September 26, 2017, the Company announced that the price per unit had been voluntarily adjusted by the subscribers from $0.20 to $0.30 per unit. Some securities issued in connection with this offering have been cancelled. In total, the Company issued 1,683,329 adjusted units for proceeds of $505,000.

c) On October 6, 2017, the Company prior to the RTO completed a non-brokered private placement of 10,000,000 shares at a price of $0.30 per share for aggregate gross proceeds of $3,000,000.

d) On May 31, 2018, the Company completed the RTO with 1127466 BC Ltd. (“1127466BC”) and 1127466BC is considered as the accounting acquirer issuing 17,857,786 common shares and 2,425,230 warrants of the Company to the former shareholders of CNRP (See note 3). Pursuant to the escrow agreement dated May 31, 2018, a total of 109,250 common shares were held in escrow, of which 10% was to be released on the listing date, and 15% every six months thereafter. As at July 31, 2019, 65,549 common shares (July 31, 2018 – 98,325 common shares) remained in escrow.

e) On May 7, 2019, the Company completed a first tranche of its non-brokered private placement. Pursuant to the first tranche, the company issued 11,404,000 units at a price of $0.25 per unit for gross proceeds of $2,851,000. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each warrant shall be exercisable to acquire one additional common share at a price of $0.375 for a period of two years from the date of issuance. In the event that the common shares trade at a closing price of greater than $0.50 per share for ten (10) consecutive trading days, the Company may accelerate the expiry date of the warrants to expire on the 30th day after the date on which such notice is given. In connection with the closing, the Company paid an aggregate of $37,525 in finder fees and issued 117,250 finder warrants, valued at $28,655, that have the same terms as the offering warrants. The fair value of the finder warrants have been determined using the Black-Scholes Option Pricing Model using the following assumptions: expected life: 2 years, expected volatility: 178%, expected dividend yield: 0% and risk-free rate: 1.58%.

f) On May 13, 2019, the Company completed a second tranche of its non-brokered private placement. Pursuant to the second tranche, the company issued 8,600,000 units at a price of $0.25 per unit for gross proceeds of $2,150,000. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each warrant shall be exercisable to acquire one additional common share at a price of $0.375 for a period of two years from the date of issuance. In the event that the common shares trade at a closing price of greater than $0.50 per share for ten (10) consecutive trading days, the Company may accelerate the expiry date of the warrants to expire on the 30th day after the date on which such notice is given. In connection with the closing, the company paid an aggregate of $96,390 in finder fees and issued 329,560 finder warrants, valued at $58,946, that have the same terms as the offering warrant. The fair value of the finder warrants have been determined using the Black-Scholes Option Pricing Model using the following assumptions: expected life: 2 years, expected volatility: 95%, expected dividend yield: 0% and risk-free rate: 1.59%.

g) On May 14, 2019, the Company completed a third and final tranche of its non-brokered private placement. In the final tranche, the Company issued 2,500,000 units at a price of $0.28 per unit for aggregate gross proceeds of $700,000. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each warrant shall be exercisable to acquire one additional common share at a price of $0.375 for a period of two years from the date of issuance. In the event that the common shares trade at a closing price of greater than $0.50 per share for ten (10) consecutive trading days, the Company may accelerate the expiry date of the warrants to expire on the 30th day after the date on which such notice is given. The Company did not pay any finders fees in connection with the third tranche.

h) On November 19, 2018 and on June 11, 2019, the Company issued 250,000 common shares and 143,749 common shares upon exercise of warrants at $0.30 per share respectively.

i) On November 6, 2018 and on June 12, 2019, the Company issued 143,749 common shares and 412,498 common shares upon exercise of warrants at $0.30 per share respectively.

j) During the month of September 2018, the Company issued 276,773 common shares upon exercise of warrants at $0.40 per share.

k) The Company issued 609,677 common shares, valued at $201,193, and 1,500,000 options exercisable at $0.32 for a period of five years from the date of issuance to a consultant of the Company for services rendered. The common shares are subject to a voluntary escrow, and will be released quarterly starting 3 months from the date of the Agreement.

**(Expressed in Canadian Dollars)**

**(iii) Stock options**

The Company has a stock option plan in place under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of ten years. The plan allows for the issuance of up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-diluted basis.

During the period ended July 31, 2018, the Company granted 3,600,000 stock options to officers, directors and consultants at an exercise price of $0.40 per share expiring June 8, 2023. All options were fully vested at the date of grant. The fair value of these 3,600,000 stock options was determined to be $1,989,657 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 1.47%, expected life of 5 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%.

On June 28, 2019, the Company granted 1,500,000 stock options to a consultant at an exercise price of $0.32 per share expiring June 28, 2024. All options were fully vested at the date of grant. The fair value of these 1,500,000 stock options was determined to be $492,555 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 1.40%, expected life of 5 years, expected volatility of 250%, forfeiture rate of 0% and a dividend rate of 0%.

On July 4, 2019, the Company granted 4,000,000 stock options to consultants at an exercise price of $0.33 per share expiring July 4, 2024. All options were fully vested at the date of grant. The fair value of these 4,000,000 stock options was determined to be $1,273,486 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 1.44%, expected life of 5 years, expected volatility of 250%, forfeiture rate of 0% and a dividend rate of 0%.

On July 31, 2019, the Company granted 4,100,000 stock options to consultants at an exercise price of $0.33 per share expiring July 31, 2024. 1,650,000 options vest in 6 months and 2,450,000 options vest over 4 years. The fair value of these 4,100,000 stock options was determined to be $1,796,211 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 1.47%, expected life of 5 years, expected volatility of 250%, forfeiture rate of 0% and a dividend rate of 0%.

The issued and outstanding options balance as at July 31, 2019 and 2018 is comprised as follows:

| | Number of Options | Weighted Average Price |
|---|---|---|
| **Balance November 30, 2017** | - | $ - |
| Options granted | 3,600,000 | $ 0.40 |
| **Balance July 31, 2018** | 3,600,000 | $ 0.40 |
| Options granted | 9,600,000 | $ 0.33 |
| **Balance July 31, 2019** | 13,200,000 | $ 0.35 |

**(Expressed in Canadian Dollars)**

### (iv) Warrants

The issued and outstanding warrants balance as at July 31, 2019 and 2018 is comprised as follows:

| | Exercise Price | Average Life | Expiry Date | Number of Warrants |
|---|---|---|---|---|
| **Balance November 30, 2017** | - | - | - | - |
| Private placements warrants issued at RTO | $0.30 | 0.36 | June 13, 2019 | 2,136,457 |
| Finders' warrants issued at RTO | $0.40 | - | September 26, 2018 | 288,773 |
| Finders' warrants exercised | $0.40 | - | September 26, 2018 | (16,000) |
| **Balance July 31, 2018** | $0.31 | 0.36 | | 2,409,230 |
| Private placements warrants | $0.375 | 1.77 | May 7, 2021 | 5,702,000 |
| Finders' warrants | $0.375 | 1.77 | May 7, 2021 | 117,250 |
| Private placements warrants | $0.375 | 1.79 | May 13, 2021 | 4,300,000 |
| Finders' warrants | $0.375 | 1.79 | May 13, 2021 | 329,560 |
| Private placements warrants | $0.375 | 1.79 | May 14, 2021 | 1,250,006 |
| Finders' warrants exercised | $0.40 | - | September 26, 2018 | (276,773) |
| Warrants exercised | $0.30 | - | June 13, 2019 | (949,996) |
| Warrants expired | $0.30 | - | June 13, 2019 | (1,182,461) |
| **Balance July 31, 2019** | $0.375 | 1.78 | | 11,698,816 |

### (v) Reserves

Reserves includes accumulated foreign currency translation adjustments and the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the stock options and warrants.

On May 31, 2018, as a result of the RTO, 2,136,457 private placements warrants and 288,733 finders' warrants were considered issued to the former shareholders of CNRP at a fair value of $1,082,312 and $110,052 respectively. The total fair value of $1,192,364 of warrants was recorded as reserve as part of the consideration issued for acquisition.

## 12. Letter of Intent

In October 2018, the Company signed a Letter of Intent (the "LOI") to acquire all of the issued and outstanding securities of Critical Mass Industries, LLC ("CMI"), a Colorado-based cannabis leader operating successfully for nearly 10-years under the brands Good Meds and BOSM Labs. Integrated Cannabis has paid a non-refundable deposit of US$250,000 upon signing the LOI. The Company paid a total of US$450,000 during the year ended July 31, 2019. At closing, will pay an additional US$2,400,000 and issue 2,300,000 Integrated Cannabis common shares to the shareholders of CMI in exchange for the securities being acquired. During the year ended July 31, 2019, the Company terminated the LOI to acquire all of the issued and outstanding securities of CMI and wrote-off the advances of $597,310 to a carrying value of $Nil.

**(Expressed in Canadian Dollars)**

## 13. Acquisition of 1200665 B.C. Ltd.

On May 21, 2019, the Company entered into a share exchange agreement (the "BC Definitive Agreement") among the Company, 1200665 B.C. Ltd., a private British Columbia company ("1200665BC") and the shareholders of 1200665BC, pursuant to which, the Company will acquire all of the issued and outstanding shares of 1200665BC ('BC Transaction"). 1200665BC, through its interests in V6E and Sullivan Park, is the owner of a cannabis cultivation business and license and prospective owner of a cannabis manufacturing business and license in the state of Nevada.

In consideration for the BC Transaction and pursuant to the terms of the BC Definitive Agreement, the Company: (a) has issued an aggregate of 30,645,161 common shares of the Company pro rata to shareholders of 1200665BC on the closing of the BC Transaction (the "BC Closing Date"); (b) will pay $5,019,900 in cash, payable within 120 days following the BC Closing Date; and (c) will pay up to an additional $7,480,100 in cash, payable upon 1200665BC completing certain milestones after the BC Closing Date.

The purchase price allocation of 1200665BC's assets acquired and liabilities assumed is summarized below:

| **Purchase price:** | | **Amount** |
|---|---|---|
| Paid in shares | $ | 11,645,161 |
| Payable in cash recorded as notes payable | | 12,500,000 |
| Total purchase price | $ | 24,145,161 |
| | | |
| **Assets acquired:** | | |
| Cash | $ | 468,669 |
| Accounts receivable | | 1,301 |
| Investments | | 2 |
| Property and equipment (note 6) | | 2,704,188 |
| Loans receivable (note 7) | | 2,740,373 |
| Brands and licenses | | 18,333,221 |
| | | |
| **Liabilities assumed:** | | |
| Accounts payable and other liabilities | | 27,641 |
| Loans payable | | 74,952 |
| | | |
| **Net assets acquired** | $ | 24,145,161 |

**(Expressed in Canadian Dollars)**

## 14. Acquisition of Ganja Gold Inc.

On July 31, 2019, the Company entered into a share exchange agreement (the "California Definitive Agreement") among the Company, Ganja Gold Inc., a California company ("Ganja Gold") and the shareholders of Ganja Gold, pursuant to which, the Company will acquire all of the issued and outstanding shares of Ganja Gold ("California Transaction"). Ganja Gold is a State and municipally licensed cannabis manufacturing business.

In consideration for the California Transaction and pursuant to the terms of the California Definitive Agreement, the Company: (a) has issued and aggregate of 40,000,000 common shares of the Company (the "Payment Shares") pro rata to shareholders of Ganja Gold on the closing of the California Transaction (the "California Closing Date"); (b) will issue up to an additional 40,000,000 common shares upon Ganja Gold completing certain milestones after the Closing Date. The Payment Shares are subject to a voluntary hold period of 12 months from the California Closing Date which expires July 31, 2020.

In connection with the California Transaction, the Company issued 3,200,000 common shares to an arm's length third party finder. The finder shares are subject to a statutory hold period of 4 months and a day from the California Closing Date which expires December 1, 2019.

The purchase price allocation of Ganja Gold's assets acquired and liabilities assumed is summarized below:

| **Purchase price:** | | **Amount** |
|---|---|---|
| Paid in shares | $ | 17,600,000 |
| Paid in shares – finder's fees | | 1,408,000 |
| Payable in shares recorded as shares to be issued | | 17,600,000 |
| Total purchase price | $ | 36,608,000 |
| | | |
| **Assets acquired:** | | |
| Cash | $ | 449,100 |
| Accounts receivable | | 537,419 |
| Inventory | | 454,115 |
| Deposit | | 131,480 |
| Promissory note | | 1,447,268 |
| Loans receivable | | 63,798 |
| Brands and licenses | | 33,967,724 |
| | | |
| **Liabilities assumed:** | | |
| Accounts payable and other liabilities | | 377,164 |
| Loans payable | | 65,740 |
| | | |
| **Net assets acquired** | $ | 36,608,000 |

**(Expressed in Canadian Dollars)**

## 15. Commitment

The Company, through its wholly owned subsidiary, Ganja Gold, has a lease commitment in California, USA for approximately 4,000 sq. ft. facility for cannabis manufacturing. Future payments for the facility are as follows:

| Periods | Annual Rent |
|---|---|
| August 1, 2019 to July 31, 2020 | $ 96,000 |
| August 1, 2020 to July 31, 2021 | 96,000 |
| August 1, 2021 to July 31, 2022 | 96,000 |
| August 1, 2022 to July 31, 2023 | 96,000 |
| Total | $ 384,000 |

## 16. Income Taxes

The income taxes shown in the consolidated statements of loss and comprehensive loss differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Loss for the period | $ (4,575,707) | $ (16,330,200) |
| Enacted tax rates | 27.0% | 26.5% |
| Expected income tax recovery | (1,235,441) | (4,327,503) |
| Items not deductible for income tax purposes | 747,607 | 4,118,311 |
| Adjustments for RTO | - | (2,598,783) |
| Current and prior tax attributes not recognized | 487,835 | 2,807,975 |
| | - | - |

Details of deferred tax assets are as follows:

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Non-capital loss carryforwards | 1,222,238 | 767,764 |
| Resource properties | 2,080,015 | 2,041,496 |
| Share issue costs | 47,847 | |
| Unrecognized deferred tax assets | (3,350,100) | (2,809,260) |
| | - | - |

As at July 31, 2019, the Company had approximately $4,527,000 of non-capital losses available, which begin to expire in 2032 through to 2039 and may be applied against future taxable income.

At July 31, 2019, the net amount which would give rise to a deferred income tax asset has not been recognized as it is not probable that such benefit will be utilized in the future years.

**(Expressed in Canadian Dollars)**

## 17. Segmented Information

The assets and operations of the Company are located in Canada and the United States. The Company has one reportable business segments in the cannabis sector.

| | **Canada** | **USA** | **TOTAL** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Year ended July 31, 2019** | | | |
| Revenues | - | 108,346 | 108,346 |
| Total expenses | (3,459,665) | (1,224,388) | (4,684,053) |
| Net loss | (3,459,665) | (1,116,042) | (4,575,707) |
| **As at July 31, 2019** | | | |
| Current assets | 8,146,235 | 3,529,981 | 11,676,216 |
| Total assets | 8,146,235 | 58,535,117 | 66,681,352 |
| Total liabilities | 262,198 | 12,941,115 | 13,203,313 |

## 18. Subsequent Events

a) On August 30, 2019, the Company announced it has entered into a term sheet (the “Term Sheet”) to acquire Nevada based CannaAmerican Brands LLC (“CA Brands”).

The term sheet contemplates the Company acquiring all of the issued and outstanding shares of CA Brands for $4,000,000 to be satisfied through the issuance of common shares of the Company at a deemed price per share of $0.45.

The Term Sheet sets out certain terms and conditions pursuant to which the proposed transaction will be completed. The proposed transaction remains subject to certain closing conditions including, without limitation, (a) the receipt by the Company of all necessary corporate and regulatory approval; (b) customary due diligence; (c) definitive agreements; (d) each party's representations and warranties in the share purchase agreement being true and correct in all aspects, and each party meeting its terms and conditions and completing its covenants and obligations as contained therein; and (e) all of the requisite municipal and State approvals. There can be no guarantees that the proposed transaction will be completed as contemplated at all. The Company may pay a finder’s fee in relation to the proposed transaction in accordance with CSE policies.

b) On November 5, 2019, the Company announced that it, together with certain shareholders of the Company have entered into a voluntary pooling agreement. The voluntary pooling agreement will restrict the sale of approximately 26 million shares of the Company, representing approximately 20% of the issued and outstanding shares of the Company for six months from the date of the pooling agreement to May 1, 2020, bringing the total restricted shares outstanding to approximately 66 million shares, which collectively represents approximately 50% of the total outstanding shares of the Company.