

WEEKEND UNLIMITED INDUSTRIES INC.
(formerly Weekend Unlimited Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019

(Expressed in United States Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Weekend Unlimited Industries Inc. (formerly Weekend Unlimited Inc.)

Opinion

We have audited the accompanying consolidated financial statements of Weekend Unlimited Industries Inc. (formerly Weekend Unlimited Inc.) (the "Company"), which comprise the consolidated balance sheets as at September 30, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements. As stated in Note 1, the Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives may cast significant doubt about 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 obtained at the date of this auditor's report includes Management's 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 audit 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 audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 IFRS, 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 auditor's 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 auditor's 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 auditor's 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 Company 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 partner on the audit resulting in this independent auditor's report is Grant P. Block.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

January 28, 2020

WEEKEND UNLIMITED INDUSTRIES INC.
(Formerly Weekend Unlimited Inc.)
CONSOLIDATED BALANCE SHEET
(Expressed in United States Dollars)

AS AT	<i>Note</i>	September 30, 2019	September 30, 2018
ASSETS			
Current			
Cash		\$ 822,945	\$ 3,796,603
Inventory	4	119,119	-
Receivables		31,971	-
Loans receivable	6	483,163	3,408,750
Prepaid expenses and deposits		39,868	92,090
Assets held for disposition	16	425,781	469,164
		1,922,847	7,766,607
Non-Current			
Property and equipment	7	167,404	1,008,001
Loans receivable - non-current	6	707,652	-
Deposit for land purchase	14	226,530	-
Assets held for disposition - non-current	16	190,000	-
Total assets		\$ 3,214,433	\$ 8,774,608
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities		\$ 306,957	\$ 112,605
Due to related party	12, 18	-	672,750
Current liabilities held for disposition	16	-	452,378
Total liabilities		306,957	1,237,733
Equity			
Share capital	17	44,723,002	13,681,654
Reserves	17	6,914,467	605,589
Deficit		(48,681,062)	(6,738,301)
Total equity attributable to shareholders of the Company		2,956,407	7,548,942
Non-controlling interest		(48,931)	(12,067)
Total equity		2,907,476	7,536,875
Total liabilities and equity		\$ 3,214,433	\$ 8,774,608

Nature and continuance of operations (Note 1)

Acquisitions (Notes 9,10,11)

Subsequent events (Note 26)

Approved on behalf of the Board of Directors and authorized for issuance on January 27, 2020:

"Signed"

Chris Backus, Director

"Signed"

Charles Lamb, Director

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

WEEKEND UNLIMITED INDUSTRIES INC.

(Formerly Weekend Unlimited Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in United States Dollars)

	<i>Note</i>	September 30, 2019	September 30, 2018
Revenue		\$ 7,144	\$ -
Cost of goods sold		3,543	-
Gross margin		3,601	-
Expenses			
General and administrative	21	5,413,157	2,056,791
Professional fees		571,093	537,190
Share-based compensation	17	1,168,841	545,030
Fair value loss - acquisition of JB Stone Inc.		-	76,053
Northern Lights Organics milestone payment	14	144,951	-
Depreciation	7	153,037	48,612
Foreign exchange		1,325	11,182
Total expenses		7,452,404	3,274,858
Loss before other items		(7,448,803)	(3,274,858)
Impairment - Loan receivable	6	(825,510)	-
Impairment - property and equipment	7	(367,507)	-
Impairment - Intangible assets	8	(22,477,295)	-
Listing expense	12	(12,420,976)	-
Interest and other		(46,583)	-
Loss from continuing operations		(43,586,674)	(3,274,858)
Net loss from discontinued operations	16	(516,150)	(3,577,811)
Net loss for the year		\$ (44,102,824)	\$ (6,852,669)
Other comprehensive loss			
Translation adjustment		\$ (82,677)	(99,363)
Comprehensive loss for the year		\$ (44,185,501)	\$ (6,952,032)
Comprehensive loss attributable to:			
Net loss - shareholders of the Company		(44,053,893)	(6,735,301)
Net loss - non-controlling interest		(48,931)	(117,368)
Translation adjustment		(82,677)	(88,518)
Translation adjustment - discontinued operations		-	(10,845)
		\$ (44,185,501)	\$ (6,952,032)
Loss per share			
Basic and diluted - continuing operations		\$ (1.24)	\$ (0.24)
Basic and diluted - discontinued operations		\$ (0.01)	\$ (0.26)
Total		\$ (1.25)	\$ (0.50)
Weighted average number of common shares			
Basic and diluted		35,273,887	13,673,871

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

WEEKEND UNLIMITED INDUSTRIES INC.

(Formerly Weekend Unlimited Inc.)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Expressed in United States Dollars)

	Number of common shares	Share Capital	Reserves	Translation adjustment reserve	Non-controlling interest	Deficit	Total equity (deficiency)
	5	1					
	\$	\$	\$	\$	\$	\$	\$
Balance, September 30, 2017						(3,000)	(2,999)
Common shares issued for cash	11,834,944	11,663,489	-	-	-	-	11,663,489
Acquisition of Cannabis Brands Inc.	1,800,000	2,096,280	-	-	-	-	2,096,280
Acquisition of JB Stone Inc.	500,000	568,182	-	-	-	-	568,182
Share issuance costs - cash	-	(781,644)	-	-	-	-	(781,644)
Finders' warrants	-	(159,922)	159,922	-	-	-	-
Shares issued for services	260,000	295,268	-	-	-	-	295,268
Share-based compensation	-	-	545,030	-	-	-	545,030
Translation adjustment	-	-	-	(99,363)	-	-	(99,363)
Non-controlling interest	-	-	-	-	105,301	-	105,301
Net loss for the year	-	-	-	-	(117,368)	(6,735,301)	(6,852,669)
Balance, September 30, 2018	14,394,949	\$ 13,681,654	\$ 704,952	\$ (99,363)	\$ (12,067)	\$ (6,738,301)	\$ 7,536,875
Common shares and warrants issued to Open Source for RTO	5,605,961	8,628,696	4,488,809	-	-	-	13,117,505
Common shares issued for cash	6,841,409	5,738,604	-	-	-	-	5,738,604
Common shares issued upon exercise of warrants and options	3,572,424	2,261,688	(10,500)	-	-	-	2,251,188
Acquisition of S&K Industries, LLC	1,415,781	1,800,000	-	-	-	-	1,800,000
Acquisition of Verve Beverage Company	6,000,000	6,268,657	-	-	-	-	6,268,657
Acquisition of R&D Pharma	8,000,000	8,762,640	-	-	-	-	8,762,640
Exchangeable preferred shares for acquisition of R&D Pharma	-	-	572,795	-	-	-	572,795
Shares issued under NLO agreement	100,000	144,951	-	-	-	-	144,951
Shares issued for compensation	75,000	108,713	-	-	-	-	108,713
Shares issued for services	200,000	171,810	-	-	-	-	171,810
Cancellation of shares - JB Stone Inc. disposition	(500,000)	(531,580)	-	-	12,067	531,580	12,067
Cancellation of shares - Verve Beverage Company disposition	(1,600,000)	(1,579,552)	-	-	-	1,579,552	-
Share issuance costs - cash	-	(561,669)	-	-	-	-	(561,669)
Finders' warrants	-	(171,610)	171,610	-	-	-	-
Share-based compensation - options	-	-	1,168,841	-	-	-	1,168,841
Translation adjustment	-	-	-	(82,677)	-	-	(82,677)
Net loss for the year	-	-	-	-	(48,931)	(44,053,893)	(44,102,824)
Balance, September 30, 2019	44,105,524	\$ 44,723,002	\$ 7,096,507	\$ (182,040)	\$ (48,931)	\$ (48,681,062)	\$ 2,907,476

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

WEEKEND UNLIMITED INDUSTRIES INC.

(Formerly Weekend Unlimited Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States Dollars)

	September 30,	September 30,
	2019	2018
Operating activities		
Net loss for the year	\$ (44,102,824)	\$ (6,852,669)
Adjusted for:		
Depreciation	153,037	48,612
Share-based compensation	1,168,841	545,030
Northern Lights Organics milestone payment	144,951	-
Shares issued for services	280,523	295,268
Fair value loss on acquisition of JB Stone Inc.	-	76,053
Gain on disposition of JB Stone Inc.	70,324	-
Impairment - loans receivable	825,510	-
Impairment - equipment	367,507	-
Impairment - intangible assets	22,477,295	3,577,811
Listing expense	12,420,976	-
Changes in non-cash working capital:		
Receivables	(13,127)	-
Prepaid expenses	52,222	(92,090)
Accounts payable and accrued liabilities	164,292	109,341
Inventory	(119,119)	-
Cash flows from discontinued operations	(56,443)	(289,255)
Cash flows from operating activities	(6,166,035)	(2,581,899)
Investing activities		
Acquisition of S&K Industries, LLC, net	(1,050,000)	-
Acquisition of VBC Brands Inc., net	91,224	-
Acquisition of R&D Pharma Corp.	(1,285,379)	-
Acquisition of JB Stone Inc., net	-	(569,736)
Acquisition of Cannabis Brands Inc., net	-	90
Transaction costs	(262,423)	-
Proceeds from / due to Open Source Health Inc.	143,564	672,750
Property and equipment	(296,788)	(1,056,437)
Deposit for land purchase	(229,230)	-
Purchase option - Northern Lights Organics	-	(41,986)
Loans receivable - repaid	250,000	-
Loans receivable	(1,515,200)	(3,405,000)
Cash flows from investing activities	(4,154,232)	(4,400,319)
Financing activities		
Common shares issued for cash	5,738,604	11,663,489
Common shares issued upon exercise of warrants and options	2,251,188	-
Share issuance costs	(561,669)	(781,644)
Cash flows from financing activities	7,428,123	10,881,845
Effect of exchange rate changes on cash	(81,514)	(103,025)
Increase (decrease) in cash	(2,973,658)	3,796,602
Cash, beginning of year	3,796,603	1
Cash, end of year	\$ 822,945	\$ 3,796,603

No cash was paid for interest or income taxes for the years presented.

Supplemental cash flow disclosure (Note 25).

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Weekend Unlimited Industries Inc. (the “Company”, Formerly Weekend Unlimited Inc.) was incorporated pursuant to the provisions of the *British Columbia Business Corporations Act* on September 21, 2017. In October 2018 the Company completed a transaction with Open Source Health Inc. (“Open Source” or “OSH”) whereby OSH acquired all of the issued and outstanding shares of the Company on a one-for-one basis. The Company is considered to have acquired OSH for accounting purposes with the agreement being accounted for as a reverse takeover (“RTO”) of OSH by Weekend Unlimited Industries Inc. shareholders (Note 12). The combined entity continued into Alberta and continued operating under the name Weekend Unlimited Inc. On January 20, 2020 the Company continued into British Columbia and changed its name from Weekend Unlimited Inc. to Weekend Unlimited Industries Inc. The Company’s registered and records office address is 1500 - 850 2nd Street SW, Calgary Alberta, Canada, T2P 0R8.

The Company is a diversified operator in the regulated cannabis industry. The Company’s focus is on building and facilitating the growth of a diversified portfolio of assets and branded hemp and cannabis related consumer products.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives may cast significant doubt about the Company’s ability to continue as a going concern. The Company has incurred losses since its inception and has an accumulated deficit of \$48,681,062 as at September 30, 2019.

On January 21, 2020 the Company completed a consolidation of its common shares (“share consolidation”) on the basis of one post-consolidation common share for every ten pre-consolidation common shares held (10-to-1). All references contained in these consolidated financial statements to issued and outstanding common shares, warrants, per share amounts, and exercise prices, have been retroactively restated to reflect the effect of the share consolidation.

The Company is subject to regulation under the federal and provincial laws of Canada and certain civic and state laws in the United States of America. Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the “CSA”) in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These consolidated financial statements were authorized for issuance by the Board of Directors on January 27, 2020.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Presentation and functional currency

The consolidated financial statements of the Company are presented in United States dollars. The functional currency of the Company is the Canadian dollar. The functional currency of the Company’s wholly owned subsidiaries is detailed below.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The list below sets out the principal subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated upon the preparation of these consolidated financial statements:

Name of subsidiary	Abbreviation	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
Weekend Unlimited Holdings Inc.	Weekend Holdings	USA	100%	USD	Holding Company
Weekend Unlimited Washington, LLC	Weekend Washington	USA	100%	USD	Branding services
S&K Industries LLC	S&K	USA	100%	USD	Hemp products
Cannabis Brands Inc.	CBI	CAN	100%	CAD	Holding Company
Northern Lights Organics Inc.	NLO	CAN	70%	CAD	Hemp Cultivation
R&D Pharma Corp.	RDP	CAN	100%	CAD	Inactive
Access Payment Limited	APL	JAMAICA	49%	JMD	Inactive

3. USE OF ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3. USE OF ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS (Continued)

Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Management determines whether assets acquired and liabilities assumed constitute a business. In examining processes and potential outputs, management considers the ability of the acquired and existing processes to adequately be capable of producing the potential outputs; where the processes are insufficient and/or incomplete to produce potential outputs, the Company considers the acquisition to be an asset acquisition.

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of the equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Determination of asset fair values and allocation of purchase consideration

Significant asset acquisitions and business combinations require judgements and estimates to be made at the date of acquisition in relation to determining the relative fair value of property and equipment, as well as the allocation of the purchase consideration over the fair value of the assets. The information necessary to measure the fair values as at the acquisition date of assets acquired requires management to make certain judgements and estimates about future events, including but not limited to future production potential, and future market prices of products, and the ability to effectively distribute products. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. Provisional purchase price allocations are subject to review by management upon integration of the acquired businesses and will be adjusted as necessary were circumstances indicate it is appropriate to do so.

3. USE OF ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS (Continued)

Share-based payments

The Company utilizes the Black-Scholes Option Pricing Model (“Black-Scholes”) to estimate the fair value of warrants and stock options granted to directors, officers, employees, consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the Share-based compensation calculation value, however the most significant estimate is the volatility. The Company estimated volatility based on historic share prices of companies operating in the regulated cannabis industry. Historical volatility is not necessarily indicative of future volatility. The expected life of stock options or warrants is determined based on the estimate that they would be exercised evenly over their term. There was no recent history of stock option exercises available to consider in the estimate of expected life at the time of grant.

4. SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, “*The Effects of Changes in Foreign Exchange Rates*” (“IAS 21”). The functional currency of the Company and its subsidiaries is included within Note 2.

Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

Translation of the functional currency into the presentation currency

The results of operations which have a different presentation currency than the Company are translated to US dollars at appropriate average rates of exchange during the period. The assets and liabilities of these operations are translated to US dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of these operations to US dollars at period end are recognized in accumulated other comprehensive income as a translation adjustment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

Impairment

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities is classified on the statement of financial position at amortized cost.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventories of finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventory consists of infused products, accessories, and product packaging. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets, including property and equipment and other non-current assets, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value are excluded from impairment analysis.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the following methods and rates:

Category	Method	Rate
Building	Declining balance	5%
Equipment	Declining balance	20%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the direct sale of infused products for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

Share capital

Common shares are classified as shareholders' equity (deficiency). Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity (deficiency). Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing market price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Exchangeable preferred shares issued in connection with the R&D acquisition (Note 11) have been accounted for as share purchase warrants.

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiaries is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Other intangible assets, comprising licenses, trademarks, technology, and product formulations that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over the estimated useful lives and is recognized in profit or loss. Goodwill is not amortized. The amortization of product formulations begins when the Company starts to generate revenue from the asset.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5. NEW ACCOUNTING PRONOUNCEMENTS

New accounting policies

Effective October 1, 2018, the Company adopted the following accounting standards:

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is required for annual periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on October 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at October 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available for-sale. All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

The Company assessed the classification and measurement of financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	IFRS 9	IAS 39
Cash	FVTPL	FVTPL
Receivables	FVTPL	FVTPL
Loans receivable	FVTPL	FVTPL
Financial Liabilities	IFRS 9	IAS 39
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Due to related party	Amortized cost	Other financial liabilities

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, did not have an impact on the carrying amounts of financial assets.

5. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

a) Leases (“IFRS 16”)

Leases (“IFRS 16”) was issued by the IASB and will replace *Leases* (“IAS 17”). IFRS 16 requires most leases to be reported on a company’s balance sheet as assets and liabilities. IFRS 16 is effective 1 January 2019. Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company does not expect any impact upon the of adoption of IFRS 16.

b) Uncertainty over Income Tax Treatments (“IFRIC 23”)

Uncertainty over Income Tax Treatments (“IFRIC 23”) was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. IFRIC 23 is effective January 1, 2019. The Company does not expect any impact upon the of adoption of IFRS 16.

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 consolidated financial statements.

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6. LOANS RECEIVABLE

A summary of the Company's loans receivable is as follows:

	Washington State Cultivator	Real estate entity	S&K Industries, LLC	R&D Pharma Corp.	Verve Beverage Company	High Desert Group	Oklahoma	Northern Lights Supply Inc.	Total
Balance, September 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loans granted	500,000	250,000	750,000	1,158,750	750,000	-	-	-	3,408,750
Balance, September 30, 2018	500,000	250,000	750,000	1,158,750	750,000	-	-	-	3,408,750
Loans granted	-	-	-	1,285,379	-	750,000	200,000	549,750	2,785,129
Loans repaid	-	(250,000)	-	-	-	-	-	-	(250,000)
Transaction closed	-	-	(750,000)	(2,415,171)	(750,000)	-	-	-	(3,915,171)
Impairment	-	-	-	-	-	(750,000)	-	(75,510)	(825,510)
Foreign exchange variance	-	-	-	(28,958)	-	-	-	16,575	(12,383)
Balance, September 30, 2019	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ 490,815	\$ 1,190,815
Current	-	-	-	-	-	-	200,000	283,163	483,163
Non-current	500,000	-	-	-	-	-	-	207,652	707,652
Total	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ 490,815	\$ 1,190,815

Washington State Cultivator

During the year ended September 30, 2018 the Company advanced funds totaling \$500,000 to a Washington State Cannabis Cultivator and Processor, an unrelated third party. The advanced funds are unsecured, accrue interest at 5% and have a maturity date of October 2023. In October 2018 the Company formalized the advance by entering a promissory note for a principal sum of up to \$600,000.

The principal balance shall accrue interest at an annual rate of 5% per year. The note is to be repaid in the form of sixty equal monthly payments commencing from the date funds are released from escrow. In the event of late payment, the borrower shall have 30 days to cure any late payment after which time interest of 15% per annum will accrue until such late payments are cured and all accrued interest has been paid. The Company has agreed to waive interest payments and is in negotiations with the lender to receive early repayment.

Real Estate Entity

In September 2018, the Company received a non-interest bearing senior secured note in the amount of \$250,000. The maturity date of the note was September 21, 2018. During the year ended September 30, 2019 the note was repaid in full.

S&K Industries, LLC

In October 2018, the Company received a 5% senior secured convertible promissory note from S&K Industries, LLC. ("S&K") of \$750,000. Interest is payable quarterly in cash beginning on January 1, 2019 and the note matures on September 20, 2019. The note was secured by all the assets of S&K. During the year ended September 30, 2019 the Company acquired a 100% interest in S&K (Note 9). The loan was allocated to the consideration towards the purchase of S&K.

R&D Pharma Corp.

In accordance with a binding letter agreement entered in July 2018 between the Company and R&D Pharma Corp. ("R&D") the Company advanced \$2,415,171 under an unsecured non-interest bearing loan. During the year ended September 30, 2019 the Company acquired 100% of R&D (Note 11). The loan was allocated to the consideration towards the purchase of R&D.

6. LOANS RECEIVABLE (Continued)

Verve Beverage Company

In September 2018, the Company received a 10% senior secured promissory note from Verve Beverage Company (“VBC”) of \$750,000. Interest is payable quarterly in cash beginning on January 1, 2019 and matures on February 1, 2019. The note is secured by all the assets of VBC. During the year ended September 30, 2019 the Company acquired 100% of VBC Brands Inc. (Note 10).

High Desert Group Inc.

In December 2018, the Company received a secured promissory note from High Desert Group Inc. (“HDG”) of \$750,000 pursuant to the terms of the acquisition of S&K Industries LLC. HDG had a common officer and director with the Company at the time of the transaction. Interest of 6% will be charged for the duration of the note. The note matures on December 13, 2019 and is secured by all the assets of HDG. During the year ended September 30, 2019 circumstances arose suggesting the promissory note was impaired. Attempts by the Company to negotiate a settlement agreement were unsuccessful. As such the Company recorded an impairment charge of \$750,000.

Oklahoma

In February 2019, the Company received non-interest bearing senior secured promissory note from PPK Investment Group, LLC (“PPK”) of \$200,000. The note is secured by all the assets of PPK. The note matures September 30, 2019. Subsequent to September 30, 2019 the company collected the full balance receivable (Note 26).

Northern Lights Supply Inc.

In November 2018, the Company entered into a secured 6% loan facility for up to CAD \$1,200,000, of which the Company has initially advanced CAD \$500,000. The borrower is an Alberta based cannabis retailer. Should the full amount of the loan facility be advanced at any time during the term ending December 31, 2023, the Company has the option to convert the full amount of its CAD \$1,200,000 loan facility into 49% equity of the borrower which may only be exercised once the Company has received approval from the Alberta Gaming and Liquor Commission. During the period year September 30, 2019 the Company advanced an additional CAD \$250,000.

Subsequent to September 30, 2019 the Company entered an amending agreement with Northern Lights Supply Inc. for early repayment of its loan, whereby the parties agreed to reduce the loan balance to CAD \$650,000, following interest payments received of \$33,750, and amended the repayment terms as follows:

- a payment of CAD \$ 275,000 upon execution of the amending agreement
- 6 semi-annual payments of CAD \$50,000 over three years
- One final payment of CAD \$75,000
- Elimination of the conversion option

The Company recognized an impairment charge of \$75,510 in relation to the reduced loan balance as at September 30, 2019.

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7. PROPERTY AND EQUIPMENT

Certain equipment located in Washington was determined to be impaired based on management's assessment of the net realizable values.

	Land	Building	Equipment	Total
Cost				
Balance September 30, 2017	\$ -	\$ -	\$ -	\$ -
Additions	256,892	243,108	556,437	1,056,437
Foreign exchange	-	-	-	-
Balance September 30, 2018	\$ 256,892	\$ 243,108	\$ 556,437	\$ 1,056,437
Additions	-	139,736	157,052	296,788
Impairment	-	-	(500,000)	(500,000)
Transfer to assets held for sale	(256,892)	(382,844)	-	(639,736)
Foreign exchange	-	-	(851)	(851)
Balance, September 30, 2019	\$ -	\$ -	\$ 212,638	\$ 212,638
Accumulated depreciation				
Balance September 30, 2017	\$ -	\$ -	\$ -	\$ -
Additions	-	5,064	43,548	48,612
Foreign exchange	-	-	(176)	(176)
Balance September 30, 2018	\$ -	\$ 5,064	\$ 43,372	\$ 48,436
Additions	-	18,889	134,148	153,037
Impairment	-	-	(132,493)	(132,493)
Transfer to assets held for sale	-	(23,955)	-	(23,955)
Foreign exchange	-	2	207	209
Balance, September 30, 2019	\$ -	\$ -	\$ 45,234	\$ 45,234
Net book value				
September 30, 2018	\$ 256,892	\$ 238,044	\$ 513,065	\$ 1,008,001
September 30, 2019	\$ -	\$ -	\$ 167,404	\$ 167,404

8. INTANGIBLE ASSETS

	September 30, 2019
Intangible assets acquired	
Acquisition of S&K Industries, LLC (Note 9)	\$ 3,676,071
Acquisition of Verve Beverage Company (Note 10)	6,942,478
Acquisition of R&D Pharma Inc. (Note 11)	11,858,746
Total	22,477,295
Impairment - S&K Industries, LLC	3,676,071
Impairment - Verve Beverage Company	6,942,478
Impairment - R&D Pharma Inc.	11,858,746
Total	22,477,295
Balance - September 30, 2019	\$ -

9. ACQUISITION OF S&K INDUSTRIES, LLC.

During the year ended September 30, 2019 the Company acquired a 100% interest in S&K for \$1,800,000 in cash (including \$750,000 loan advanced by the Company previously – Note 6), and the issuance of 1,415,781 common shares with a fair value of \$1,800,000. The acquisition aligned with the Company’s strategy to build a diversified offering of branded consumer products in the cannabis industry.

The Company has concluded that the transaction did not qualify as a business combination under IFRS 3, “Business Combinations”, as significant processes were not acquired. The acquisition was therefore accounted for as an asset acquisition. The purchase consideration has been allocated based on the Company’s assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. The purchase price allocation is as follows:

Consideration	
Cash	\$ 1,800,000
1,415,781 common shares	1,800,000
Transaction costs - cash	76,071
	3,676,071
Net assets of S&K Industries LLC	
Intangible assets	\$ 3,676,071

As of the date of these consolidated financial statements the Company recognized an impairment of the full purchase price in relation to the acquisition of S&K as the intangible assets were not expected to be recoverable from their use in operations.

10. ACQUISITION OF VERVE BEVERAGE COMPANY

In January 2019 the Company acquired a 100% interest in Verve Beverage Company. (“VBC”) in exchange for 6,000,000 common shares of the Company with a fair value of \$6,268,657. The acquisition aligned with the Company’s strategy to build a diversified offering of branded consumer products in the cannabis industry.

The Company has concluded that the transaction did not qualify as a business combination under IFRS 3, “Business Combinations”, as significant processes were not acquired. The acquisition was therefore accounted for as an asset acquisition. The purchase consideration has been allocated based on the Company’s assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. The purchase price allocation is as follows:

Consideration	
6,000,000 common shares at a fair value of CAD \$1.40 per share:	\$ 6,268,657
Cash advanced prior to close of acquisition	750,000
Transaction costs - cash	33,889
	7,052,546
Net assets of Verve Beverage Company	
Cash	91,224
Others assets	18,844
Intangible assets	6,942,478
Total	\$ 7,052,546

Subsequent to the close of the acquisition the Company entered an agreement to divest its 100% interest in Verve Beverage Company in exchange for the return of 1,600,000 common shares from one of the original vendors of Verve Beverage Company. In relation to the disposition the Company recorded an impairment expense of \$7,052,546.

11. ACQUISITION OF R&D PHARMA CORP.

In February 2019 the Company acquired a 100% interest in R&D Pharma Corp. (“R&D”) in exchange for 8,000,000 common shares and 25,000,000 non-voting preferred shares of R&D which are redeemable for 0.10 warrants of the Company for no further consideration and are exercisable at a price of CAD \$3.50 for a period of two years. The total fair value of the consideration was \$9,335,435 and \$2,415,171 in cash advanced by the Company (Note 6). The preferred shares provide the holders no other ownership or voting rights of R&D or the Company. The value of the preferred shares was determined using the Black-Scholes valuation model with the following assumptions: expected life 2 years, volatility 75%, discount rate 2%, dividend yield 0%. The acquisition aligned with the Company’s strategy to build a diversified offering of branded consumer products in the cannabis industry.

The Company has concluded that the transaction did not qualify as a business combination under IFRS 3, “Business Combinations”, as significant processes were not acquired. The acquisition was therefore accounted for as an asset acquisition. The purchase consideration has been allocated based on the Company’s assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. The purchase price allocation is as follows:

Consideration	
8,000,000 common shares at a fair value of CAD \$1.45 per share:	\$ 8,762,640
25,000,000 preferred shares of R&D at a fair value of CAD \$0.03 per share:	572,795
Cash advanced prior to close of acquisition	2,415,171
Transaction costs - cash	108,140
	11,858,746
Net assets of R&D Pharma Corp.	
Intangible assets	11,858,746
Total	\$ 11,858,746

During the year ended September 30, 2019 the Company determined that its investment in R&D Pharma Corp. was not one that fit its risk profile or corporate image. Accordingly, the Company ceased any further development funding to this asset. The Company recorded an impairment expense of \$11,858,746 in relation to the acquisition of R&D.

12. REVERSE TAKEOVER TRANSACTION

Effective October 2018 the Company completed a transaction with Open Source Health Inc. (“OSH”) whereby OSH acquired all of the issued and outstanding shares of the Company on a one-for-one basis. The Company is considered to have acquired OSH for accounting purposes with the agreement being accounted for as a reverse takeover of OSH by Weekend Unlimited Inc. shareholders. The combined entity continued operating under the name Weekend Unlimited Inc.

The legal acquisition of Weekend by OSH is considered a reverse asset acquisition as OSH does not meet the definition of a business as its main attribute was its public listing. For accounting purposes, the consideration to acquire 100% of the outstanding shares of OSH by the Company was 5,605,961 common shares. Additional consideration related to 4,784,550 OSH warrants with a strike price of CAD \$1.00. The value of the warrants was determined using the Black-Scholes valuation model with the following assumptions: expected life 2 years, volatility 72%, discount rate 2%, dividend yield 0%.

The following are the fair values of the OSH assets acquired and liabilities assumed by the Company and consideration paid to OSH:

Consideration	
5,605,961 common shares at a fair value of CAD \$2.00 per share:	\$ 8,628,696
4,784,550 warrants at a fair value of CAD \$1.20 per share:	4,488,809
Transaction costs - cash	44,323
	<u>13,161,828</u>
Net assets of Open Source Health Inc.	
Cash	143,564
Other receivable - due from Weekend Unlimited Inc.	622,113
Accounts payable	(24,825)
Total	<u>740,852</u>
Listing expense	\$ 12,420,976

13. ACQUISITION OF CANNABIS BRANDS INC.

During the year ended September 30, 2018 the Company acquired all of the issued and outstanding shares of Cannabis Brands Inc. (“CBI”) in exchange for 1,800,000 common shares with a value of \$2,096,280. CBI had an agreement to Purchase Northern Lights Organics Ltd. (“NLO”) (Note 14). The acquisition has been accounted for as an acquisition of assets as CBI did not have significant processes in place as of the date of acquisition and had not yet commenced active operations. The purchase consideration has been allocated based on the Company’s estimated fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.

Consideration	
1,800,000 common shares at a value of CAD \$1.50 per share:	\$ 2,096,280
Net assets of Cannabis Brands Inc.	
Cash	90
Receivables	13,946
Purchase option - agricultural property	2,148,509
Accounts payable	(66,265)
Total	<u>\$ 2,096,280</u>

During the year ended September 30, 2019 the Company notified NLO that it did not intend to pursue the purchase option. As a result the Company recorded the operations of NLO as a discontinued operation and wrote-down the value of the purchase option to \$Nil for the fiscal reporting period September 30, 2018.

14. ACQUISITION OF NORTHERN LIGHTS ORGANICS INC.

During the year ended September 30, 2018, the Company, through CBI (Note 13), signed an agreement to purchase, from the same vendors of CBI (Note 13), all of the shares of Northern Lights Organics Ltd. ("NLO") and was granted an option to acquire an organic farm in northern BC. As consideration for the shares of NLO the Company agreed to:

- Fund an ACMPR application;
- Upon closing, pay CAD \$25,000 in cash and issue 100,000 common shares of the Company. The shares were issued during the period ended December 31, 2018 and had a fair value of \$144,951 (Note 17);
- Upon receipt of a license to cultivate and sell hemp and/or cannabis, issue common shares with a value equal to CAD \$1,000,000;
- Upon harvest of the first outdoor hemp and/or cannabis crop, pay CAD \$25,000 in cash; and
- Upon completion of an expansion facility of at least 100,000 square feet, issue common shares with a value equal to CAD \$500,000.

If exercised, the option price to acquire the agricultural property was as follows:

- CAD \$1,150,000 if exercised during the period ending February 2019
- CAD \$1,250,000 if exercised during the period ending February 2020
- CAD \$1,350,000 if exercised during the period ending February 2021

During the year ended September 30, 2018 end the Company notified NLO that it would not pursue the purchase option in its current form.

During the year ended September 30, 2019 the Company entered a new the share purchase agreement with NLO which replaced and superseded any prior agreements between the parties. The terms of the new share purchase agreement are as follows:

- Divested 30% of the equity ownership to one of the original vendors
- Advanced CAD \$150,000 to NLO on closing of the modified share purchase agreement to be used towards development of the project
- Agreed to fund an additional CAD \$150,000 in July 2019 upon achievement of certain milestones
- Agreed to fund an additional CAD \$340,000 in February 2020 upon achievement of certain milestones
- Issue 200,000 common shares upon the achievement of certain milestones
- Issue CAD \$1,000,000 in common shares upon the achievement of certain milestones
- Agreed to purchase a 50% interest in the organic farm for CAD \$600,000 to be fully paid by October 2019. As of September 30, 2019 \$226,530 (CAD \$300,000) had been paid. The remaining CAD \$300,000 was paid subsequent to September 30, 2019.

15. ACQUISITION OF JB STONE INC.

On February 16, 2018 the Company acquired a 10% interest in JB Stone, Inc. ("JB Stone") for \$ 300,000. The Company was also granted the option to purchase up to 51% of JB Stone. On June 18, 2018 the Company acquired an additional 41% of JB Stone in exchange for 500,000 common shares of the Company with a value \$568,182, cash of \$350,000 bringing the total interest to 51%. JB Stone is principally focused on the manufacturing and sale of cannabis glassware and other branded items. The acquisition aligns with the Company's strategy to build a diversified offering of branded consumer products in the cannabis industry.

The acquisition has been accounted for as a business combination achieved in stages, using the acquisition method. The purchase consideration has been allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date of June 18, 2018. Upon acquisition of the additional 41% interest in JB Stone the Company recognized a fair value loss of \$76,053 in relation to the initial 10% interest.

The purchase price allocation was as follows:

Consideration	
500,000 common shares at a value of CAD \$1.50 per share:	\$ 568,182
Cash - initial 10% interest	300,000
Fair value adjustment - initial 10% interest	(76,053)
Cash - additional 41% interest	350,000
	1,142,129
Net assets of JB Stone Inc.	
Cash	80,264
Receivables	22,421
Inventory	366,773
Intangible asset - brand and trademark	1,032,531
Accounts payable	(254,559)
	1,247,430
Non-controlling interest	(105,301)
Total	\$ 1,142,129

During the year ended September 30, 2018 the Company was unable to obtain reliable financial records from JB Stone and commenced negotiations to restructure the business relationship. Accordingly the Company wrote down the intangible assets and reported the results of JB Stone Inc. as a discontinued operation.

During the year ended September 30, 2019 the Company entered a License Agreement with JB Stone Inc. in exchange for the cancellation of 500,000 shares of the Company and the return of the Company's 51% interest in JB Stone Inc. In relation to the disposition the Company recognized a loss from discontinued operations of \$110,685.

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16. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The following table summarizes the results from discontinued operations for the year ended September 30, 2019:

	JB Stone Inc.	R&D Pharma Corp	Verve Beverage Company	Total
Expenses				
General and administrative	\$ 40,361	\$ 45,397	\$ 107,950	\$ 193,708
Consulting	-	-	146,025	146,025
Loss on disposition	70,324	-	106,093	176,417
Loss from discontinued operations	\$ (110,685)	\$ (45,397)	\$ (360,068)	\$ (516,150)

The following table summarizes the results from discontinued operations for the year ended September 30, 2018:

	JB Stone Inc.	CBI / NLO	Total
Revenue	\$ 145,348	\$ -	\$ 145,348
Cost of good sold	(131,883)	-	(131,883)
Gross margin	13,465	-	13,465
Expenses			
General and administrative	234,156	95,222	329,378
Professional fees	18,836	-	18,836
Write-down - Intangible asset - JB Stone	1,032,531	-	1,032,531
Write-down - NLO purchase option	-	2,210,531	2,210,531
Loss from discontinued operations	\$ (1,272,058)	\$ (2,305,753)	\$ (3,577,811)

A summary of the assets and liabilities held for disposition as at September 30, 2018 is as follows:

	JB Stone Inc.	CBI / NLO	Total
Current Assets			
Receivables	\$ 44,450	\$ 12,700	\$ 57,150
Inventory	412,014	-	412,014
	\$ 456,464	\$ 12,700	\$ 469,164
Current Liabilities			
Accounts payable	\$ 398,207	\$ 54,171	\$ 452,378
	398,207	54,171	452,378

Subsequent to September 30, 2019 the Company entered a purchase agreement to dispose of the facility in Wenatchee Washington and recorded the recoverable amount of \$615,781 as assets held for sale, \$190,000 of which is expected to be collected beyond the following twelve months.

17. SHARE CAPITAL AND RESERVES

Authorized

Unlimited common shares with no par value and unlimited preferred shares with no par value. As of September 30, 2019, there were 44,105,524 common shares outstanding (September 30, 2018 – 14,394,949).

Escrow Shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2021. As at September 30, 2019, a total of 6,581,858 common shares were subject to these escrow restrictions.

Issued and Outstanding – Common Shares Fiscal 2019:

During the year ended September 30, 2019 the Company issued common shares as follows:

- a) The Company completed a non-brokered private placement of \$4,162,885 (CAD \$5,409,154) by the issuance of 2,704,577 units at CAD \$2.00. Each unit consists of one common share and one common share purchase warrant entitling the holder to subscribe for one additional share at a price of CAD \$2.50 for a period of 2 years, subject to the Company's right to accelerate the expiry date upon 30 days' notice if its shares trade at CAD \$5.00 or more for a period of 10 days. In connection with the issuance of the units the Company issued 198,540 broker warrants on the same terms as the unit offering and incurred cash finder's fees and share issue costs of \$455,076. The Company recorded share issue costs of \$107,010 with respect to the broker warrants granted as finders' fees. The fair value of these broker warrants was CAD \$0.70 per warrant and was estimated using the Black-Scholes option pricing model.
- b) The Company issued 5,605,961 common shares in relation to the amalgamation with Open Source (Note 12).
- c) The Company issued 1,415,781 common shares to acquire a 100% interest in S&K Industries, LLC with a fair value of \$1,800,000 (Note 9).
- d) The Company issued 6,000,000 common shares to acquire a 100% interest in Verve Beverage Company with a fair value of \$6,268,657 (Note 10).
- e) The Company issued 8,000,000 common shares to acquire a 100% interest in R&D Pharma Corp. with a fair value of \$8,762,640 (Note 11).
- f) The Company issued 100,000 common shares to NLO (Note 14) with a fair value of \$144,951 which has been recorded as an expense.
- g) The Company issued 75,000 common shares for compensation with a fair value of \$108,713.
- h) Issued 200,000 common shares for services with a fair value of \$171,810.
- i) A total of 3,554,924 warrants and 17,500 stock options were exercised at prices between CAD \$0.50 – CAD \$2.00 for gross proceeds of \$2,261,688. In relation to the exercise of stock options \$10,500 was reallocated from reserves to share capital.
- j) Cancelled 500,000 common shares in relation to the disposition of JB Stone Inc. with a book value of \$531,580 which was recorded to deficit.

17. SHARE CAPITAL AND RESERVES (Continued)

Issued and Outstanding – Common Shares Fiscal 2019 (Continued):

- k) The Company completed a non-brokered private placement of \$1,575,719 (CAD \$2,068,415) by the issuance of 4,136,832 units at CAD \$0.50. Each unit consists of one common share and one common share purchase warrant entitling the holder to subscribe for one additional share at a price of CAD \$1.00 for a period of 2 years, subject to the Company's right to accelerate the expiry date upon 30 days' notice if its shares trade at CAD \$2.50 or more for a period of 10 days. In connection with the issuance of the units the Company issued 270,146 broker warrants on the same terms as the unit offering and incurred cash finder's fees and share issue costs of \$106,593. The Company recorded share issue costs of \$64,600 with respect to the broker warrants granted as finders' fees. The fair value of these broker warrants was CAD \$0.30 per warrant and was estimated using the Black-Scholes option pricing model.
- l) The Company entered an agreement to divest its 100% interest in Verve Beverage Company in exchange for the return of 1,600,000 common shares of the Company from one of the original vendors. In relation to the cancellation the Company recorded \$1,579,552 to deficit.

Issued and Outstanding – Common Shares Fiscal 2018:

During the year ended September 30, 2018, the Company issued common shares as follows:

- a) On March 21, 2018 the Company issued 550,000 common shares at a price of CAD \$0.40 per share for gross proceeds of \$169,774 and 1,487,500 units at a price of CAD \$0.40 per unit for gross proceeds of \$459,162, with each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of CAD \$0.50 per common share for a period of 3 years from the date of issuance.
- b) On March 23, 2018 the Company issued 1,089,990 units at a price of CAD \$1.00 per unit for gross proceeds of \$847,794, with each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of CAD \$1.00 per common share for a period of 2 years from the date of issuance.
- c) On March 29, 2018, April 5, 2018, and April 18, 2018 the Company issued 8,707,454 units at a price of CAD \$1.50 per unit for gross proceeds of \$10,186,759, with each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of CAD \$2.00 per common share for a period of 2 years from the date of issuance. In connection with the issuance of the units the Company issued 489,543 broker warrants on the same terms as the unit offering and incurred cash finder's fees and share issue costs of \$781,644.
- d) The Company issued 1,800,000 common shares with a value of \$2,096,280 to acquire all of the shares of CBI. (Note 13).
- e) The Company issued 500,000 common shares with a value of \$568,182 to acquire an additional 41% interest in JB Stone Inc.
- f) The Company issued 260,000 common shares for services with a value of \$295,268.

17. SHARE CAPITAL AND RESERVES (Continued)

Warrants

A summary of warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$CAD)
Balance at September 30, 2017	-	\$ -
Granted	11,774,488	1.80
Balance at September 30, 2018	11,774,488	\$ 1.80
Granted	12,924,839	1.77
Expired	(395,079)	12.83
Exercised	(3,554,924)	0.85
Balance at September 30, 2019	20,749,324	\$ 1.69

The following table summarizes warrants outstanding at September 30, 2019:

Expiry date	Number of Warrants	Weighted Average Exercise Price (\$CAD)	Weighted Average Remaining Years
December 22, 2019	3,430,975	\$1.00	0.23
March 21, 2021	201,250	\$0.50	1.47
March 23, 2020	269,320	\$1.00	0.48
March 29, 2020	4,852,960	\$2.00	0.50
April 5, 2020	3,445,779	\$2.00	0.52
April 12, 2020	265,000	\$2.00	0.53
April 16, 2020	803,826	\$2.00	0.55
October 15, 2020	2,903,117	\$2.50	1.04
February 19, 2021	170,119	\$3.50	1.39
July 9, 2021	4,406,978	\$1.00	1.78
	20,749,324		0.82

During the year ended September 30, 2019, the Company recorded share issue costs of \$171,610 with respect to 468,686 broker warrants granted as finders' fees. The weighted average fair value of these broker warrants was CAD \$0.50 per warrant and was estimated using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair value are as follows:

	September 30, 2019	September 30, 2018
Risk-free interest rate	2.00%	1.25%
Expected life	2	2
Annualized volatility	75%	65%
Dividend rate	0%	0%
Weighted average fair value per warrant (\$CAD)	\$0.50	\$0.40

17. SHARE CAPITAL AND RESERVES (Continued)

Stock options

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the exercise price permitted by the CSE, and all stock options granted under the plan will have a maximum term of seven years.

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price (\$CAD)
Balance at September 30, 2017	-	\$ -
Granted	1,600,000	1.50
Balance at September 30, 2018	1,600,000	\$ 1.50
Granted	2,235,000	1.42
Exercised	(17,500)	1.50
Forfeited	(1,145,000)	1.50
Balance at September 30, 2019	2,672,500	\$ 1.50

The following table summarizes stock options outstanding and exercisable as at September 30, 2019:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price (\$CAD)	Weighted Average Remaining Years
August 15, 2025	1,407,500	1,055,625	\$1.50	5.88
February 22, 2024	900,000	300,000	\$1.50	4.40
July 2, 2024	190,000	63,333	\$1.00	4.76
August 21, 2024	100,000	33,333	\$1.00	4.90
September 6, 2024	75,000	416,667	\$1.00	4.94
	2,672,500	1,868,958	\$1.43	5.22

Share-based compensation expense recognized during the year of \$1,168,841 (2018 - \$545,030) related to options granted and vested during the year. The Option Pricing Model used the following weighted average assumptions:

	September 30, 2019	September 30, 2018
Risk-free interest rate	2.25%	2.00%
Expected life of options	4.25	4.25
Expected forfeitures	10%	10%
Annualized volatility	75%	75%
Dividend rate	0%	0%
Weighted average fair value per option (\$CAD)	\$0.70	\$0.87

Expected annualized volatility was determined using the historic volatility of established comparable publicly traded cannabis companies.

17. SHARE CAPITAL AND RESERVES (Continued)

R&D Pharma Corp. exchangeable preferred shares

A summary of non-voting exchangeable preferred share activity is as follows:

	Number of Preferred shares
Balance at September 30, 2017	-
Granted	-
Balance at September 30, 2018	-
Granted	25,000,000
Exchanged for warrants of the Company	(1,701,190)
Balance at September 30, 2019	23,298,810

The following table summarizes stock options outstanding and exercisable as at September 30, 2019:

Expiry date	Number of Pref shares	Conversion ratio to Warrants	Average Remaining years	Exercise Price (\$CAD)
February 19, 2021	23,298,810	0.10	1.89	\$3.50

Reserves

The following is a summary of the changes in reserves:

	Exchangable			
	Stock options	preferred shares	Warrants	Total
Balance, September 30, 2017	\$ -	\$ -	\$ -	\$ -
Share-based payments	545,030	-	-	545,030
Finders' warrants	-	-	159,922	159,922
Balance, September 30, 2018	\$ 545,030	\$ -	\$ 159,922	\$ 704,952
Share-based payments	1,168,841	-	-	1,168,841
OSH warrants	-	-	4,488,809	4,488,809
R&D exchangeable preferred shares	-	572,795	-	572,795
Finders' warrants	-	-	171,610	171,610
Reclassified on exercise of stock options and warrants	(10,500)	-	-	(10,500)
Balance, September 30, 2019	\$ 1,703,371	\$ 572,795	\$ 4,820,341	\$ 7,096,507

18. RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers and/or companies controlled by those individuals.

During the year ended September 30, 2019 the Company entered into the following key management transactions:

- Consulting fees of \$445,246 (2018 – \$512,138) were paid to directors, officers, former directors, and former officers.
- Shares issued for services of \$Nil (2018 - \$171,270) to a former director.
- Share-based compensation of \$327,035 (2018 - \$Nil) was related to directors, officers, and a former officer.

Other related party transactions include:

- In December 2018 the Company received a secured promissory note from High Desert Group Inc. ("HDG") of \$750,000. At the date of the issuance of the HDG loan, the Company's then CEO (now former CEO), Paul Chu, was a common director and officer of HDG and the Company. The note matured on December 13, 2019 and is secured by all the assets of HDG. The loan proceeds were deemed uncollectible and accordingly the Company wrote the loan down to \$Nil as of September 30, 2019.
- As at September 30, 2018 Open Source Health Inc., a company with common directors and officers, advanced the Company \$672,750. During the year ended September 30, 2019 the Company completed an amalgamation with Open Source Health Inc. (Note 12).

19. FINANCIAL INSTRUMENTS

Fair value

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 or 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 carried at fair value using a level 1 fair value measurement. The recorded values of receivables, loans receivable, due to related parties, and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

Financial risk management

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

19. FINANCIAL INSTRUMENTS (Continued)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and loans receivables. Cash is held with reputable Canadian and United States financial institutions, from which management believes the risk of loss is remote. Receivables consists of amounts due from the Government of Canada in which management believes the credit risk to be minimal. The Company does not have significant credit risk with respect to customers. The Company's remaining loans are considered to have a low risk of default. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments.

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2019 the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturities within one year. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at September 30, 2019, the Company had cash, loans receivable, accounts payable and accrued liabilities, denominated in Canadian dollars ("CAD"). A 10% fluctuation in the foreign exchange rate between the USD and Canadian dollar would have a \$98,000 impact on profit or loss for the year. The Company does not undertake currency hedging activities to mitigate its foreign currency risk.

20. CAPITAL MANAGEMENT

The Company defines capital as equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern and to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. As discussed in Note 1, the Company's ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation and securing additional financing. Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the years presented. The Company is not subject to externally imposed capital requirement.

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21. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative	September 30, 2019	September 30, 2018
Advertising, marketing, and brand development	\$ 2,868,627	\$ 518,023
Investor relations	160,675	-
Office expenses and general administration	451,276	102,839
Management fees	453,965	338,889
Consulting	1,342,556	701,924
Travel and entertainment	136,058	395,116
Total	\$ 5,413,157	\$ 2,056,791

22. SEGMENTED INFORMATION

The Company operates in four segments, referred to as Business to Business (“B2B”), Hemp Products, Hemp Cultivation, as well as its administrative costs center, (“Corporate”). B2B is focused on the provision of services to cultivators, and processors in Washington State, Hemp products is focused on the manufacture and distribution of hemp infused products, Hemp Cultivation is focused on developing agricultural opportunities in the Hemp industry. The corporate head office is located in Canada. Hemp Cultivation operations are located in Canada while the operations of B2B and Hemp Products are located in the United States. Segmented info as at and for the year ended September 30, 2019 is as follows:

	B2B (USA)	Hemp Products (USA)	Hemp Cultivation (Canada)	Corporate (Canada)	Total
Revenue	\$ 7,144		\$ -	\$ -	\$ 7,144
Cost of goods sold	3,543		-	-	3,543
Gross margin	3,601	-	-	-	3,601
Expenses					
General and administrative	\$ 291,541	\$ 106,762	\$ 237,940	\$ 4,776,914	\$ 5,413,157
Professional fees	87,783	12,500	1,870	468,940	571,093
Share-based compensation	-	-	-	1,168,841	1,168,841
Northern Lights Organics milestone payment	-	-	-	144,951	144,951
Depreciation	116,033	-	37,004	-	153,037
Foreign exchange	-	-	-	1,325	1,325
Total expenses	495,357	119,262	276,814	6,560,971	7,452,404
Net Loss before other items	\$ (491,756)	\$ (119,262)	\$ (276,814)	\$ (6,560,971)	\$ (7,448,803)
Property and equipment	\$ 21,068	\$ -	\$ 146,336	\$ -	\$ 167,404
Total assets	\$ 1,172,593	\$ 15,290	\$ 176,320	\$ 1,850,230	\$ 3,214,433
Total liabilities	\$ 33,128	\$ -	\$ -	\$ 273,829	\$ 306,957

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24. INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	September 30, 2019	September 30, 2018
Loss for the year	\$ (44,102,824)	\$ (6,852,669)
Expected income tax recovery	\$ (11,908,000)	\$ (1,782,000)
Change in statutory, foreign tax, foreign exchange rates and other	(1,067,000)	18,000
Permanent Difference	8,353,000	847,000
Share issue cost	(149,000)	-
Adjustment to prior years provision vs. tax returns and expiry of non-capital losses	(149,000)	-
Change in unrecognized deductible temporary differences	4,920,000	917,000
Total income tax expense (recovery)	\$ -	\$ -

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada/British Columbia. The US federal income tax expense is due to the fact that Canadian and US losses are not able to be consolidated for tax disclosure & reporting purposes

The significant components of the Company's deferred tax assets and liabilities that have not been included in the consolidated statement of financial position are as follows:

	September 30, 2019	September 30, 2018
Deferred tax assets		
Property and equipment	\$ 67,000	\$ -
Share issue costs	258,000	-
Allowable capital losses	3,183,000	-
Non-capital losses	2,324,000	900,000
Unrecognized deferred tax assets	(5,832,000)	(900,000)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	September 30, 2019	Expiry Date Range	September 30, 2018	Expiry Date Range
Temporary Differences				
Property and equipment	\$ 311,000	Indefinite	\$ -	Indefinite
Share issue costs	955,000	2040 to 2043	-	NA
Allowable capital losses	13,359,000	2024 to ∞	-	NA
Non-capital losses available for future period	47,548,000	2036 to ∞	3,547,000	2018 to 2037
Canada	42,382,617	2036 to 2039	3,032,000	2036 to 2038
USA	5,165,551	Indefinite	514,697	2020 to 2033

Tax attributes are subject to review, and potential adjustment by tax authorities.

25. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information	September 30, 2019	September 30, 2018
Shares issued to acquire S&K Industries, LLC. (Note 9)	\$ 1,800,000	\$ -
Shares issued to acquire Verve Beverage Company. (Note 10)	\$ 6,268,657	\$ -
Shares issued to acquire R&D Pharma Corp. (Note 11)	\$ 8,762,640	\$ -
Shares issued to acquire Cannabis Brands Inc.	\$ -	\$ 2,096,280
Shares issued to acquire JB Stone Inc.	\$ -	\$ 568,182
Fair value of finders' warrants (Note 17)	\$ 171,610	\$ 159,922
Fair value of exchangeable preferred shares (Note 17)	\$ 572,795	\$ -

26. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, the Company completed the following transactions:

- a) The non-interest bearing senior secured promissory note from PPK Investment Group, LLC of \$200,000 was collected in full.
- b) The Company entered into an amending agreement with Northern Lights Supply Inc. for early repayment of its loan, whereby the parties agreed to reduce the loan balance to CAD \$650,000, following interest payments received of \$33,750, and amended the repayment terms as follows:
 - a payment of CAD \$ 275,000 upon execution of the amending agreement
 - 6 semi-annual payments of CAD \$50,000 over three years
 - One final payment of CAD \$75,000
 - The Company recognized an impairment charge of CAD \$75,510 in relation to the reduced loan balance as at September 30, 2019.
- c) Entered into a purchase and sale agreement for the Company's Wenatchee Washington Facility with the following terms:
 - Purchase price of \$600,000
 - Payment of \$350,000 upon closing
 - \$250,000 to be paid back interest free over 50 months at a rate of \$5,000 per month.
 - Elimination of the conversion option

Closing is subject to due diligence by the purchaser.
- d) Issued 100,000 common shares upon the achievement of certain milestones under the Northern Lights Organics share purchase agreement.
- e) Issued 45,000 common share upon the exercise of warrants at a price of CAD \$0.50 each for proceeds of CAD \$22,500.