**Christina Lake Cannabis Corp.**

**Condensed Interim Financial Statements**

**For the six months ended May 31, 2020 and 2019**

(Unaudited - Expressed in Canadian Dollars)

(Expressed in Canadian Dollars - Unaudited)

| As at | Notes | | May 31, 2020 | | November 30, 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | $ | 1,059,399 | $ | 740,973 |
| GST receivable | | | 69,478 | | 180,348 |
| Prepaid expenses | | | 32,546 | | 6,130 |
| Subscription receivable | 9 | | - | | 95,005 |
| | | | 1,161,423 | | 1,022,456 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | | 7,037,041 | | 5,180,334 |
| **TOTAL ASSETS** | | **$** | **8,198,464** | **$** | **6,202,790** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 4 | $ | 498,431 | $ | 421,467 |
| Current portion of lease liability | 7 | | 31,200 | | - |
| | | | 529,631 | | 421,467 |
| **Long term liabilities** | | | | | |
| Government Loan – CERB | 5 | $ | 40,000 | $ | - |
| Convertible debentures | 6 | | 2,523,551 | | - |
| Long term portion of lease liability | 7 | | 20,366 | | - |
| **TOTAL LIABILITIES** | | | 3,113,548 | | 421,467 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 9 | | 8,402,959 | | 8,093,927 |
| Equity component of convertible liability | 6 | | 390,638 | | - |
| Obligation to issue shares | 9 | | - | | 104,932 |
| Reserves | 9 | | 641,737 | | 539,940 |
| Deficit | | | (4,350,418) | | (2,957,476) |
| **TOTAL SHAREHOLDERS' EQUITY** | | | **5,084,916** | | **5,781,323** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$** | **8,198,464** | **$** | **6,202,790** |

**Nature and continuance of operations** (Note 1)
**Subsequent events** (Note 11)

Approved on behalf of the Board:

*"Joel Dumaresq"*

Joel Dumaresq, Director

*"Jason Taylor"*

Jason Taylor, Director

(Expressed in Canadian Dollars - Unaudited)

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | **Notes** | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| **Expenses** | | | | | |
| Consulting fees | 8 | $ 56,112 | $ 26,470 | $ 106,394 | $ 59,951 |
| Accretion | 6,7 | 55,860 | - | 55,860 | - |
| Amortization | 3 | 7,165 | - | 7,165 | - |
| Interest expense | 6 | 67,713 | - | 67,713 | - |
| Insurance | 6 | 20,334 | 3,419 | 20,334 | 3,419 |
| Nursery expenses | | 138,851 | - | 138,851 | - |
| Office and miscellaneous | | 101,698 | 9,767 | 183,426 | 39,903 |
| Professional fees | 8 | 45,014 | 12,275 | 115,325 | 91,645 |
| Property Taxes | | 25,144 | 5,964 | 25,144 | 5,964 |
| Rent | | 1,500 | 2,000 | 3,000 | 5,000 |
| Salaries | 8 | 237,470 | 40,669 | 507,280 | 77,377 |
| Share based compensation | 8,9 | 28,778 | - | 157,255 | - |
| Transfer agent | | 35,542 | 1,738 | 38,012 | 18,385 |
| **Total expenses** | | (821,181) | (102,302) | (1,425,759) | (301,644) |
| **Other Items** | | | | | |
| Account payable write down | | 32,817 | - | 32,817 | - |
| **Total other items** | | (32,817) | - | (32,817) | - |
| **Loss and comprehensive loss for the period** | | **$(788,364)** | **$ (102,302)** | **$(1,392,942)** | **$ (301,644)** |
| **Loss per share – basic and diluted** | | **$ (0.01)** | **$ (0.00)** | **$ (0.02)** | **$ (0.01)** |
| **Weighted average number of common shares outstanding** | | **76,853,747** | **45,287,692** | **76,597,418** | **43,001,220** |

(Expressed in Canadian Dollars - Unaudited)

| | Note | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Number of shares # | Amount $ | Obligation to issue shares $ | Reserves $ | Equity component of convertible liability $ | Deficit $ | Total $ |
| **Balance at November 30, 2018** | | **40,791,605** | **3,044,898** | **-** | **10,863** | **-** | **(795,164)** | **2,260,597** |
| Loss and comprehensive loss for the period | | - | - | - | - | - | (301,644) | (301,644) |
| Private placement | | 11,490,000 | 1,149,000 | - | - | - | - | 1,149,000 |
| Share issue costs - cash | | - | (31,800) | - | - | - | - | (31,800) |
| Share issue costs – fair value of finder's fee warrants | | - | (6,200) | - | 6,200 | - | - | - |
| **Balance at May 31, 2019** | | **52,281,605** | **4,155,898** | **-** | **17,063** | **-** | **(1,096,808)** | **3,076,153** |
| | | | | | | | | |
| **Balance at November 30, 2019** | | **76,119,202** | **8,093,927** | **104,932** | **539,940** | **-** | **(2,957,476)** | **5,781,323** |
| Loss and comprehensive loss for the period | | - | - | - | - | - | (1,392,942) | (1,392,942) |
| Issuance of compensation shares | 9 | 604,110 | 120,822 | (104,932) | (15,890) | - | - | - |
| Shares issued upon exercise of options | 9 | 1,000,000 | 188,210 | - | (98,210) | - | - | 90,000 |
| Fair value of finder's fee warrants issued | 6,9 | - | - | - | 58,642 | - | - | 58,642 |
| Equity component of convertible liability | | - | - | - | - | 390,638 | - | 390,638 |
| Share based compensation | 9 | - | - | - | 157,255 | - | - | 157,255 |
| **Balance at May 31, 2020** | | **77,723,312** | **8,402,959** | **-** | **641,737** | **390,638** | **(4,350,418)** | **5,084,916** |

(Expressed in Canadian Dollars - Unaudited)

| Six months ended, | May 31, 2020 | May 31, 2019 |
|---|---|---|
| Operating activities | | |
| Net loss for the period | $ (1,392,942) | $ (301,644) |
| | | |
| Non-cash items: | | |
| Interest expense | 67,713 | - |
| Depreciation | 7,165 | - |
| Foreign exchange | (1,000) | - |
| Accretion | 55,860 | - |
| Share-based compensation | 157,255 | - |
| Account payable write down | (32,817) | - |
| | | |
| Changes in non-cash working capital items: | | |
| Decrease (Increase) in receivables | 110,870 | (16,925) |
| Increase in prepaid | (26,416) | (3,674) |
| Increase in accounts payable and accrued liabilities | 665,250 | (2,433) |
| **Net cash flows used in operating activities** | (389,062) | (324,676) |
| | | |
| **Investing activities** | | |
| Acquisition of equipment | (327,632) | - |
| Building improvements incurred | (2,034,385) | (509,705) |
| **Net cash flows used in investing activities** | (2,362,017) | (509,705) |
| | | |
| **Financing activities** | | |
| Subscription received | 95,005 | 154,666 |
| CERB Loan received from Government | 40,000 | - |
| Proceeds on convertible debentures, net of issuance costs | 2,852,300 | - |
| Proceeds from options exercised | 90,000 | - |
| Repayment of lease liability | (7,800) | - |
| Share capital issued less share issuance costs | - | 1,129,000 |
| **Net cash flows from financing activities** | 3,069,505 | 1,283,666 |
| | | |
| Increase in cash | 318,426 | 449,285 |
| Cash, beginning of period | 740,973 | 1,311,382 |
| **Cash, end of period** | **$ 1,059,399** | **$ 1,760,667** |

Supplemental non-cash flow information:

| Six months ended, | May 31, 2020 $ | May 31, 2019 $ |
|---|---|---|
| Building improvements in accounts payable | 239,692 | - |
| Equipment additions in accounts payable | - | 21,537 |
| Fair value of finder’s warrants | 58,642 | 6,200 |

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

## 1. Nature and continuance of operations

Christina Lake Cannabis Corp. (the "Company") was incorporated on October 26, 2014, under the laws of the province of British Columbia, Canada. The Company is engaged in the business of becoming a licensed cannabis producer in British Columbia. On December 21, 2018, the Company changed its name from Cervantes Capital Corp. to Christina Lake Cannabis Corp.

The Company's principal address, records office and registered address are located at Suite 810 – 789 West Pender Street, Vancouver, BC, V6C 1H2.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company is in the development stage and currently has no sources of cash from operations. Further funds will be required to successfully develop the Company's business and there is no certainty that these funds will be available. As at May 31, 2020 the Company had accumulated losses of $4,350,418 (2019 - $2,957,476). Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent upon its ability to raise equity capital or borrowings sufficient to meet current and future obligations and ultimately achieve profitable operations. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with equity and debt financings, and loans from directors and companies controlled by directors and or profits from its business activities.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

## 2. Significant accounting policies

These condensed interim financial statements were approved and authorized for issue on July 30, 2020 by the directors of the Company.

### Statement of compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

These condensed interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited financial statements of the Company for the year ended November 30, 2019.

### *Basis of presentation*

These financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed interim financial statements are presented in Canadian dollars, unless otherwise noted, which is the Company's functional currency.

## 2. Significant accounting policies (continued)

***Significant estimates and assumptions***

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation relate to the fair value measurements for financial instruments, valuation of properties and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates.

***Significant judgments***

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include: the classification of expenditures as building improvements to be capitalized or as operating costs which are expensed; discount rate used for right of use assets; the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to a significant uncertainty.

***Property, Plant and Equipment***

Property, plant and equipment (included land, building and building improvement) are stated at cost less accumulated depreciation. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Depreciation commences once an asset is ready for its intended use. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from properties and any gain or loss is reflected as a gain or loss from operations.

The estimated useful lives are:

| | |
|---|---|
| Building and building improvements | 20 years |
| Equipment | 5 years |
| Right of use assets | lease term |

***Comparative figures***

Certain comparative figures have been reclassified to conform to current year's presentation. Such reclassification is for presentation purpose only and has no effect on previously reported results.

**New standards adopted**

**Convertible debentures**

The convertible debentures which meet the fixed-for-fixed criteria (fixed consideration received and fixed number of shares issued upon conversion) are separated into their liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for the non-convertible debt with similar terms in the time of issue. The fair value of the equity component is determined at the time of issue as the difference between the face value of the convertible debentures and the fair value of the liability component.

Transaction costs that are directly attributed to the issuance of the debentures are recorded against equity and loan components on a pro-rated basis. Transaction costs allocated to the liability component are accreted over the term of the loan using the effective interest rate method.

**2. Significant accounting policies (continued)**

**New standards adopted (continued)**

**IFRS 16 - Leases**

The Company adopted IFRS 16 – Leases on December 1, 2019. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company does not have any leases prior to January 1, 2019, and as a result, this standard had no impact on the Company's financial statements on the day of adoption.

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statement of comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

(Expressed in Canadian Dollars - unaudited)

## 3. Property, plant and equipment

On October 16, 2018, the Company acquired 32 acres of industrial zoned agricultural land in Christina Lake, British Columbia for consideration of $863,505. The property's existing infrastructure includes a 6,000 square foot steel framed building, which is currently being retrofitted for offices, personnel rooms, as well as a cannabis nursery and a cultivation room. These building improvements are capitalized. The property is in the process of meeting all provincial, municipal and federal requirements for licensing. The purchase price was allocated to the land and building based on management's estimate of their relative fair values on November 30, 2018.

On February 26, 2019, the Company entered into a purchase agreement to acquire an adjacent 99-acre parcel of industrially-zoned agricultural land ("Ponderosa") for $619,767 including taxes and fees. The Company is currently seeking to obtain provincial, municipal and federal approval so that the Ponderosa property meets all requirements for licensing.

On March 27, 2020, the Company was granted the Standard Cultivation License ("SCL") from Health Canada for the Company's 32-acre phase 1 facility. This license authorizes the cultivation and sale of cannabis under the Cannabis Act and provides the Company with over 950,000 sf of licensed outdoor cultivation space.

| | Equipment right-of-use asset $ | Equipment $ | Land $ | Building $ | Building improvement $ | Total $ |
|---|---|---|---|---|---|---|
| November 30, 2018 | - | - | 468,630 | 394,875 | - | 863,505 |
| Additions | - | 225,394 | 619,767 | - | 3,471,668 | 4,316,829 |
| November 30, 2019 | - | 225,394 | 1,088,397 | 394,875 | 3,471,668 | 5,180,334 |
| Additions (Note 7) | 57,324 | 327,632 | - | - | 1,478,916 | 1,863,872 |
| Depreciation | (7,165) | - | - | - | - | (7,165) |
| May 31, 2020 | 50,159 | 553,026 | 1,088,397 | 394,875 | 4,950,584 | 7,037,041 |

The property, plant and equipment are not yet ready for its intended use and no depreciation has been recorded for the six-month period ended May 31, 2020.

The right-of-use asset relates to leased equipment for the production and cultivation of cannabis. The lease is reflected on the balance sheet as a right-of-use asset, with an associated lease liability (Note 7). The discount rate applied to the lease is 8%.

## 4. Accounts payable and accrued liabilities

| | May 31, 2020 | November 30, 2019 |
|---|---|---|
| Accounts payable | $ 403,460 | $ 343,467 |
| Accrued liabilities | 94,971 | 48,000 |
| Deposits | - | 30,000 |
| | **$ 498,431** | **$ 421,467** |

During the six-month period ended May 31,2020 the Company applied the $30,000 deposits, which was received in 2019 fiscal year, toward a convertible debenture financing, which was completed during the six-month period ended May 31, 2020 (Note 6).

**5. Loans**

The Company entered into a Canada Emergency Response Benefit "CERB" loan with the Government of Canada.

The loan is an interest free loan of $40,000 from the Government of Canada. If the Government of Canada is repaid by December 31, 2022, 25% being $10,000 will be forgiven. If the Company is not able to repay, the loan will convert into a regular loan with a three-year term at 5% per annum.

**6. Convertible debentures**

During the period ended May 31, 2020, the Company closed five tranches of unsecured convertible debenture financings ("Debenture") with an aggregate face value of $5,000 each. The debentures bear interest of 12%, mature in 24 months and the principal and interest are convertible into common shares at a conversion price of $0.20, at the option of the debenture holder.

On March 13, 2020 the Company closed an unsecured convertible debentures financing for gross proceeds of $1,800,000. The Company issued 433,500 finder's warrants ("Finders' Warrants") with a fair value using the Black-Scholes model of $33,304. Each Finder's Warrants entitle the holder to purchase one common share in the capital of the Company at a price of $0.20 for a period of twelve months. The fair value of the warrants was determined using a risk-free rate of 3.9% an expected life of the warrant of one year, an estimated expected volatility of 100 with no dividend yield.

On March 23, 2020 the Company closed an unsecured convertible debenture financing for gross proceeds of $815,000. The Company paid a finder's fee of $86,700 and issued 225,000 Finder's Warrants with a fair value of $17,282, using the Black-Scholes model. Each Finder's Warrants entitle the holder to purchase one common share in the capital of the Company at a price of $0.20 for a period of twelve months. The fair value of the warrants was determined using a risk-free rate of 3.6% an expected life of the warrant of one year, an estimated expected volatility of 100 with no dividend yield.

On April 7, 2020. the Company closed an unsecured convertible debenture financing for gross proceeds of $100,000. The Company paid a finder's fee of $6,000 and issued 30,000 Finder's Warrants with a fair value of $2,298, using the Black-Scholes model. Each Finder's Warrants entitle the holder to purchase one common share in the capital of the Company at a price of $0.20 for a period of twelve months from closing. The fair value of the warrants was determined using a risk-free rate of 0.0% an expected life of the warrant of one year, an estimated expected volatility of 100 with no dividend yield.

On May 14, 2020, the Company closed an unsecured convertible debenture financing for gross proceeds of $35,000.

On May 25, 2020, the Company closed an unsecured convertible debenture financing for gross proceeds of $255,000.The Company paid a finder's fee of $15,000 and issued 75,000 Finder's Warrants with a fair value of $5,758, using the Black Scholes model. Each finder's warrants entitle the holder to purchase one common share in the capital of the Company at a price of $0.20 for a period of twelve months from closing. The fair value of the warrants was determined using a risk-free rate of 3.0% an expected life of the warrant of one year, an estimated expected volatility of 100 with no dividend yield.

(Expressed in Canadian Dollars - unaudited)

**6. Convertible debentures (Continued)**

The following table reconciles the recorded value of the liability and the equity components of the convertible debentures:

| | Convertible debenture $ | Equity component of convertible debenture $ | Total $ |
|---|---|---|---|
| Balance, November 30, 2019 | - | - | - |
| Additions | 2,587,638 | 417,362 | 3,005,000 |
| Deferred share issuance cost | (182,850) | (26,724) | (209,574) |
| Interest expense | 67,713 | - | 67,713 |
| Accretion expense | 51,050 | - | 51,050 |
| Balance, May 31, 2020 | 2,523,551 | 390,638 | 2,914,189 |

Management estimated that the fair value of the debt using a discount rate of 20% applicable to the Company's business, with the residual value allocated to the conversion feature.

**7. Lease liability**

The Company recognized right-of-use asset of $57,324 and lease liability of $57,324. The Company recorded a right-of-use asset for leased equipment in the statement financial position as at May 31, 2020.

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 8%, which is the Company's estimated incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the period ended May 31, 2020:

| | $ |
|---|---|
| Balance, November 30, 2019 | - |
| Lease additions (Note 3) | 57,324 |
| Lease payments | (7,800) |
| Interest on lease liability | 2,042 |
| Balance, May 31, 2020 | 51,566 |
| Current portion | 31,200 |
| Long term portion | 20,366 |

(Expressed in Canadian Dollars - unaudited)

## 8. Related party transactions and balances

The Company has identified its directors and certain senior officers as its key management personnel.

During the period, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors. The key management compensation and director fees consist of the following for the six-month period ended May 31, 2020 and 2019:

| | **May 31, 2020 $** | **May 31, 2019 $** |
|---|---|---|
| Consulting fees paid to a private company controlled by the former CEO | 24,557 | 70,500 |
| Accounting fees paid to a private company controlled by the former CEO | 18,000 | - |
| Consulting fees paid to a previous director of the Company | 6,250 | 15,000 |
| Consulting fees paid to a private company jointly controlled by the CFO | 21,500 | 26,000 |
| Salaries paid to related parties | 160,412 | 135,000 |
| Shares issued in lieu of cash for consulting fees (Note 9) | 15,890 | - |
| | **246,609** | **246,500** |

As at May 31, 2020, there was $86,021 (November 30, 2019 - $31,050) included in accounts payable and accrued liabilities for directors of the Company. The balance is unsecured, due on demand and are non-interest bearing.

During the six-month period ended May 31, 2020, the Company paid rent of $3,000 to a private company jointly controlled by the CFO (2019 - $5,000).

During the six-month period ended May 31, 2020, the Company issued two of the directors convertible debentures in aggregate principal amount of $15,000.

The Company entered into a departure agreement with the former CEO. Pursuant to the terms of the agreement, the Company was obligated to issue 604,110 compensation shares and pay an aggregate of $51,662 over a six-month period. The Company recorded an obligation to issue shares of $104,932 upon entering the agreement. These shares were issued on January 27, 2020 with a fair value of $120,822. The obligation was removed and the share capital was increased accordingly, with an additional $15,890 recognized as share-based compensation during the six months ended May 31, 2020 (Note 9).

## 9. Share Capital

***Authorized share capital***

Unlimited number of common shares without par value.
Unlimited number of Class B preferred shares.

***Issued share capital***

At May 31, 2020, there were 77,723,312 (November 30, 2019 - 76,119,202) issued and fully paid common shares outstanding.

**9. Share Capital (Continued)**

***Share issuances during the six-month period ended May 31, 2020***

During the current period, 1,000,000 options were exercised at $0.09 per share for proceeds of $90,000. The fair value, when granted, of $98,210 was transferred to share capital from reserves to reflect the exercise of these options.

The Company entered into a departure agreement with the former CEO. Pursuant to the terms of the agreement, the Company issued 604,110 compensation shares on January 27, 2020 with a fair value of $120,822. The Company recorded an obligation to issue shares of $104,932 upon entering the agreement. The obligation was removed and the share capital was increased accordingly, with an additional $15,890 recognized as share-based compensation during the six months ended May 31, 2020 (Note 8).

***Share issuances during the year ended November 30, 2019***

On April 26, 2019, the Company issued 11,490,000 units at a price of $0.10 per unit for gross proceeds of $1,149,000. Each unit consists of one common share and one-half of one warrant; each such whole warrant entitles the holder to acquire one additional common share at a price of $0.20 until April 26, 2020. The Company incurred cash finder’s fees of $31,800 and issued 318,000 finder’s warrants with a fair value of $6,200. Each finder warrant entitling the holder to acquire one additional common share at $0.20 for a period of 12 months. The fair value of the finders’ warrants was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.10; exercise price - $0.20; expected life – 1 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.72%.

On June 26, 2019, the Company issued 2,125,000 units at a price of $0.10 per unit for gross proceeds of $212,500. Each unit consists of one common share and one-half of one warrant; each such whole warrant entitles the holder to acquire one additional common share at a price of $0.20 until June 26, 2020. The Company issued 148,750 finder’s warrants with a fair value of $2,835. Each finder warrant entitling the holder to acquire one additional common share at $0.20 for a period of 12 months. The fair value of the finders’ warrants was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.10; exercise price - $0.20; expected life – 1 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.70%.

On July 10, 2019, the Company issued 5,000,000 common shares for services with a fair value of $500,000, which was recorded as share based compensation, of which $375,000 was for directors. These shares are subject to an escrow agreement.

On September 20, 2019, the Company issued 12,125,000 units at a price of $0.20 per unit for gross proceeds of $2,425,000. Each unit consists of one common share and one-half of one warrant; each such whole warrant entitles the holder to acquire one additional common share at a price of $0.40 until September 20, 2020. The Company paid finders fees of $72,924 and issued 442,200 finder’s warrants with a fair value of $17,210. Each finder warrant entitling the holder to acquire one additional common share at $0.40 for a period of 12 months. The fair value of the finders’ warrants was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.20; exercise price - $0.40; expected life – 1 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.59%.

On October 17, 2019, the Company issued 4,587,597 units at a price of $0.20 per unit for gross proceeds of $917,580. Each unit consists of one common share and one-half of one warrant; each such whole warrant entitles the holder to acquire one additional common share at a price of $0.40 until October 17, 2020. The Company paid finders fees of $20,160 and issued 100,800 finder’s warrants with a fair value of $3,922. Each finder warrant entitling the holder to acquire one additional common share at $0.40 for a period of 12 months. The fair value of the finders’ warrants was determined using the Black Scholes Option Pricing Model with

(Expressed in Canadian Dollars - unaudited)

**9. Share Capital (Continued)**

the following assumptions: stock price - $0.20; exercise price - $0.40; expected life – 1 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.68%.

During the year ended November 30, 2019, the Company recorded a share subscription receivable of $95,005, which was collected subsequent to year end.

Included in the private placements during the year ended November 30, 2019, 735,000 units were issued to the CFO in lieu of cash for consulting fees in the amount of $126,020.

**Escrow Shares**

As at May 31, 2020, a total of 26,591,423 securities, including 20,947,614 shares (November 30, 2019 – 5,000,000), 5,113,763 warrants (November 30, 2019 – Nil), 530,000 stock options (November 30, 2019 – Nil) and 46 convertible debentures (November 30, 2019 – Nil), are held in escrow and will be released based on the following:

On March 27, 2020, the date on which the Company obtained a Standard Cultivation License ("License Confirmation Date"), 2,659,142 common shares will be released from escrow. The remaining 23,932,281 common shares will be released pursuant to the following schedule:

| | |
|---|---|
| On the Listing date | 1/10 of the escrow securities |
| 6 months after the Listing Date | 1/6 of the remaining escrow securities |
| 12 months after the Listing Date | 1/5 of the remaining escrow securities |
| 18 months after the Listing Date | 1/4 of the remaining escrow securities |
| 24 months after the Listing Date | 1/3 of the remaining escrow securities |
| 30 months after the Listing Date | 1/2 of the remaining escrow securities |
| 36 months after the Listing Date | the remaining escrow securities |

**Pooled Shares**

As at May 31, 2020, 5,000,000 common shares (November 30, 2019 – 5,000,000) are held in a pooling arrangement. If the shareholder's employment terminates within two years, the Company has the option to repurchase these shares from the shareholders at the deemed issuance price of $0.04 per unit. The common shares will be released on October 18, 2020.

**Warrants**

The continuity of the Company's share purchase warrants pursuant is as follows:

| | Number of share purchase warrants # | Weighted average exercise price $ |
|---|---|---|
| Outstanding, November, 30, 2018 | 31,792,024 | 0.30 |
| Granted | 16,173,549 | 0.31 |
| Expired | (29,292,024) | 0.30 |
| Cancelled | (1,040,000) | 0.09 |
| Outstanding, November, 30, 2019 | 17,633,549 | 0.29 |
| Granted | 763,500 | 0.20 |
| Expired | (318,000) | 0.20 |
| Outstanding, May 31, 2020 | 18,079,049 | 0.29 |

(Expressed in Canadian Dollars - unaudited)

**9. Share Capital (Continued)**

**Warrants (continued)**

As of May 31, 2020, the Company had share purchase warrants outstanding and exercisable to acquire common shares of the Company as follows:

| Expiry date | Exercise price<br>$ | Number of warrants<br># |
|---|---|---|
| December 31, 2020 | 0.20 | 5,745,000 |
| June 26, 2020 | 0.20 | 1,211,250 |
| October 22, 2022 | 0.09 | 1,460,000 |
| December 31, 2021 | 0.40 | 6,062,500 |
| September 20, 2020 | 0.40 | 442,200 |
| October 17, 2020 | 0.40 | 100,800 |
| March 13, 2021 | 0.20 | 433,500 |
| March 23, 2021 | 0.20 | 225,000 |
| April 07, 2021 | 0.20 | 30,000 |
| May 25, 2021 | 0.20 | 75,000 |
| December 31, 2021 | 0.40 | 2,293,799 |
| | | 18,079,049 |

On April 14, 2020, the Company extended the term of 6,062,500 warrants that were previously going to expire September 20, 2020 and will now expire on December 31, 2021.

**Stock Options**

On March 1, 2017, the Board of Directors approved the adoption of a fixed Stock Option Plan reserving for issuance, upon the exercise of options granted pursuant to the Stock Option Plan, a maximum of 20% of the issued and outstanding shares of the Company, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the Stock Option Plan. The Stock Option Plan was subsequently replaced with the 2018 Plan which was approved by shareholders at its January 9, 2019 Annual General and Special Meeting. The 2018 Plan is substantively similar to the Stock Option Plan except that it increases the number of common shares reserved under it. The 2018 Plan reserves 8,158,321 common shares (which represents 20% of the Company's outstanding common shares as of the record date for the Meeting), compared to 199,520 under the Stock Option Plan.

On June 1, 2019, the Company issued 6,570,000 options to consultants, directors and management, with a fair value of $498,430, to acquire one additional common share at a price of $0.09 until June 1, 2024. The fair value of the options was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.10; exercise price - $0.09; expected life – 5 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.35%. The Company cancelled 1,500,000 stock options.

On August 14, 2019, the Company issued 10,000 Options to a consultant, with a fair value of $480, to acquire one additional common share at a price of $0.20 until August 14, 2022. The fair value of the options was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.10; exercise price - $0.20; expected life – 3 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.29%.

On December 13, 2019, the Company issued 1,540,000 Options to certain employees, with a fair value of $257,869, to acquire one additional common share at a price of $0.09 until December 13, 2024. The fair value of the options was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - $0.20; exercise price - $0.09; expected life – 5 year; volatility – 100%; dividend yield – $0; and risk-free rate – 1.59%. These stock options vest 33% on issue, 33% on the first anniversary and 34% on the second anniversary. For the six-months ending May 31, 2020 an amount of $157,255 was charged to operations with a corresponding credit to reserves as a result of the graded vesting terms.

(Expressed in Canadian Dollars - unaudited)

**9. Share Capital (Continued)**

**Stock Options (Continued)**

The continuity of the Company's share purchase options is as follows:

| | Number of share purchase options # | Weighted average exercise price $ |
|---|---|---|
| Outstanding, November 30, 2018 | - | - |
| Granted | 6,580,000 | 0.09 |
| Cancelled | (1,500,000) | 0.09 |
| Outstanding, November 30, 2019 | 5,080,000 | 0.09 |
| Granted | 1,540,000 | 0.09 |
| Exercised | (1,000,000) | 0.09 |
| Outstanding, May 31, 2020 | 5,620,000 | 0.09 |

As of May 31, 2020, the Company had share purchase options outstanding and exercisable to acquire common shares of the Company as follows:

| Expiry date | Exercise price $ | Number of options # |
|---|---|---|
| June 1, 2024 | 0.09 | 4,070,000 |
| August 14, 2022 | 0.20 | 10,000 |
| December 13, 2024 | 0.09 | 1,540,000 |
| | | 5,620,000 |

**Reserve**

The reserve account records items recognized as stock-based compensation expense, equity component of convertible liability and the fair value of finders' warrants issued until such time that the stock options and warrants are exercised, at which time the corresponding amount will be reallocated to share capital.

**10. Financial instruments**

The Company classifies its financial instruments into categories as follows: cash and subscriptions receivable as financial assets at amortized cost, and accounts payable as other financial liabilities at amortized cost.

*Fair value*

Cash is carried at fair market value based on quoted market prices in an active market. The carrying value of accounts payable approximate its fair values due to the short-term nature of these financial instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

Cash is measured using Level 1 inputs.

## 10. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and subscription receivable. The majority of cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. Credit risk related to cash is assessed as low. Subscription receivable was owed by subscribers to the Company's private placements. Credit risk related to subscription receivable was assessed as low.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. As of May 31, 2020, the Company has sufficient cash of $1,059,399 (November 30, 2019 - $740,973) to cover short term obligations.

Historically, the Company's sole source of funding has been loans from related parties and private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

Foreign exchange risk
Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at May 31, 2020, the Company did not have any financial instruments subject to interest rate risk.

Capital Management
The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity and cash. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

## 11. Subsequent events

Subsequent to period ended May 31, 2020, the Company issued 800,000 common shares pursuant to 800,000 stock option exercise for gross proceeds of $72,000.

**11. Subsequent events (Continued)**

On July 16, 2020, the Company completed a private placement and issued 5,013,222 at a price of $0.30 per common share for gross proceeds of $1,503,967.

On July 28, 2020, the Company completed a private placement and issued 470,881 common shares at a price of $0.30 per common share for gross proceeds of $141,264.

Subsequent to the quarter end, 1,211,250 warrants issued at $0.20 expired unexercised.

Subsequent to the quarter end the Company obtained an addition to the extraction equipment of $921,829.