Condensed Interim Consolidated Financial Statements

Elixxer Ltd.
(formerly LGC Capital Ltd.)

For the three and nine months ended June 30, 2019 and 2018

(Unaudited)

INDEX

NOTICE TO READER

Management has compiled the unaudited condensed interim consolidated financial statements of Elixxer Ltd. as at June 30, 2019 and for the three and nine months ended June 30, 2019 and 2018. These condensed interim consolidated financial statements have not been audited or reviewed by the Company's independent auditors.

Elixxer Ltd.

Condensed interim consolidated statements of financial position (Unaudited)

As at,

	June 30, 2019	September 30, 2018
	$	$
Assets		
Current assets		
Cash	3,469,178	6,566,218
Non refundable deposits *[note 5]*	1,057,086	—
Other receivables	1,042,747	211,084
Total current assets	5,569,011	6,777,302
Non-current assets		
Cash held in trust	—	759,136
Equity investments *[note 5]*	3,961,250	—
Available for sale investments *[note 5]*	—	3,652,023
Loans receivable *[note 6]*	173,173	1,576,266
Investments in associates [note 7]	4,283,409	—
Convertible debentures receivable *[note 8]*	6,619,273	3,408,580
Royalty streams *[notes 7, 8 and 9]*	8,121,145	4,191,739
Loans to directors and officers *[note 10]*	382,299	362,802
Fixtures and fittings	8,502	9,969
Total non-current assets	23,549,051	13,960,515
	29,118,062	20,737,817
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities *[note 15]*	1,204,233	340,345
Deferred revenue *[note 5]*	21,156	116,357
Convertible debentures payable *[note 11]*	2,506,756	2,528,720
Conversion feature of convertible debentures payable *[note 11]*	354,032	78,419
Provisions *[note 13]*	1,312,550	—
Total current liabilities	5,398,727	3,063,841
Equity		
Share capital *[notes 2 and 14]*	47,230,539	32,335,757
Warrants *[notes 2, 11 and 14]*	3,295,887	4,537,871
Contributed surplus *[note 14]*	12,255,553	10,003,130
Accumulated other comprehensive loss	(11,100)	(188,876)
Deficit	(39,051,544)	(29,013,906)
Total equity	23,719,335	17,673,976
	29,118,062	20,737,817

Contingent liabilities and commitments *[note 17]*

Subsequent events *[note 18]*

See accompanying notes

On behalf of the Board

Director

Director

Elixxer Ltd.

Condensed interim consolidated statements of loss and comprehensive loss
(Unaudited)

Three and nine months ended June 30,

	Three months ended June 30,		Nine months ended June 30,	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Revenues				
Finance income *[notes 4, 6 and 8]*	**259,451**	63,969	**703,865**	86,863
Other revenues *[note 5]*	**31,733**	23,073	**95,201**	286,641
	291,184	87,042	**799,066**	373,504
Expenses				
Adminstrative expenses *[note 4]*	**2,780,591**	9,571,978	**6,392,787**	15,565,486
Finance expense *[notes 4, 11 and 12]*	**335,529**	365,309	**1,114,124**	635,133
Depreciation	**489**	—	**1,467**	—
Realized gain on available for sale investments *[note 5]*	**—**	(32,808)	**—**	(223,951)
Changes in fair value of embedded derivatives *[note 11]*	**—**	40,454	—	(574,390)
Share of losses of associates *[note 7]*	**364,575**	—	**543,677**	—
Impairment of loans receivable *[note 6]*	**52,335**	—	**111,805**	—
Impairment of loans to associates and joint ventures	**—**	—	**70,665**	—
Provision for doubtful debts *[note 6]*	**22,432**	—	**68,252**	—
Provision for Etea Guarantee *[note 13]*	**(22,400)**	—	**1,312,550**	—
Net loss on financial assets measured at fair value through profit or loss *[notes 5, 8 and 9]*	**2,146,577**	—	**1,270,844**	—
Net gain in financial liabilities measured at fair value through profit or loss *[note 11]*	**(309,631)**	—	**(269,113)**	—
Foreign exchange (gain) loss	**(42,354)**	(31,749)	**30,770**	44,849
	5,328,143	9,913,184	**10,647,828**	15,447,127
Net loss for the period	**(5,036,959)**	(9,826,142)	**(9,848,762)**	(15,073,623)
Other comprehensive (loss) income				
Other comprehensive (loss) income items to be reclassified to profit or loss				
(Decrease) increase in value of available for sale investments, net of taxes *[note 5]*	**—**	(17,222)	**—**	204,006
Realized (loss) on available for sale investments reclassified to profit or loss, net of taxes *[note 5]*	**—**	(32,808)	**—**	(223,951)
Foreign exchange (loss) gain on translation of foreign subsidiaries	**(45,210)**	(41,905)	**(11,100)**	49,163
Other comprehensive (loss) income	**(45,210)**	(91,935)	**(11,100)**	29,218
Comprehensive loss	**(5,082,169)**	(9,918,077)	**(9,859,862)**	(15,044,405)
Net loss per share				
Basic and fully diluted	**(0.01)**	(0.03)	**(0.02)**	(0.05)
Weighted average number of outstanding shares				
Basic and fully diluted	**477,467,773**	357,515,215	**427,010,869**	323,352,785

See accompanying notes

Elixxer Ltd.

Condensed interim consolidated statements of changes in equity
(Unaudited)

Nine months ended June 30,

	Share capital		Warrants		Contributed surplus	Accumlated other comprehensive loss		Deficit	Total
						Available-for-sale reserve	Foreign currency tralsation reserve		
	#	$	#	$	$	$	$	$	$
Balance – October 1, 2017	264,201,810	13,108,479	32,968,000	1,008,365	1,568,627	545,455	(1,647,820)	(13,006,763)	1,576,343
Increase in value of available for sale investments, net of taxes *[note 5]*	—	—	—	—	—	204,006	—	—	204,006
Realized gain on available for sale investments reclassified to profit or loss *[note 5]*	—	—	—	—	—	(223,951)	—	—	(223,951)
Foreign exchange gain on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	—	49,163	—	49,163
Net loss for the period	—	—	—	—	—	—	—	(15,073,623)	(15,073,623)
Comprehensive loss for the period	—	—	—	—	—	(19,945)	49,163	(15,073,623)	(15,044,405)
Issuance of LGC Capital shares and warrants *[notes 2 and 14]*	43,386,822	7,464,316	43,386,822	4,320,482	—	—	—	—	11,784,798
Issuance of convertible debentures payable *[notes 11 and 14]*	—	—	1,643,764	166,303	—	—	—	—	166,303
Issuance of LGC Capital shares to settle convertible debenture issue costs *[notes 11 and 14]*	376,162	253,909	—	—	—	—	—	—	253,909
Issuance of LGC Capital shares to acquire available for sale investments *[notes 5 and 14]*	10,660,000	3,272,600	—	—	—	—	—	—	3,272,600
Issuance of LGC Capital shares to settle accounts payable and accrued liabilities *[note 14]*	1,370,946	180,585	—	—	—	—	—	—	180,585
Issue costs - shares and warrants *[notes 2 and 14]*	—	(529,769)	—	(321,397)	—	—	—	—	(851,166)
Issue costs - warrants issued to brokers *[notes 2 and 14]*	—	(405,493)	2,211,728	(215,237)	620,730	—	—	—	—
Issue costs - convertible debentures payable *[note 11]*	—	—	—	(18,151)	—				(18,151)
Exercise of stock options *[note 14]*	12,868,779	6,079,134	—	—	(5,118,150)	—	—	—	960,984
Exercise of warrants *[note 14]*	24,023,215	16,624,219	(24,023,215)	—	(13,020,737)	—	—	—	3,603,482
Exercise of broker compensation warrants *[note 14]*	952,000	670,740	(952,000)	—	(575,540)				95,200
Stock-based compensation *[notes 4 and 14]*	—	—	—	—	12,404,746	—	—	—	12,404,746
Balance – June 30, 2018	357,839,734	46,718,720	55,235,099	4,940,365	(4,120,324)	525,510	(1,598,657)	(28,080,386)	18,385,228
Balance – October 1, 2018	**380,288,641**	**32,335,757**	**49,218,314**	**4,537,871**	**10,003,130**	**(188,876)**	**—**	**(29,013,906)**	**17,673,976**
Impact of adopting IFRS 9 *[note 2.2]*	—	—	—	—	—	188,876	—	(188,876)	—
Restated opening balance under IFRS 9 *[note 2.2]*	**380,288,641**	**32,335,757**	**49,218,314**	**4,537,871**	**10,003,130**	**—**	**—**	**(29,202,782)**	**17,673,976**
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	—	(11,100)	—	(11,100)
Net loss for the period	—	—	—	—	—	—	—	(9,848,762)	(9,848,762)
Comprehensive loss for the period	—	—	—	—	—	—	(11,100)	(9,848,762)	(9,859,862)
Issuance of convertible debentures payable *[notes 11 and 14]*	—	—	12,048,055	299,809	—	—	—	—	299,809
Issuance of LGC Capital shares to acquire equity investments *[notes 5 and 14]*	35,167,001	3,868,370	—	—	—	—	—	—	3,868,370
Issuance of LGC Capital shares to settle accounts payable and accrued liabilities *[note 14]*	703,340	77,367	—	—	—	—	—	—	77,367
Issuance of LGC Capital shares - Arlington private placement *[note 14]*	104,000,000	10,400,000	—	—	—	—	—	—	10,400,000
Issuance of LGC Capital shares to settle Arlington finders fee *[notes 4 and 14]*	3,120,000	312,000	—	—	—	—	—	—	312,000
Issue costs - convertible debentures payable *[note 11]*	—	—	—	(4,541)	—	—	—	—	(4,541)
Share purchase loans to directors and officers repaid during the period *[notes 10 and 14]*	—	209,750	—	—	—	—	—	—	209,750
Share purchase loans to directors and officers - accretion during the period *[notes 10 and 14]*	—	(11,878)	—	—	—	—	—	—	(11,878)
Exercise of stock options *[note 14]*	500,000	39,173	—	—	(14,173)	—	—	—	25,000
Expiry of warrants *[note 14]*	—	—	(2,744,592)	(495,321)	495,321	—	—	—	—
Extension of 2017 Warrants *[note 14]*	—	—	—	(1,041,931)	1,041,931	—	—	—	—
Stock-based compensation *[notes 4 and 14]*	—	—	—	—	729,344	—	—	—	729,344
Balance – June 30, 2019	**523,778,982**	**47,230,539**	**58,521,777**	**3,295,887**	**12,255,553**	**—**	**(11,100)**	**(39,051,544)**	**23,719,335**

Contingent liabilities *[note 17]*
Subsequent events *[note 18]*

See accompanying notes

Elixxer Ltd.

Condensed interim consolidated statements of cash flows (Unaudited)

Three and nine months ended June 30,

	Three months ended June 30,		Nine month ended June 30,	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Operating activities				
Net loss for the period	**(5,036,959)**	(9,826,141)	**(9,848,762)**	(15,073,623)
Items not impacting cash:				
Revenues received in shares *[note 5]*	**(31,733)**	—	**(95,201)**	—
Finance income *[notes 4, 6, and 8]*	**(259,451)**	(52,700)	**(703,865)**	(65,967)
Finance expense *[notes 4, 11 and 12]*	**361,175**	365,309	**956,358**	635,133
Non-cash finder's fees [*notes 4, 7 and 14]*	**312,000**	—	**389,367**	—
Realised gain on sale of available for sale investments *[note 5]*	**—**	(32,808)	**—**	(223,951)
Changes in fair value of embedded derivatives *[note 11]*	**—**	40,454	**—**	(574,390)
Net loss on financial assets measured at fair value through profit or loss *[notes 5, 8 and 9]*	**2,146,577**	—	**1,270,844**	—
Net gain in fair value of embedded derivative in convertible debentures payable at fair value through profit or loss *[note 11]*	**(309,631)**	—	**(269,113)**	—
Share of losses of associates *[note 7]*	**364,575**	—	**543,677**	—
Impairment of loans receivable *[note 6]*	**52,335**	—	**111,805**	—
Impairment of loans to associates and joint ventures	**—**	—	**70,665**	—
Provision for doubtful debts *[note 6]*	**22,432**	—	**68,252**	—
Provision for Etea Guarantee *[note 13]*	**(22,400)**	—	**1,312,550**	—
Depreciation	**489**	—	**1,467**	—
Bonus payments offset against loans to directors and officers	**—**	—	**38,097**	—
Stock-based compensation *[notes 4 and 14(d)]*	**696,456**	8,504,625	**729,344**	12,404,746
Unrealized foreign exchange (gain) loss	**(182,694)**	30,897	**(68,433)**	7,195
	(1,886,829)	(970,364)	**(5,492,948)**	(2,890,857)
Change in non-cash working capital items	**343,539**	(477,415)	**629,610**	(475,555)
Net cash flows from operating activities	**(1,543,290)**	(1,447,779)	**(4,863,338)**	(3,366,412)
Investing activities				
Acquisition of available for sale investments *[note 5]*	**—**	—	**(358,547)**	(1,478,699)
Disposal of available for sale investments *[note 5]*	**—**	220,063	**—**	905,221
Acquisition of investment in joint ventures	**—**	(230,843)	**—**	(230,843)
Restricted cash transfers to trust account	**—**	—	**759,136**	—
Payments for non-refundable deposits *[note 5]*	**(1,073,286)**	—	**(1,223,593)**	—
Issuance of loans receivable *[note 6]*	**(48,573)**	(2,360,746)	**(2,128,203)**	(2,988,770)
Issuance of loans to joint ventures and associates	**(2,196,448)**	—	**(2,267,113)**	—
Acquisition of convertible debentures receivable *[note 8]*	**(1,323,008)**	(1,228,800)	**(2,656,347)**	(1,328,800)
Acquisition of royalty streams *[note 8 and 9]*	**—**	—	**(915,797)**	—
Cash flows from investing activities	**(4,641,315)**	(3,600,326)	**(8,790,464)**	(5,121,891)
Financing activities				
Issuance of LGC Capital shares - Arlington private placement [note 14]	**5,100,000**	—	**5,100,000**	—
Proceeds from convertible debentures *[note 11]*	**—**	—	**—**	2,947,401
Convertible debenture issue costs *[note 11]*	**—**	(15,620)	**(46,763)**	(67,788)
Proceeds from issuance of other loans payable *[note 12]*	**3,300,000**	—	**5,300,000**	—
Repayment of other loans payable	**—**	—	**—**	(325,440)
Proceeds from issuance of shares and warrants *[note 14]*	**—**	(30,000)	**—**	11,785,708
Share and warrant issue costs *[note 14]*	**—**	—	**—**	(851,166)
Proceeds from the exercise of stock options *[note 14]*	**—**	20,000	**196,654**	578,860
Proceeds from the exercise of warrants *[note 14]*	**—**	—	**—**	3,483,882
Cash flows from financing activities	**8,400,000**	(25,620)	**10,549,891**	17,551,457
Increase (decease) in cash	**2,215,395**	(5,073,725)	**(3,103,911)**	9,063,154
Net foreign exchange differences	**7,944**	(21,117)	**6,871**	18,648
Cash, beginning of period	**1,245,839**	16,205,214	**6,566,218**	2,018,570
Cash, end of period	**3,469,178**	11,110,372	**3,469,178**	11,100,372

See accompanying notes

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and nine months ended June 30, 2019 and 2018

1. Nature of operations and comparative information

Elixxer Ltd. ("Elixxer") (formerly LGC Capital Ltd.) was incorporated under the Canada Business Corporations Act on July 9, 2004. Elixxer Ltd. is a publicly listed company and its shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "ELXR" ["LG" prior to August 6, 2019]. The registered office of Elixxer is located at 800 Square Victoria, Suite 3700, Montréal, Québec, Canada.

Elixxer and its wholly-owned subsidiaries, LGC Finance Limited (formerly Leni Gas Cuba Limited) ("LGC Finance"), LGC Capital EU OU ("LGC Estonia") and LGC Capital Spain S.L ("LGC Spain"), are collectively referred to as the "Company" in these condensed interim consolidated financial statements.

Elixxer is focused on investing in the legal global cannabis market. The Company's aim is to be involved and invested in jurisdictions globally that allow legal cultivation and production of cannabis products, with the exception of investments in businesses operating in the United States. To date, the Company has expanded to securing significant positions in emerging legal cannabis companies in Australia, Canada, Jamaica, Switzerland and Italy.

All amounts are expressed in Canadian dollars unless otherwise noted. Certain amounts in these consolidated financial statements are expressed in British pounds ("GBP"), Australian dollars ("AUD"), United States dollars ("USD") and Euros ("EUR").

2. Summary of significant accounting policies

2.1 Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements of the Company for the three and nine months ended June 30, 2019 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the financial statements for the year ended September 30, 2018 except for the new standards and interpretations effective October 1, 2018 as summarised in note 2.2. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended September 30, 2018 which have been prepared in accordance with IFRS.

The Board of Directors approved these condensed interim consolidated financial statements, effective August 29, 2019.

Basis of consolidation

The condensed interim consolidated financial statements include the financial statements of Elixxer and its subsidiaries as described in note 1. All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full on consolidation.

The condensed interim consolidated financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as Elixxer.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of Elixxer. The functional currency of LGC Finance is the GBP and that of LGC Estonia and LGC Spain are each the EUR.

2.2 New standards adopted

[i] IFRS 9 - Financial Instruments

IFRS 9 replaces IAS 39 and contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains four principal classification categories for financial assets, namely: amortized cost, FVOCI with gains or losses recycled to profit or loss on derecognition, FVOCI with no recycling of gains or losses to profit or loss on derecognition and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The following summarizes the accounting policies used by the Company upon adoption of IFRS 9.

Initial classification

The classification of the Company's financial instruments is as follows:

Classification	Financial instrument	Description
Financial assets measured at amortized cost	Cash	Cash balances with banks
	Cash held in trust	Cash balances held in trust for specified purposes - not available to fund normal operations
	Non-refundable deposits	Non-refundable deposits paid in respect of transactions pending completion
	Other receivables	Amounts receivable from third parties
	Loans to directors and officers	Amounts receivable from directors and officers
	Loans receivable	Loans receivable and long-term receivables
Financial assets measured at FVTPL	Convertible debentures receivable	Convertible debentures receivable including conversion feature
	Royalty streams	Royalty streams acquired that do not satisfy the definition of an intangible asset
	Equity investments	Equities of publicly traded and private entities
Financial assets measured at FVOCI (with no recycling)	Equity investments	Equities of publicly traded and private entities
Financial liabilities	Accounts payable and accrued liabilities	Amounts payable to suppliers and third parties
	Convertible debentures payable	Financial liability host component of convertible debentures payable
	Provisions	Provisions for expenditures payable to third parties
Financial liabilities measured at FVTPL	Conversion feature of convertible debentures payable	Conversion feature embedded in convertible debentures payable and accounted for separately from the financial liability host

Criteria for classification

Under IFRS 9 the Company can classify, measure and account for its loan receivables and other receivables as amortized cost, FVOCI (with recycling) and FVTPL while equity investments can be classified as FVOCI (with no recycling) or FVTPL. The Company analyzes each loan receivable, other receivables and equity investment on an individual basis. The analysis and classification is driven by the following criteria:

Classification	Criteria
Loans and receivables	
Amortized cost	• Held within a business model whose objective is to hold assets in order to collect contractual cash flows and; • Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Financial assets measured at FVOCI (with recycling)	• Held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets and; • Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
FVTPL	• All loans receivable and investments in funds not measured at amortized cost or at FVOCI must be measured at FVTPL.

Classification	Criteria
Investments in equity instruments	
FVTPL	• Investment acquired with the purpose of sale or, • Evidence of historical short-term profit making on similar instruments.
FVOCI (with no recycling)	• Investment made primarily for non-financial benefits such as strategic alliances and strategic investments.

Measurement

After classification as amortized cost, FVTPL or FVOCI, the Company uses the following policy for initial measurement and subsequent measurement at each reporting period.

Classification	Initial measurement	Subsequent measurement	Changes in fair value
Amortized cost	Fair value less expected credit loss	Amortized cost using the effective interest method	Reported in consolidated statement of loss when realized or impaired. Interest accretion on loans is recorded in “Finance income” on the consolidated statement of loss.
FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value. Re-measured using the Black- Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in “Net gain (loss) on financial assets measured at FVTPL” on the consolidated statement of loss.
FVOCI (with no recycling)	Fair value	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in consolidated statement of other comprehensive loss. There is no recycling of amounts from the statement of comprehensive loss to the statement of loss upon the disposal of the financial asset.
Financial liabilities	Fair value	Amortized cost using the effective interest method.	Reported in consolidated statement of loss when liability is extinguished. The interest accretion is recorded in “Finance expense” on the consolidated statement of loss.
Financial liabilities measured at FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value. Re-measured using the Black- Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in “Net gain (loss) on financial liabilities measured at FVTPL” on the consolidated statement of loss.

Use of estimates and judgments

The fair value of each strategic loan is determined using the discounted future cash flow of the principal and interest payments and the discount rate used is the fair value interest rate (“FV Interest Rate”) of the loan. The Company estimates the FV Interest Rate through the following steps which involves use of significant judgement and estimates:

Fair value measurement of equity investments, convertible debentures receivable and royalty streams: The fair value of equity investments, convertible debentures receivable, royalty streams and embedded derivatives contained within convertible debentures payable, is measured using valuation techniques including discounted cash flow ("DCF") models, Monte Carlo simulations and funded production capacity. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful initial public offering ("IPO"), and also appropriate valuation multiples. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Assignment of credit rating: There is no reliable third-party credit rating on any of the strategic partners from which the Company has a loan outstanding balance. Therefore, the Company judgmentally assigns a credit rating to each loan based on quantitative and qualitative factors which include but are not limited to review of borrower's business plan, cash flow forecasts and financial standing.

Interest rate of comparable financial instruments: The Company reviews the interest rates of comparable debt instruments with similar maturity term and credit rating as the loan being analysed. Based on the review the Company assigns a FV Interest Rate to each of its loan receivable. The Company may judgmentally exclude certain outliers in this analysis.

Impact of transition to IFRS 9

Upon adoption of IFRS 9, the Company has not restated prior periods and therefore the comparative information for year ended September 30, 2018 is reported under IAS 39 and is not comparable to information presented for three and nine months ended June 30, 2019. The impact of the transition is as follows:

	As at September 30, 2018			As at October 1, 2018			
	IAS 39 classification	**IAS 39 measurement**	**IAS 39 Carrying amount ($)**	**IFRS 9 classification & measurement**	**IFRS 9 Carrying amount ($)**	**Impact on opening deficit**	**Impact on opening AOCI**
Cash	FVTPL	FVTPL	6,566,218	Amortized cost	6,566,218	—	—
Cash held in trust	FVTPL	FVTPL	759,136	Amortized cost	759,136	—	—
Other receivables	Other receivables	Amortized cost	211,084	Amortized cost	211,084	—	—
Loans receivable	Loans and other receivables	Amortized cost	1,576,266	Amortized cost	1,576,266	—	—
Equity investments	AFS	FVOCI	3,652,023	FVTPL	3,652,023	188,676	(188,676)
Convertible debentures	FVTPL	FVTPL	3,408,580	FVTPL[1]	3,408,580	—	—
Royalty streams	FVTPL	FVTPL	4,191,739	FVTPL[1]	4,191,739	—	—
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	340,345	Amortized cost	340,345	—	—
Convertible debentures payable	Financial liabilities	Amortized cost	2,528,720	Amortized cost	2,528,720	—	—
Conversion feature of convertible debentures payable	Financial liabilities measured at FVTPL	FVTPL	78,419	FVTPL	78,419	—	—
Transition impact						188,676	(188,676)

[1] On transition, a Deferred day 1 gain of $4,059,655 remains to be recognized on eventual disposal of these financial instruments. Refer to note 8 for additional details.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For other receivables and loans receivable, the Company utilizes a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to its' counterparties and other relevant factors. The carrying amount of other receivables and loans receivable is reduced for any expected credit losses through the use of a provision for doubtful debts (for other receivables) or a provision for impairment (for loans receivable). Changes in the carrying amount of these provisions are recognized in the condensed interim consolidated statement of loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. The adoption of the new expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets recognized at amortized cost.

The impact on opening deficit and accumulated other comprehensive loss is summarized below:

	Deficit	AOCI
	$	$
Closing balance under IAS 39 – September 30, 2018	(29,013,906)	(188,876)
Transition impact	(188,876)	188,876
Opening balance under IFRS 9 – October 1, 2018	**(29,202,782)**	**—**

[ii] Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements relating to the accounting of:

- effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature concerning the legal obligation related to withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments to IFRS 2 are effective for the Company on October 1, 2018 and have been applied prospectively. The transition to the updated standard resulted in no adjustment to opening deficit as at October 1, 2018.

3. Recent accounting pronouncements

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") which is effective for the Company for periods commencing October 1, 2019 and replaces IAS 17 Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is less than 12 months or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. Finance income and expense and administrative expenses

The following is a breakdown of the nature of expenses included in administration expenses finance income and finance expenses for the three and nine months ended June 30, 2019:

	Three months ended June 30		Nine months ended June 30	
	2019	**2018**	**2019**	**2018**
Administration expenses:				
Directors' fees and consultancy *[note 15]*	**283,785**	149,515	**831,707**	799,344
Legal fees	**120,481**	218,033	**963,433**	527,225
Regulatory expenses	**211,061**	131,870	**537,765**	478,325
Consultancy fees	**397,415**	68,757	**959,646**	147,080
Travel and business development	**334,635**	67,746	**668,001**	200,613
Investor / public relations	**73,797**	84,524	**167,082**	177,320
Office expenses	**38,366**	17,954	**96,362**	53,544
Professional fees	**6,554**	(10,033)	**138,612**	47,211
Stock-based compensation *[note 14[d]]*	**696,456**	8,504,625	**729,344**	12,404,746
Viridi finder's fee *[notes 7[a] and 14[a]]*	**133,958**	—	**335,566**	—
Arlington finder's fee *[note 14[a]]*	**312,000**	—	**312,000**	—
Global Canna Labs finder's fee *[note 8[b]]*	**—**	257,500	**—**	257,500
Due diligence fees	**—**	—	**36,490**	—
House of Hemp *[i]*	**—**	—	**—**	162,367
Tricho-Med option expense *[ii]*	**—**	—	**—**	50,000
Other administration	**51,116**	21,593	**112,160**	53,843
Total	**2,780,591**	9,571,978	**6,392,787**	15,565,486

	Three months ended June 30		Nine months ended June 30	
	2019	**2018**	**2019**	**2018**
Finance income:				
Interest on loans receivable *[note 6]*	**116,095**	—	**289,426**	—
Interest on convertible debentures *[note 8]*	**143,356**	46,475	**414,439**	65,967
Other interest	**—**	17,494	**—**	20,896
Total	**259,451**	63,969	**703,865**	86,863

	Three months ended June 30		Nine months ended June 30	
	2019	**2018**	**2019**	**2018**
Finance expense:				
Discount on fair valuation of loan to Oriah *[note 6]*	—	—	**33,650**	—
Accretion of loan to Oriah *[note 6]*	**(7,769)**	—	**(9,339)**	—
Accretion of loans to directors and officers *[note10]*	**(9,467)**	—	**(31,375)**	—
Interest on convertible debentures payable *[note 11]*	**98,792**	72,977	**250,684**	112,707
Accretion of convertible debentures payable *[note 11]*	**233,584**	292,332	**828,974**	522,426
Interest on loans payable *[note 12]*	**20,389**	—	**41,530**	—
Total	**335,529**	365,309	**1,114,124**	635,133

[i] House of Hemp expense
In June 2017, the Company entered into a strategic alliance with AfriAg (Pty) Ltd., to create a new 50/50 joint venture to grow and distribute medical and recreational cannabis products in the southern African region for export to regulated and certified end users around the world. The proposed 50/50 joint venture with AfriAg was never created.

In July 2017, Elixxer and AfriAg (Pty) Ltd. entered into a binding memorandum of agreement to acquire a 60% interest in South Africa's House of Hemp (Pty) Ltd.'s hemp and cannabis related businesses, subject to an exclusive option for the period ended January 28, 2018, which was subsequently rolled over on a monthly basis until terminated.

On March 23, 2018, the Company's Directors decided to terminate its option to acquire, through the above mentioned joint venture, a 30% interest in House of Hemp citing legislative delays in South Africa adversely impacting the timeline for House of Hemp to obtain the necessary commercial licenses.

During the three and nine months ended June 30, 2019, the Company incurred due diligence and other related expenses totaling $Nil and $Nil, respectively [June 30, 2018 – $Nil and $162,367, respectively] related to this transaction.

[ii] Tricho-Med option expense
On October 31, 2017, the Company signed a term sheet with Quebec based Tricho-Med Corporation ("Tricho-Med") giving the Company an option to acquire a 49% interest in AAA Tricho-Med plus a 5% royalty on its net sales. The cost of this option of $50,000 was expensed in the nine months ended June 30, 2018.

5. Equity investments

A breakdown of equity investments as at June 30, 2019 and September 30, 2018 and the respective changes during the nine months and the year then ended, are summarized as follows:

	June 30, 2019	September 30, 2018
	$	$
Little Green Pharma Limited – at fair value	**3,606,861**	3,652,023
Zimmer International Inc. – at fair value	**354,389**	—
	3,961,250	3,652,023

	Nine months ended June 30, 2019	Year ended September 30, 2018
	$	$
Balance, beginning of period / year	**3,652,023**	677,241
Additions	**358,547**	4,118,562
Disposals	**—**	(958,057)
Increase (decrease) in value	**—**	38,440
Net gain of equity investments measured at fair value through profit or loss	**(49,320)**	—
Impairment	**—**	(228,192)
Foreign currency gain on translation	**—**	4,029
Balance, end of period / year	**3,961,250**	3,652,023

[a] Melbana Energy Limited

During the three and nine months ended June 30, 2019, the Company did not hold or trade any shares of Melbana.

During the three and nine months ended June 30, 2018, the Company divested 20,762,318 and 71,902,339 shares in Melbana respectively, at average prices of AUD0.01 and AUD0.01 respectively, for total proceeds of AUD225,340 ($220,063) and AUD882,198 ($856,847) respectively, which resulted in a reduction of the Company's interest in Melbana from 4.81% as at September 30, 2017 to Nil% as at June 30, 2018. During the three and nine months ended June 30, 2018, the Company recognized a gain on disposal of shares of Melbana of AUD17,718 ($32,808) and AUD163,175 ($223,951), recorded in other comprehensive income (loss) which was subsequently reclassified to net loss.

During the three and nine months ended June 30, 2018 the movement in fair value of the Company's investment amounted to a loss of AUD41,524 ($52,681) and a gain of AUD71,902 (loss of $19,373), respectively.

[b] Little Green Pharma Limited (formerly Habi Pharma Pty Ltd) (note 18(d) and note 18(h))

As at June 30, 2019, the Company's interest in Little Green Pharma Limited ("Little Green Pharma") was 14.06% [September 30, 2018 – 14.21%].

On February 8, 2018, Little Green Pharma changed its name from Habi Pharma Pty Ltd to Little Green Pharma Limited.

On May 22, 2019, the Company announced it had an agreement to acquire, from a non-executive founder, additional shares Little Green Pharma that would increase its equity ownership from 14.06% up to 40.4% on completion. Subject to TSX-V approval, under this agreement, Elixxer will pay to the vendor of the shares, AUD5,500,000. Closing of this transaction is expected to be within 95 days of signing the agreement.

On May 29, 2019, the Company completed the first payment AUD1,146,925 ($1,073,287) in respect of this transaction. Until the transaction is complete this payment has been accounted for as a non-refundable deposit.

As at June 30, 2019, the fair value of the Company's existing equity investment in Little Green Pharma was assessed to be AUD0.40 per share [September 30, 2018 – AUD0.40 per share], representing a balance of investment of $3,606,861 [September 30, 2018 - $3,652,023]. For the three and nine months ended June 30, 2019, the movement in the fair value of the Company's investment in Little Green Pharma amounted to ($95,088) and ($45,162), respectively [June 30, 2018 – $Nil and $Nil, respectively].

[c] Etea Sicurezza Group Ltd

As at June 30, 2019, the Company's interest in Etea Sicurezza Group Ltd ("Etea Sicurezza") was 3% [September 30, 2018 – 3%].

As at June 30, 2019, in view of Etea Sicurezza's continuing challenged liquidity position and lack of visibility on finances, the Board of Directors determined the fair value of the Company's equity interest in Etea Sicurezza continues to be $Nil [September 30, 2018 - $Nil].

During the three and nine months ended June 30, 2019, a total of $31,734 and $95,201, respectively, related to Etea guarantee fees, has been transferred from deferred revenue and recorded in revenues in the condensed interim consolidated statement of loss [June 30, 2018 - $Nil and $Nil, respectively].

[d] Zimmer International Inc.

On January 31, 2019, the Company entered into an agreement to purchase from Global Canna Labs Limited, its 6.75% interest in the share capital of Zimmer International Inc ("Zimmer") for USD270,000 ($358,547). Zimmer is a pharmaceutical and health care distribution business in the Caribbean, Mexico and South America.

As at June 30, 2019, the fair value of the investment in Zimmer was assessed as continuing to be USD270,000 ($354,389) [September 30, 2018 - $Nil]. For the three and nine months ended June 30, 2019, the movement in the fair value of the Company's investment in Zimmer amounted to $3,780 and ($4.158), respectively [June 30, 2018 – $Nil and $Nil, respectively].

6. Loans receivable

A breakdown of loans receivable as at June 30, 2019 and September 30, 2018 are as follows:

	June 30, 2019	September 30, 2018
	$	$
Etea Sicurezza – at amortized cost	**1,381,055**	1,275,047
Less: provision for impairment	**(1,381,055)**	(1,275,047)
	—	—
Evolution Debenture – at amortized cost	**—**	1,576,266
Oriah Botanicles loan – at amortized cost	**173,173**	—
Freia Farmaceutici S.R.L. loan – at amortized cost	**224,903**	—
Transferred to investment in associates	**(224,903)**	
Total	**173,173**	1,576,266

The following table summarizes the movement in loans receivable during the three and nine months ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
	$	$	$	$
Balance, beginning of period / year	**393,131**	100,000	**1,576,266**	—
Additions:				
Global Canna Labs – bridging loan	—	324,327	—	424,327
Etea Sicurezza	**52,335**	1,295,599	**111,805**	1,295,599
Evolution Debenture	—	1,247,174	**1,591,727**	1,247,174
Oriah Botanicles	—	—	**199,768**	—
Freia Farmaceutici S.R.L.	—	—	**228,665**	—
CLV	—	183,752	—	183,752
Impairment:				
Etea Sicurezza	**(52,335)**	—	**(111,805)**	—
Discount on fair valuation of loan to Oriah Botanicles	—	—	**(33,650)**	—
Accretion on Oriah loan during the period	**7,769**	—	**9,339**	—
Transfers out:				
Evolution debenture reclassified to convertible debentures receivable / royalty streams *[notes 8 and 9]*	—	—	**(3,171,133)**	—
Freia loan reclassified to investments in associates *[note 7[e]]*	**(224,903)**	—	**(224,903)**	—
Foreign currency (loss) gain on translation	**(2,824)**	(7,649)	**(2,906)**	(7,649)
Balance, end of period	**173,173**	3,143,203	**173,173**	3,143,203

[a] Etea Sicurezza

During the three and nine months ended June 30, 2019, the Company provided additional loans to Etea Sicurezza totaling EUR34,750 ($52,335) and EUR74,481 ($111,805), respectively [June 30, 2018 – EUR850,000 ($1,295,599) and EUR850,000 ($1,295,599), respectively]. The remaining movement in the carrying value of the loan and the impairment provision relates to the impact of foreign exchange translation during the period.

As outlined in note 5(c), in view of Etea Sicurezza's current challenging liquidity position and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors has decided to continue to record an impairment in full of its loan exposure to Etea Sicurezza, Consequently, during the three and nine months ended June 30, 2019 the Company recorded, an impairment charge related to loan movements in the period amounting to $52,335 and $111,805, respectively [June 30, 2018 - $Nil and $Nil, respectively], interest earned and a corresponding provision for doubtful debts totaling $22,432 and $68,252, respectively [June 30, 2018 - $17,489 and $18,467, respectively] in the condensed interim consolidated statement of loss in respect of these loans.

[b] Evolution BNK SRL convertible debentures receivable

On August 13, 2018, the Company entered into a convertible debenture ("the Evolution Debenture") with 9379-1432 Québec Inc., ("QuebeCo"), Evolution BNK and Evolution ATM and their principals, to provide a EUR3,000,000 secured loan, convertible into a 49% equity interest upon the successful completion of an IPO. QuebeCo is the parent entity of Evolution BNK and Evolution ATM. The Evolution Debenture bears interest of 10% per annum and has a maturity of 4 years.

As at December 31, 2018, the completion of the Evolution Debenture transaction was still subject to conditions precedent, including TSX-V approval. If the Conditions were not complied with and the transaction was therefore not approved, the features of the financial instruments would then be those of a plain vanilla loan bearing interest at 10% and repayable in full. Given these uncertainties as at December 31, 2018, the Evolution Debenture was initially accounted for as a plain vanilla loan.

As at June 30, 2019 all conditions precedent relating to the Evolution Debenture, including TSX-V approval had been completed. Consequently, on March 31, 2019, the principal amount of the loan drawn down under the debenture agreement as at that date, being EUR2,115,000 ($3,171,133), was transferred out of loans receivable and allocated between convertible debentures receivable and royalty streams in the condensed interim consolidated statement of financial position as described in note 8.

As at June 30, 2019, the amount recorded in loans receivable related to the Evolution Debenture was $Nil [September 30, 2018 - $1,576.266].

During the three and nine months ended June 30, 2019, the Company recorded a gain amounting to $Nil and $3,140, respectively due to foreign currency translation in the condensed interim consolidated statement of loss [June 30, 2018 - $16,012 and $16,012, respectively].

[c] Oriah Botanicles

On March 12, 2019, the Company entered into an agreement with Oriah Botanicles Pty Ltd ("Oriah") under which the Company agreed to loan to Oriah the sum of USD150,000 ($199,768) for a period of 12 months on an unsecured and interest free basis

The Oriah loan is carried at its present value, which on initial recognition, incorporated a discount on fair valuation of the Oriah loan totalling $33,650 which was recognised in the condensed interim consolidated statement of loss under finance expense [note 4].

During the three and nine months ended June 30, 2019, the Company recorded a loss amounting to ($2,824) and ($3,363), respectively due to foreign currency translation in the condensed interim consolidated statement of loss [June 30, 2018 - $Nil and $Nil, respectively].

During the three and nine months ended June 30, 2019, the value of accretion income recognized in respect of this loan amounted to $7,769 and $9,339, respectively [June 3, 2018 - $Nil and $Nil, respectively] [note 4].

[d] Freia Farmaceutici S.R.L. Loan
On January 30, 2019 the Company entered into an agreement with Freia Farmaceutici S.R.L.("Freia") for the provision of an unsecured, interest free loan of EUR150,000 ($228,665) for a period of 3 months ("the Freia Loan"). The Freia Loan was to be applied towards the completion of the Freia Investment as described in note 7[e].

On May 16, 2019, the Company completed the first tranche of the Freia Investment, amounting to EUR1,000,000 ($1,513,354), which, net of the application of the Freia Deposit and the Freia Loan resulted in a net payment of EUR750,000 ($1,134,383). On completion of the first tranche of the Freia investment, taking into consideration the Company's equity stake and its representation on Freia's board of directors, management concluded that Elixxer had attained significant influence over Freia. Consequently, as of June 30, 2019, the Company decided to reclassify its investment in the Freia Loan (then amounting to $224,903 after adjusting for currency fluctuations) from loans receivable to investments in associates [refer to note 7[e]].

During the three and nine months ended June 30, 2019, the Company recorded a gain and a loss in respect of this loan, due to foreign currency translation, amounting to $221 and ($3,541), respectively [June 30, 2018 - $Nil and $Nil, respectively], which has been recorded in the condensed interim consolidated statement of comprehensive loss.

7. Investments in associates

The table below presents the Company's associates.

Associate	Country of registration	Nature of business	Holding June 30, 2019	Holding September 30, 2018
Viridi Unit SA	Switzerland	Cannabis	**30.00%**	**—**
Freia Farmaceutici S.R.L.	Italy	Cannabis	**22.31%**	**—**

A breakdown of investments in associates as at June 30, 2019 and September 30, 2018 are summarized as follows:

	June 30, 2019	September 30, 2018
	$	$
Viridi – at cost	**2,250,024**	—
Freia – at cost	**2,577,062**	—
Share of loss – Viridi	**(537,124)**	—
Share of loss – Freia	**(6,553)**	—
Total	**4,283,409**	—

[a] Investment in Viridi Unit SA
On December 12, 2018, the Company announced that it had closed its investment in Swiss cannabis company, Viridi Unit SA ("Viridi"), with Elixxer issuing 35,167,001 shares of its common

stock in exchange for a 30% equity interest in Viridi (the "Viridi Equity") plus a 5% royalty on Viridi's net sales over ten years ("the Viridi Royalty") which together comprise the "Viridi Transaction". The total consideration for the Viridi Transaction amounted to approximately CHF3,000,000 ($3,868,370) based on the Company share price of $0.11 on the date of issue). In respect of this transaction, Elixxer paid a finder's fee to an arm's length party equal to 3% of the total consideration in cash ($124,241) and 2% of the total consideration by the issuance of 703,340 common shares of Elixxer ($77,367). For the three and nine months ended June 30, 2019, the Company incurred a charge of $133,958 and $335,566, respectively in respect to these finder's fee [note 4].

[b] Initial recognition of Viridi Transaction

For the purposes of initial recognition accounting, the Viridi Transaction was deemed to comprise two separate assets, being an investment in associates related to the Viridi Equity component and a financial asset, an embedded derivative, comprising the Viridi Royalty. On initial recognition the Company used discounted cashflows incorporating assumptions of projected sales estimates and growth rates to calculate the fair value of Viridi Royalty component and then used the residual method, to allocate the remaining consideration paid to the Viridi Equity component. The consideration allocated to the Vridi Royalty component ($1,618,346), comprising the royalty stream was classified as FVTPL while the consideration allocated to the Viridi Equity component ($2,250,024), was accounted for as an investment in associates.

[c] Subsequent accounting for investment in associate (Viridi Equity)

The consideration allocated to the investment in associate of $2,250,024 is carried forward at cost and the Company's share of profits and losses are recognized as incurred.

During the three and nine months ended June 30, 2019 the Company's share of losses amounted to $358,022 and $537,124, respectively [June 30, 2018 –$Nil and $Nil, respectively].

As at June 30, 2019, management have conducted an impairment review of the carrying value of the Viridi Equity and has concluded that no impairment charge was warranted.

[d] Subsequent accounting Viridi Royalty

The fair value of Viridi Royalty is re-assessed at each balance date, with increases or decreases in fair value, being recorded as fair value adjustments through the profit and loss. As at June 30, 2019, the fair value of the Viridi royalty was assessed to be $1,433,771. Consequently, the fair value adjustments recognized through net loss for the three and nine months ended June 30, 2019, related to the Viridi royalty were losses of $184,575 and $184,575 respectively [June 30, 2018 - $Nil and $Nil, respectively] [refer to note 9].

[e] Freia Farmaceutici S.R.L. (note 6(d))

On October 23, 2018, the Company entered into a letter of intent with Freia for a proposed investment of up to EUR3,214,000 for up to a 35% interest in the share capital of Freia ("the Freia Investment"). Freia is based in Italy and is an approved producer of hemp-based pharmaceutical products. The Freia Investment was subject to the execution of definitive agreements and normal closing conditions and review and approval by TSX-V. Pursuant to the letter of intent, the Company paid a non-refundable deposit ("the Freia Deposit") of EUR100,000 ($149,935), that was to be applied to monies payable by the Company on completion of the Freia Investment.

On May 16, 2019, the Company completed the first tranche of the Freia Investment, amounting to EUR1,000,000 ($1,513,354), which, net of the application of the Freia Deposit (after foreign currency translation amounting to $150,307) and the Freia Loan ($228,665) [refer to note 6[d]], resulted in a net payment of EUR750,000 ($1,134,383). On completion of the first tranche the Company's equity interest in Freia totaled 14.35%. The Company has also appointed two members to Freia's board of directors.

On completion of the first tranche of the Freia investment, taking into consideration the Company's equity stake and its representation on Freia's board of directors, management concluded that Elixxer had attained significant influence over Freia. Consequently, as June 30, 2019, the Company decided to reclassify its investment in the Freia Deposit and the Friea Loan from non-refundable deposits and loans receivable respectively, to investments in associates.

On June 27, 2019, the Company completed the second tranche of EUR714,000 ($1,063,347) bringing up its equity interest to 22.31%.

During the three and nine months ended June 30, 2019 the Company's share of losses in Freia amounted to $6,553 and $6,553, respectively [June 30, 2018 –$Nil and $Nil, respectively].

As at June 30, 2019, management have conducted an impairment review of the carrying value of the Freia Investment and has concluded that no impairment charge was warranted.

8. Convertible debentures receivable (note18(a))

[a] Tricho-Med convertible debentures receivable

On January 8, 2018, the Company announced that it had finalized a transaction with Quebec based Tricho-Med and had entered into a four-year secured convertible loan agreement in an amount of $4,000,000 [the "Tricho-Med Debenture"]. Upon Tricho-Med obtaining a license to cultivate cannabis from the relevant regulatory authorities, the Tricho-Med Debenture will automatically convert into common shares of Tricho-Med. On conversion, the Company would then receive 49% of Tricho-Med's then-issued and outstanding shares. In the event that Tricho-Med does not become a publicly listed company within twelve months of having obtained the license, the Company will receive such number of shares so that it owns 54% of the then-issued and outstanding shares of Tricho-Med. Upon conversion into equity, the Company will also be entitled to a 5% royalty on Tricho-Med's net sales for an unlimited time period. The Tricho-Med Debenture bears interest at an annual rate of 10%, has a term of four years, maturing on December 21, 2021, and is secured by first-ranking security on all of the assets of Tricho-Med.

On December 18, 2017, the final approval bulletin from the TSX-V in respect of Elixxer's investment into Tricho-Med was obtained.

During the three and nine months ended June 30, 2019 the amounts drawn down under the Tricho-Med Debenture totaled $Nil and $2,249,136, respectively [June 30, 2018 - $700,776 and $1,328,800 respectively] bringing the total amounts drawn down to $4,000,000 [September 30, 2018 - $1,750,864].

[b] Global Canna Labs convertible debentures receivable

On August 30, 2018 the Company announced the closing in trust of an investment in Global Canna Labs Limited ("GCL"), subject to the pending receipt of the TSX-V's final approval. Pursuant to the executed closing agreements, Elixxer subscribed for a $2,500,000 secured debenture, automatically convertible into an initial 30% interest in GCL upon the successful completion of an IPO.

The Company has also acquired a 5% royalty on GCL's net sales for an unlimited time period for $3,091,558, payable by way of 15,854,141 shares of Elixxer at a deemed issue price of $0.195 each. GCL has an option to repurchase the 5% royalty for an amount of $6,000,000. In addition, the Company paid an arm's length finder's fee in respect of the transaction of $257,500, paid $128,750 in cash and $128,750 by way of 1,020,610 shares of Elixxer. The debenture bears interest at an annual rate of 10%, has a term of four years, maturing on August 30, 2022. Both the debenture and the royalty are fully secured with a first ranking security on all of Global Canna Labs' assets.

On September 20, 2018, the Company announced that it had received the final approval bulletin from the TSX-V in respect of Elixxer's investment into GCL.

As at September 30, 2018, the GCL Debenture was fully drawn down with total consideration paid amounting to $5,591,558.

[c] Evolution Debenture

On August 13, 2018, the Company entered into a convertible debenture ("the Evolution Debenture") with 9379-1432 Québec Inc., ("QuebeCo"), Evolution BNK and Evolution ATM and their principals, to provide a EUR3,000,000 secured loan, convertible into a 49% equity interest upon the successful completion of an IPO. QuebeCo is the parent entity of Evolution BNK and Evolution ATM. The Evolution Debenture bears interest of 10% per annum and has a maturity of 4 years.

On August 13, 2018, the Company entered into an agreement with QuebeCo for a 5% royalty on the net sales of Evolution BNK and Evolution ATM. The royalty is secured by the assets of QuebeCo.

As at March 3, 2019 all conditions precedent relating to the Evolution debenture, including TSX-V approval had been completed and consequently the amounts drawn down under the loan as at that date (totalling EUR 2,115,000 ($3,171,133)) were reclassified from loans receivable and recorded as convertible debentures receivable and royalty streams as outlined below.

On May 21, 2019, the Company transferred a net amount of EUR627,590 to Evolution reflecting the final tranche of the Evolution Debenture totaling EUR885,000 ($1,323,008) less accrued interest up to May 15, 2019 and associated costs in connection with the Evolution Debenture. This final tranche was allocated directly between convertible debentures receivable and royalty streams in the condensed interim consolidated statement of financial position as described in note 8.

[d] Initial recognition

On initial recognition, the Tricho-Med Debenture, the GCL Debenture and the Evolution Debenture were each classified as financial assets at fair value through profit or loss.

Each debenture and its associated royalty component were determined to comprise two financial instruments, the first being a compound financial instrument comprising the host debt receivable and also its associated conversion feature while the second comprised the associated royalty stream. On initial recognition, Elixxer used the valuation techniques outlined below to calculate the fair value of each financial instrument acquired. It then used the relative fair value method to allocate the total consideration paid across each financial instrument. Where amounts paid in respect of a convertible debenture were drawn down over a significant period of time, draw-down amounts were amalgamated into tranches and each tranche was assigned a unique initial recognition date based on the pattern of amounts drawn down.

On each initial recognition date and again at each quarter end, the fair values of each convertible debenture and the fair value of the Tricho-Med and Evolution royalty streams were estimated using valuation techniques including DCF models, Monte Carlo simulations and funded production capacity. The models incorporate management's estimates such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO, and also appropriate valuation multiples all based on published data from a basket of similar companies in cannabis sector.

The fair value of the GCL Royalty was estimated using discounted cashflows incorporating assumptions of projected sales estimates and growth rates. As the valuation techniques used in assessing the fair value of each component included lowest-level inputs that were significant to the fair value measurement that were unobservable, the valuation techniques employed have been categorized as being Level 3 in fair value hierarchy.

During the nine months ended June 30, 2019 and the year ended September 30, 2018, the weighted average relative fair values assigned, based on the initial recognition dates of tranches drawn down during the period or year respectively then ended, and the resultant allocation of the consideration paid for each financial instrument comprising each convertible debenture acquired are set out below:

	Nine months ended June 30, 2019			**Year ended September 30, 2018**		
Financial instrument	**Weighted Average relative fair value on initial recognition**		**Consideration allocated using relative fair value method**	**Weighted Average relative fair value on initial recognition**		**Consideration allocated using relative fair value method**
	$	%	$	$	%	$
Tricho-Med Debenture						
Host debt receivable and conversion feature	1,333,339	59%	1,333,339	1,037,952	59%	1,037,952
Royalty stream	915,797	41%	915,797	712,912	41%	712,912
Total	2,249,136	100%	2,249,136	1,750,864	100%	1,750,864
GCL Debenture						
Host debt receivable and conversion feature	—	—	—	3,651,213	38%	2,115,378
Royalty stream	—	—	—	6,000,000	62%	3,476,180
Total	—	—	—	9,651,213	100%	5,591,558
Evolution Debenture						
Host debt receivable and conversion feature	3,175,513	60%	1,782,454	—	—	—
Royalty stream	2,094,862	40%	2,711,686	—	—	—
Total	5,270,375	100%	4,494,140	—	—	—
Total						
Host debt receivable and conversion feature	**4,508,852**	**60%**	**3,115,793**	**4,689,165**	**38%**	**3,153,330**
Royalty stream	**3,010,659**	**40%**	**3,627,483**	**6,712,912**	**62%**	**4,189,092**
Total	**7,519,511**	**100%**	**6,743,276**	**11,402,077**	**100%**	**7,342,422**

As at June 30, 2019 the fair value of each component was re-assessed with increases in fair value for each instrument, except for the Day-1 gain, being recorded as fair value adjustments through the profit and loss. The fair values assessed for each instrument as at June 30, 2019 based on the cumulative tranches drawn down, and the respective movement in fair value recognized in profit and loss for the nine months ended June 30, 2019 and for the year ended September 30, 2018 were as follows:

Financial instrument	Cumulative consideration drawn down	Cumulative fair value on initial recognition	Day-1 Gain (loss) on initial recognition	Fair value as at June 30, 2019	Cumulative FVTPL as at June 30, 2019 [i]	Cumulative FVTPL Year ended September 30, 2018	FVTPL Nine months ended June 30, 2019
	$	$	$	$	$	$	$
Tricho-Med Debenture							
Host debt receivable and conversion feature	2,371,291	2,371,291	—	2,721,441	350,150	255,250	94,900
Royalty stream *[note 9]*	1,628,709	1,628,709	—	1,833,422	204,713	2,647	202,066
Total	4,000,000	4,000,000	—	4,554,863	554,863	257,897	296,966
GCL Debenture							
Host debt receivable and conversion feature	2,115,378	3,651,213	1,535,835	3,299,313	—	—	—
Royalty stream *[note 9]*	3,476,180	6,000,000	2,523,820	6,000,000	—	—	—
Total	5,591,558	9,651,213	4,059,655	9,299,313	—	—	—
Evolution Debenture							
Host debt receivable and conversion feature	1,782,454	2,094,862	312,408	1,787,541	—	—	—
Royalty stream *[note 9]*	2,711,687	3,175,513	463,826	1,377,772	(1,333,915)	—	(1,333,915)
Total	4,494,141	5,270,375	776,234	3,165,313	(1,333,915)	—	(1,333,915)
Total							
Host debt receivable and conversion feature	**6,269,123**	**8,117,366**	**2,928,893**	**7,808,295**	**350,150**	**255,250**	**94,900**
Royalty stream *[note 9]*	**7,816,575**	**10,804,222**	**1,906,996**	**9,211,194**	**(1,129,202)**	**2,647**	**(1,131,849)**
Total	**14,085,698**	**18,921,588**	**4,835,889**	**17,019,489**	**(779,052)**	**257,897**	**(1,036,949)**

[i] Where there is a Day-1 loss, cumulative FVTPL equals movement in FV since inception. Where there is a Day-1 gain cumulative FVTPL equals movement in FV since inception that exceeds Day-1 gain.

As at June 30, 2019, the amount of the Day-1 gain arising on the initial recognition of the GCL Debenture and the Evolution Debenture, as yet unrecognized through profit and loss, amounted to $4,059,655 and $776,234, respectively [September 30, 2018 - $4,059,655 and $Nil respectively].

During the three and nine months ended June 30, 2019, the total fair value adjustment recognized through the profit and loss account in respect of these debentures (excluding royalty streams) amounted to a gain of $821,078 and a gain of $94,900, respectively [June 30, 2018 - $10,827 and $30,478, respectively].

A breakdown in the movement of convertible debentures receivable and their respective royalty streams during the nine months ended June 30, 2019 and the year ended September 30, 2018 and the fair value adjustments recognized in the statement of loss during the nine months and the year then ended, respectively, are as follows:

	Tricho-Med Debenture $	Global Canna Debenture $	Evolution Debenture $	Total $
Balance, as at October 1, 2017	—	—	—	—
Debentures issued during the year – amounts drawn down / allocated face value	1,750,864	5,591,558	—	7,342,422
FVTPL recognized in net loss in year	257,897	—	—	257,897
Balance, as at September 30, 2018	2,008,761	5,591,558	—	7,600,319
Debentures issued during the period – amounts drawn down / allocated face value	2,249,136	—	4,494,141	6,743,277
FVTPL recognized in net loss in period	296,966	—	(1,333,915)	(1,036,949)
Balance, as at June 30, 2019	4,554,863	5,591,558	3,160,266	13,306,647
By financial instrument as at September 30, 2018				
Host debt receivable and conversion feature	1,293,202	2,115,378	—	3,408,580
Royalty stream *[note 9]*	715,559	3,476,180	—	4,191,739
Balance, as at September 30, 2018	2,008,761	5,591,558	—	7,600,319
By financial instrument as at June 30, 2019				
Host debt receivable and conversion feature	**2,721,441**	**2,115,378**	**1,782,454**	**6,619,273**
Royalty stream *[note 9]*	**1,833,422**	**3,476,180**	**1,377,772**	**6,687,374**
Balance, as at June 30, 2019	**4,554,863**	**5,591,558**	**3,160,266**	**13,306,647**

During the three and nine months ended June 30, 2019, total interest earned and recognized in the condensed interim consolidated statements of loss in respect of these debentures amounted to $143,356 and $414,439, respectively [June 30, 2018 - $29,351 and $35,576 respectively]. As at June 30, 2019, interest receivable totaling $560,013 has been recorded in the condensed interim statements of financial position under other receivables [September 30, 2018 - $138,650].

9. Royalty streams

As at June 30, 2019, and September 30, 2018 and for the nine months ended and year respectively, then ended the breakdown of royalty stream assets was as follows:

	Tricho-Med Royalty (note 8) $	GCL Royalty (note 8) $	Evolution Royalty (note 8) $	Viridi Royalty (note 7) $	Total $
Balance, October 1, 2017	—	—	—	—	—
Consideration paid during the year	712,912	3,476,180	—	—	4,189,092
FVTPL recognized in net loss in year	2,647	—	—	—	2,647
Balance, September 30, 2018	715,599	3,476,180	—	—	4,191,739
Acquisitions during the period	**915,797**	**—**	**2,711,687**	**1,618,346**	**5,245,830**
FVTPL value recognized in net loss in period	**202,066**	**—**	**(1,333,914)**	**(184,575)**	**(1,316,424)**
Balance, June 30, 2019	**1,833,422**	**3,476,180**	**1,377,772**	**1,433,771**	**8,121,145**

During the three and nine months ended June 30, 2019, the total fair value adjustment recognized through the profit and loss account in respect of these royalty streams amounted to a loss of $1,234,141 and $1,316,424, respectively [June 30, 2018 - $Nil and $Nil, respectively].

10. Loans to directors and officers

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	Share purchase loans and advances to exercise stock options / warrants	**Loans to fund payment of taxes**	**Share purchase loans and advances to exercise stock options / warrants**	**Loans to fund payment of taxes**
	$	$	$	$
Outstanding balance, beginning of period / year	362,860	362,802	—	—
Loans issued during the period / year - at present value	—	—	354,578	347,088
Loans repaid during the period / year	(209,750)	—	—	—
Accretion during the period / year	11,878	19,497	8,282	15,714
Outstanding in balance, end of period / year	**164,988**	**382,299**	**362,860**	**362,802**

On February 16, 2018, Elixxer announced it had entered into loan agreements with a number of directors and officers of the Company amounting to $609,412, in order to fund the exercise by them of Elixxer stock options and also to fund the payment by them of related taxes. These loans to directors and officers do not bear interest and must be repaid within two years. In addition, on September 17, 2018, an advance was made to a Director, totaling $171.654, to fund the exercise of warrants. The advance was repaid in early October 2018.

These loans are carried at their present value using a discount rate of 7%. The Loans provided to directors and officers to fund the exercise of stock options, together with the advance to a director to fund the exercise of warrants have been reclassified and offset against share capital.

During the three and nine months ended June 30, 2019, the value of accretion income recognized in respect of these loans amounted to $9,467 and $31,375, respectively [June 30, 2018 - $Nil and $Nil, respectively].

11. Convertible debentures payable

On January 31, 2018, the Company entered into an Investment Agreement (the "Original Debenture Agreement") with YA II PN Ltd. ("YA II"), a company incorporated in the Cayman Islands, and Riverfort Global Opportunities PCC Ltd ("Riverfort PCC") (formerly Cuart Investments PCC Limited), a company incorporated in Gibraltar.19

Under the Original Debenture Agreement, YA II and Riverfort PCC had subscribed for 25% and 75% respectively, for 9.5% secured convertible debentures (the "2018 Debentures") totaling USD2,340,000. The 2018 Debentures matured on February 8, 2019.

On February 5, 2019, Riverfort PCC assigned and novated its rights, benefits and obligations under the 2018 Debenture Agreement to Riverfort Global Opportunities PLC ("Riverfort"), a company incorporated in England and Wales, pursuant to a novation agreement between the Company, YA II, Riverfort and Riverfort PCC.

On February 26, 2019, the Company entered into an updated Investment Agreement (the "Revised Debenture Agreement") with Riverfort and YA II (collectively the "Noteholders") which was subsequent completed on February 28, 2019 (the "Restatement Date").

Under the Revised Debenture Agreement, the Noteholders agreed to extend the maturity of the 2018 Debentures for a period of one year.

The novated debentures (the "2019 Debentures"), totaling USD2,340,000 ($3,087,630), mature in one year and bear interest at a rate of 12% per annum, and are repayable, one half in six equal instalments, on the 6th through to the 11th monthly anniversaries of the Restatement Date, with the balance due 12 months after the Restatement Date. Interest is payable on the three month anniversary of the Restatement date and on each subsequent principal repayment date. Further, the 2019 Debentures may, at any time and at the holder's exclusive option, be converted into common shares at a price equal to the lesser of (i) $0.12 (USD0.0912) and (ii) 90% of the variable weighted average price of the Company's shares during the 5 trading days prior to the date of the conversion notice, subject to a minimum conversion price of $0.10 (USD0.076). The Company has the right to repay the 2019 Debentures prior to the scheduled repayment dates, in whole but not in part, if the value of the Company's share price is less than 110% of the volume weighted average price at the Restatement Date. In the event of an early repayment, the Company will be liable to pay a prepayment fee amounting to 5% of the outstanding principal amount.

In addition, under the Revised Debenture Agreement, the Company agreed to issue to the Noteholders, 12,048,055 common share purchase warrants. Each warrant issued entitles the holder to acquire one common share of the Company at a price of $0.115, for a period of one year from the date of issuance.

On review of the relative terms of the original and revised debentures the Company determined that the 2019 Debenture terms were substantially different from those of the 2018 Debentures and consequently the Company has treated this transaction as comprising an extinguishment of debt (i.e. the 2018 Debentures) and an issuance of new debt (the 2019 Debentures).

The 2019 Debentures were determined to comprise two distinct financial instruments, the first being a compound financial instrument comprising the host or liability component, and also an embedded derivative comprising the associated debenture conversion feature. The second financial instrument comprises the common share purchase warrants that were issued along with the Debentures.

On initial recognition, the fair value of these instruments was estimated as outlined below and used to allocate face value of the 2019 Debentures amongst these instruments, on a relative fair value basis. This exercise resulted in allocated fair values for each component of the 2019 Debentures of $2,243,095 allocated to the host debt component, $544,726 allocated to the embedded derivative and $299,809 allocated to common share purchase warrants.

The fair value of the host or liability component of the convertible debenture was calculated by discounting the stream of future payments of interest and principal at 18.5% being the estimated market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have any associated share purchase warrants nor any embedded derivative features. The fair value of the embedded derivative comprising the debenture conversion feature was estimated using a Monte Carlo simulation and that of the warrants, issued on February 26, 2019, was determined based on the Black-Scholes option pricing model. The relative weighted average assumptions used for these fair value estimates is set out as follows:

Assumption	Common share purchase warrants Issued (Black Scholes)	Embedded derivative (Monte Carlo simulation)
Risk-free interest rate	2.00%	2.00%
Expected volatility	114%	114%
Dividend yield	Nil	Nil
Expected life [in years]	1.0	1.0
Exercise price	$0.12	$0.12
Share Price	$0.09	$0.09
Fair value at grant date	$0.033	$722,645

In connection with the Revised Debenture Agreement, the Company incurred cash settled issue costs amounting to $46,763 which have been pro-rated between the host debt component of the convertible debentures, the embedded derivative comprising the conversion feature and the common share purchase warrants, in the amounts of $33,972, $8,250 and $4,541, respectively. The issue costs of $8,250 related to the embedded derivative were expensed as incurred.

The carrying value of the host debt component of the debentures is accreted using the effective interest rate method over the term of the debenture, such that the carrying amount will equal the total face value of the debenture at maturity.

The embedded derivative component is carried in the condensed interim consolidated statement of financial position at its fair value with movements therein recognized in net loss for the period.

The fair value of embedded derivatives as at June 30, 2019 and 2018 were determined based on a Monte Carlo simulation [June 30, 2018 – Black Scholes option pricing model] using the weighted average assumptions set out as follows:

Assumption	2019 Debentures Embedded derivative as at June 30, 2019 (Monte Carlo simulation)	2018 Debentures Embedded derivative as at June 30, 2018 (Black Scholes)
Risk-free interest rate	1.73%	1.70%
Expected volatility	89%	180%
Dividend yield	Nil	Nil
Expected life [in years]	0.57	0.61
Exercise price	$0.12	$0.50
Share Price	$0.09	$0.17
Fair value	$354,032	$148,152

A breakdown of convertible debentures payable as at June 30, 2019 and September 30, 2018 and the movement for the nine months ended and year then ended respectively is as follows:

	Host debt component $	Embedded derivative (Conversion feature) $	Common share purchase warrants $	Total $
Balance, October 1, 2017	**—**	**—**	**—**	**—**
Debentures issued during the year	1,894,967	886,131	166,303	2,947,401
Issue costs	(124,574)	—	(9,874)	(134,448)
Accretion	711,921	—	—	711,921
Change in fair value of embedded derivative	—	(807,712)	—	(807,712)
Foreign currency loss on translation	46,406	—	—	46,406
Balance, September 30, 2018	2,528,720	78,419	156,429	2,763,568
Accretion – 2018 Debentures	**505,602**	**—**	**—**	**505,602**
Change in fair value of embedded derivative – 2018 Debentures	**—**	**(78,419)**	**—**	**(78,419)**
Expiry of 2018 warrants transferred to contributed surplus	**—**	**—**	**(156,429)**	**(156,429)**
Foreign currency loss on translation – 2018 Debentures	**53,308**	**—**	**—**	**53,308**
Extinguishment of debt – 2018 Debentures	**(3,087,630)**	**—**	**—**	**(3,087,630)**
Issuance of 2019 Debentures – allocated face value	**2,243,095**	**544,726**	**299,809**	**3,087,630**
Issue costs – 2019 Debentures	**(33,972)**	**(8,250)**	**(4,541)**	**(46,763)**
Accretion – 2019 Debentures	**315,122**	**8,250**	**—**	**323,372**
Change in fair value of embedded derivative – 2019 Debentures	**—**	**(190,694)**	**—**	**(190,694)**
Foreign currency loss on translation – 2019 Debentures	**(17,489)**	**—**	**—**	**(17,489)**
Balance, June 30, 2019	**2,506,756**	**354,032**	**295,268**	**3,156,056**

	June 30, 2019 $	September 30, 2018 $
Total in current liabilities	**2,860,788**	2,607,139
Total equity	**295,268**	156,429
	3,156,056	2,763,568

During the three and nine months ended June 30, 2019, interest expense pursuant to 2018 and 2019 Debentures amounted to $98,792 and $250,684, respectively [June 30, 2018 – $72,977 and $112,707, respectively].

12. Other loans payable (note 18(g))

On February 5, 2019, the Company entered into a loan agreement with Arlington Capital Inc (“Arlington’), a company incorporated in the province of Quebec, Canada. Under the terms of the loan Arlington agreed to lend to Elixxer amounts totaling $2,000,000 for a period of one year (“the Arlington Loan”). The funds were to be used for working capital purposes. The loan is unsecured and bears interest at the rate 12% per annum for the first three months and thereafter bears interest at 22% per annum. The Company has the right to repay the loan at any time. The first amounts drawn down under the loan were received by the Company on February 19, 2019.

On May 2, 2019, the Company announced that it has closed the first tranche of its previously announced $10,400,000 non-brokered private placement financing with Arlington [note 14[a]]. As part of negotiations for this transaction Arlington agreed to extend the principal amount of the

Arlington Loan to include an additional $3,300,000 on the basis that once the private placement was completed the principal amount of the loan would be repaid by offsetting the principal outstanding against the placement proceeds,

As at April 24, 2019, the total amounts drawn down under the Arlington Loan totalled $5,300,000. When the initial tranche of the placement closed on May 2, 2019, the gross proceeds receivable from Arlington, totalling $8,000,000 were offset against the Arlington Loan leaving net proceeds of $2,700,000 received in cash.

During the three and nine months ended June 30, 2019 interest charged in respect of the Arlington loan, amounted to $20,389 and $41,530, respectively [June 30, 2018 – $Nil and $Nil, respectively], have been recorded in the condensed interim consolidated statement of loss. As at June 30, 2019, interest accrued but unpaid in respect of the Arlington loan, totaling $41,530 (September 30, 2018 - $Nil), has been recorded in the condensed interim consolidated statement of financial position under accounts payable and accrued liabilities.

13. Provisions

As at June 31, 2019, in view of Etea Sicurezza's current weakened liquidity position, lack of sufficient clarity on the business prospects and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors deemed it prudent to provide for a possible demand from the lender to satisfy the Etea Guarantee which has an estimated cost of US$1,000,000. Accordingly, during the three and nine months ended June 30, 2019, the Company recognized a gain / charge amounting to ($22,400) and $1,312,550, respectively related to the Etea Guarantee in the condensed interim consolidated statements of loss.

14. Share capital

Authorized

Common

An unlimited number of common shares, voting, participating, without par value.

[a] Common shares

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	#	$	#	$
Issued common shares	**523,778,982**	**47,395,527**	380,288,641	32,698,617
Share purchase loans to directors and officers	**—**	**(164,988)**	—	(362,860)
Issued and fully paid common shares	**523,778,982**	**47,230,539**	380,288,641	32,335,757

Issuances during the three and nine months ended June 30, 2019

[i] On December 12, 2018, the Company issued 35,167,001 common shares of Elixxer at a deemed issue price of $0.11 per share representing a total consideration of $3,868,370 as payment for its 30% equity investment in Viridi [note 7[a]].

[ii] On December 12, 2018, the Company issued 703,340 common shares at a deemed issue price of $0.11 per share for total consideration of $77,367, to settle a 2% finder's fee associated with the Company's investment in Viridi [notes 4 and 7[a]].

[iii] During the nine months ended June 30, 2019, the Company issued 500,000 common shares at an average exercise prices of $0.05 per share for total proceeds of $25,000 upon the exercise of stock options, and an amount of $14,173 related to exercised stock options were transferred from contributed surplus to share capital [note 14[b]].

[iv] On May 2, 2019, the Company announced that it had raised gross proceeds of $8,000,000 at the first closing of a non-brokered private placement financing with Arlington (note 12) by issuing 80,000,000 common shares at $0,10 per share. The gross proceeds were netted against the outstanding principal balance on the Arlington loan leading to a net receipt of $2,700,000. On May 31, 2019, the Company completed a second closing of the Arlington private placement, raising gross proceeds of $2,400,000 by issuing an additional 24,000,000 common shares at $0,10 per share. The shares issued to Arlington are subject to a four month hold period. Subsequent to closing,

[v] On May 31, 2019, the Company issued 3,120,000 common shares at a deemed issue price of $0.10 per share for total consideration of $312,000, to settle a 3% finder's fee associated with the Arlington private placement [note 4].

Issuances during the three and nine months ended June 30, 2018

[i] On October 12, 2017, as part of a subscription agreement signed with Little Green Pharma, the Company issued 5,660,000 common shares of Elixxer at a deemed issue price of $0.11 per share representing a total consideration of $622,600 as part payment for a 4.99% initial investment in Little Green Pharma [note 5[b]].

[ii] On December 1, 2017, the Company announced that it had raised gross proceeds of $2,980,773 at a first closing of a private placement by issuing 19,871,822 units at a price of $0.15 per unit. On December 7, 2017, the Company announced the completion of the private placement by issuing 5,000,000 additional units for gross proceeds of $750,000 at a second closing. Each unit was composed of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.25 for a period of 18 months from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX-V for a period of ten consecutive trading days is at least $0.30, the warrants will expire at the sole discretion of the Company on the 30th day after the Company sends a notice to the holders of the warrants. As a result, using a valuation model based on stochastic simulations at the date of grant, the gross proceeds of the combined first and second closings, totaling $3,730,773, was allocated $2,583,846 to share capital and $1,146,927 to warrants based on relative fair value [note 14[c]].

Concurrently, the Company issued a total of 1,100,828 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of $0.15 per share at any time for a period of 18 months from the closing date. The total fair value of broker compensation warrants was $338,892, allocated to contributed surplus with the debit allocated $234,709 to share capital and $104,183 to warrants [note 14[c]].

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of $161,537 which have been pro-rated between share capital and warrants in the amounts of $111,877 and $49,660, respectively.

[iii] On February 8, 2018, the Company issued 376,162 common shares of Elixxer at a deemed issue price of $0.675 per share representing a total consideration of $253,909 as payment of costs related to issuance of the Debentures [note 11].

[iv] On February 14, 2018, the Company issued 5,000,000 common shares of Elixxer at a deemed issue price of $0.53 per share representing a total consideration of $2,650,000 as payment for an additional 3.08% investment in Little Green Pharma [note 5[b]].

[v] On February 16, 2018, the Company announced that it had raised gross proceeds of $8,054,025 at a closing of a private placement by issuing 18,515,000 units at a price of $0.435 per unit. Each unit was composed of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.49 for a period of 36 months from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX-V for a period of twenty consecutive trading days, commencing 4 months from the closing date, is at least $0.65, the warrants will expire at the sole discretion of the Company on the 30th day after the Company sends a notice to the holders of the warrants. As a result, using a valuation model based on stochastic simulations at the date of grant, the gross proceeds were allocated $4,880,470 to share capital and $3,173,555 to warrants based on relative fair value [note 14[c]].

Concurrently, the Company issued a total of 1,110,900 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of $0.435 per share at any time for a period of 36 months from the closing date. The total fair value of broker compensation warrants was $281,838, allocated to contributed surplus with the debit allocated $170,784 to share capital and $111,054 to warrants [note 14[c]].

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of $689,629 which have been pro-rated between share capital and warrants in the amounts of $417,892 and $271,737, respectively.

[vi] On February 20, 2018, the Company issued 140,478 common shares of Elixxer at a deemed issue price of $0.40 per share representing a total consideration of $56,000 as settlement of certain accounts payable and accrued liabilities.

[vii] No options were exercised during the three months ended June 30, 2018. During the nine months ended June 30, 2018, the Company issued 12,868,779 common shares at an average exercise price of $0.07 per share for total proceeds of $960,984 upon the exercise of stock options, and $5,118,150 related to exercised stock options were transferred from contributed surplus to share capital [note 14[b]].

[viii] No warrants were exercised during the three months ended June 30, 2018.During the nine months ended June 30, 2017, the Company issued 24,023,215 common shares at an average exercise price of $0.15 per share for total proceeds of $3,603,482 upon the exercise of share purchase warrants, and $13,020,737 related to exercised share purchase warrants were transferred from contributed surplus to share capital [note 14[c]].

[ix] No broker compensation warrants were exercised during the three months ended June 30, 2018. During the nine months ended June 30, 2017, the Company issued 952,000 common shares at an average exercise price $0.10 per share for total cash proceeds of $95,200 upon the exercise of broker compensation warrants, and $575,540 related to exercised broker compensation warrants were transferred from contributed surplus to share capital [note 14[c]].

[x] On April 24, 2018, the Company issued 1,230,468 common shares at a price of $0.10125 per share for total consideration of $124,585, to settle outstanding liabilities.

[b] Stock options

On June 11, 2019, the Company amended the 2016 stock option plan to increase the number of common shares that may be issued thereunder. The stock option plan is a fixed stock option plan and the amendment increases the number of common shares reserved for issuance under the stock option plan from 71,230,957 to 83,331,796, being 20% of the issued and outstanding shares on April 17, 2019.

The amendment to the 2016 stock option plan was approved by the Company's shareholders at the annual and special meeting of shareholders held on May 22, 2019. The amended stock option plan remains subject to final acceptance by the TSX-V.

The outstanding options as at June 30, 2019 and September 30, 2018 and the respective changes during the nine months ended June 30, 2019 and the year ended September, are summarized as follows:

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Outstanding, beginning period	**62,194,400**	**0.22**	46,513,179	0.28
Granted during the period	**14,350,000**	**0.11**	45,050,000	0.24
Cancelled during the period	**—**	**—**	(12,000,000)	(0.70)
Expiries during the period	**(5,500,000)**	**0.15**	(4,000,000)	(0.23)
Forfeited during the period	**—**	**—**	(500,000)	(0.16)
Exercised during the period	**(500,000)**	**(0.05)**	(12,868,779)	(0.07)
Outstanding, end of period	**70,544,400**	**0.20**	62,194,400	0.22

The following options are outstanding and exercisable as at June 30, 2019:

Options outstanding					
Range of exercise price $	Number outstanding #	Weighted average remaining contractual life (in years)	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
0.050 to 0.749	2,394,400	2.75	0.05	2,394,400	0.05
0.100 to 0.149	20,350,000	4.04	0.11	8,583,333	0.11
0.150 to 0.199	21,300,000	3.61	0.16	21,300,000	0.16
0.200 to 0.249	8,000,000	1.51	0.23	8,000,000	0.23
0.350 to 0.399	18,500,000	8.45	0.36	18,500,000	0.36
0.00 to 1.499	**70,544,400**	**4.74**	**0.20**	**58,777,733**	**0.22**

The fair value of stock options granted during the nine months ended June 30, 2019 and the year ended September 30, 2018 were estimated at their respective grant dates using the Black Scholes option pricing model, using the following weighted average assumptions:

	Nine months ended June 30, 2019	**Year ended September 30, 2018**
Risk-free interest rate	**1.70%**	1.92%
Expected volatility	**180%**	180%
Dividend yield	**Nil**	Nil
Expected life [in years]	**5.01**	6.51
Share price at grant date	**$0.10 - $0.13**	$0.28
Fair value at grant date	**$0.10 - $0.13**	$0.27

[c] Warrants (note 2.1)

The outstanding warrants as at June 30, 2019 and September 30, 2018 and the respective changes during the nine months ended and the year respectively then ended, are summarized as follows:

	Nine months ended June 30, 2019		**Year ended September 30, 2018**	
	Number of warrants #	**Weighted average exercise price** $	**Number of warrants** #	**Weighted average exercise price** $
Outstanding balance, beginning of period / year	**49,218,314**	**0.36**	32,968,000	0.15
Warrants issued during the period / year *[note 11]*	**12,048,055**	**0.12**	45,030,586	0.36
Broker compensation warrants issued during the period / year	**—**	**—**	2,211,728	0.29
Warrants exercised in the period / year	**—**	**—**	(29,597,371)	(0.15)
Broker compensation warrants exercised in the period / year	**—**	**—**	(952,000)	(0.10)
Warrants expired during the period / year	**(2,744,592)**	**(0.48)**	(402,629)	(0.15)
Broker compensation warrants expired during the period / year	**—**	**—**	(40,000)	(0.10)
Outstanding balance, end of period / year	**58,521,777**	**0.30**	49,218,314	0.36

As at June 30, 2019, the warrants outstanding had a weighted average life of 0.98 year and all warrants were exercisable [September 30, 2018 - 1.32 years].

The fair value of warrants granted during the nine months ended June 30, 2019 (relating to the RiverFort) and the year ended September 30, 2018 were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions.

	Warrants – Nine months ended June 30, 2019	**Warrants – Year ended September 30, 2018**
Risk-free interest rate	**1,80%**	1.68%
Expected volatility	**114%**	180%
Dividend yield	**Nil**	Nil
Expected life [in years]	**1.00**	2.10
Share price at grant date	**$0.09**	$0.41
Fair value at grant date	**0.03**	$0.22

No broker compensation warrants were granted during the three and nine months ended June 30, 2019. The fair value of broker compensation warrants granted during the year ended September

30, 2018 were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions.

	Broker compensation warrants – Year ended September 30, 2018
Risk-free interest rate	1.64%
Expected volatility	180%
Dividend yield	Nil
Expected life [in years]	2.25
Share price at grant date	$0.331
Fair value at grant date	$0.281

Extension of warrants

On May 16, 2019 The Company announced that it would apply to the TSX-V for approval to extend the expiry date of an aggregate of 24,871,822 outstanding common share purchase warrants (the "2017 Warrants") that were issued in connection with a private placement which closed in December 2017, as further described in Elixxer's press releases dated December 1 and December 7, 2017. Each 2017 Warrant entitles the holder thereof to purchase one common share in the capital of the Company at an exercise price of $0.25 per share. A total of 19,871,822 of the 2017 Warrants originally had an expiry date of June 1, 2019, and 5,000,000 of the 2017 Warrants had an expiry date of June 7, 2019. The Company received approval from the TSX-V for the 2017 Warrant extension on May 22, 2019.

All other terms of the 2017 Warrants remain the same, including the acceleration option which allows the Company to accelerate the expiry date of the warrants to a date which is 30 days following the date of an acceleration notice in the event that the volume weighted average trading price of Elixxer's common shares is at least $0.30 for a period of ten consecutive trading days. The extension of the expiry date of the 2017 Warrants is subject to approval by the TSX-V.

The fair value of 2017 Warrants extended during the three and nine months ended June 30, 2019 were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions.

	2017 Warrants - Nine months ended June 30, 2019
Risk-free interest rate	**1.73%**
Expected volatility	**99%**
Dividend yield	**Nil**
Expected life [in years]	**0.53**
Share price at grant date	**$0.10**
Fair value at grant date	**0.0042**

As a result of the 2017 Warrant extension the Company has treated the original 2017 Warrants as having expired and been replaced by new 2017 Warrants. Consequently, in its statement of equity, the Company has recorded a transfer from warrants to contributed surplus of $1,041,931, being the original fair value of the 2017 Warrants, totaling $1,146,928 net of the fair value estimated for the replacement warrants, totaling $104,997.

[d] Stock-based compensation

For the three and nine months ended June 30, 2019, the stock-based compensation expense included in the condensed interim consolidated statement of loss, was $696,456 and $729,344, respectively [June 30, 2018 – $8,504,625 and $12,404,746, respectively] [note 4].

15. Related party transactions

In addition to the related party transactions disclosed elsewhere, the Company entered into the following related party transactions in the normal course of operations.

[a] During the three and nine months ended June 30, 2019, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party. For the three months ended June 30, 2019, the total amount for such services was $321,646, which was recorded in directors' fees [June 30, 2018 – $65,322]. For the nine months ended June 30, 2019, the total amount for such services was $648,847, which was recorded in directors' fees [June 30, 2018– $289,993]. As at June 30, 2019, an amount of $48,187 [September 30, 2018 – $Nil] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

[b] Compensation of key management personnel and Board of Directors.

Excluding the amounts reported above, during the three and nine months ended June 30, 2019 and 2018, the Company recorded the following compensation for key management personnel and the Board of Directors:

	Three months ended June 30,		**Nine months ended June 30,**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Directors' fees	**142,106**	104,193	**362,827**	509,351
Management fees	**44,000**	37500	**399,344**	90,000
Stock compensation	**500,493**	7,758,832	**521,048**	10,140,577
Total	**687,599**	7,900,525	**1,283, 220**	10,739,927

[c] During the three and nine months ended June 30, 2019 interest charged in respect of the Arlington loan, amounted to $20,389 and $41,530, respectively [June 30, 2018 – $Nil and $Nil, respectively], have been recorded in the condensed interim consolidated statement of loss. As at June 30, 2019, interest accrued but unpaid in respect of the Arlington loan, totaling $41,530 (September 30, 2018 - $Nil), has been recorded in the condensed interim consolidated statement of financial position under accounts payable and accrued liabilities.

16. Financial instruments

General objectives, policies and procedures

The Company's objectives when managing capital are to safeguard its ability to continue its investments [note 1]. As such, the Company relies primarily on the equity markets to fund its activities. In order to carry out planned activities and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company has not paid any dividends.

The Company's Board of Directors has overall responsibility for the determination of the Company's risk management objectives and operating processes that ensure effective implementation of the policies set out below. The Company's Board of Directors receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Principles of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed through its activities to the following risks: credit risk; liquidity risk; market risk; and foreign exchange risk.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Below is a comparison of the carrying amount of the financial instruments, for which the carrying amount is not a reasonable approximation of the fair value, and their respective fair values as at June 30, 2019 and September 30, 2018 respectively:

			June 30, 2019		September 30, 2018	
	Classification	Fair value level	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets						
Equity investments	Available for sale	II	**3,961,250**	**3,951,250**	—	—
Available for sale investments	Available for sale	II	**—**	**—**	3,652,203	3,652,203
Other loans receivable	Loans and receivables	II	**173,173**	**173,173**	1,576,266	1,576,266
Convertible debentures receivable (i)	Fair value through profit and loss	III	**6,619,273**	**7,808,295**	3,408,580	4,944,415
Royalty streams (i)	Fair value through profit and loss	III	**8,121,273**	**9,211,194**	4,191,739	6,715,559
Loans to directors and officers	Loans and receivables	II	**382,299**	**383,299**	362,802	362,802
Financial liabilities						
Host debt component	Other liabilities	II	**2,506,756**	**2,506,756**	2,528,720	2,570,077
Embedded derivative	Fair value through profit and loss	II	**354,032**	**354,302**	78,419	78,419

(i) The difference of $4,835,880 [September 30, 2018 - $4,059,655] between the carrying value and the fair value represents an unrecognized Day-1 gain [note 8]

For assets and liabilities measured at fair value as at June 30, 2019, there were no transfers between Level 1, Level 2, and Level 3 assets and liabilities during the period.

The fair values of the convertible debentures receivable classified as Level 3, were estimated using valuation techniques including DCF models, Monte Carlo simulation and funded production capacity, The models incorporate management estimates such as liquidity risk, credit risk and volatility and also reasonable estimated for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO, and also appropriate valuation multiples all based on published data from a basket of similar companies in the cannabis sector

17. Contingent liabilities and commitments

From time to time, the Company and/or its subsidiaries may become defendants in legal actions and the Company intends to defend itself vigorously against all legal claims. Elixxer is not aware of any claims against the Company that could reasonably be expected to have a materially adverse impact on the Company's condensed interim consolidated financial position, results of operations or the ability to carry on any of its business activities.

18. Subsequent events

[a] On July 12, 2019, the Company was advised that it has been served by Tricho-Med with a motion for a declaratory judgement whereby Tricho-Med is seeking the cancellation of the convertible debenture it entered into with the Company in December of 2017 and to repay the entire amount advanced by the Company representing $4 million dollars plus the interest accrued thereon. Under the terms of the convertible debenture, upon Tricho-Med receiving its license to cultivate cannabis from Health Canada, the loan amount shall be converted into that number of common shares of Tricho-Med equivalent to 49% of Tricho-Med's capital on a fully diluted basis together with a 5% net sales royalty on all of Tricho-Med's future revenues. The Company believes that this action is without merit and the Company is well within its rights to continue to hold position with its investment in Tricho-Med while waiting approval from Health Canada.

[b] On July 15, 2019, Health Canada awarded Tricho-Med its long awaited license to cultivate cannabis seeds and plants at its newly constructed facility in Brownsburg, Quebec. As per the terms of its agreement with Tricho-Med, the Company shall automatically convert the first ranking secured loan it provided to Tricho-Med in December 2017 into a 49% direct equity interest, and a 5% royalty of Tricho-Med's net sales of cannabis and cannabis related products which covers actual sales less any arm's length third party discounts. Merchandise returns and rebates. In addition, as per the agreement the Company is entitled to representation on Tricho-Med's board of directors.

[c] On July 16, 2019, the Company announced that it is changing its financial year end to December 31 from its current year end of September 30. As a result, the Company will file an additional interim report as at September 30, 2019 and will report audited financial results for a 15 month transition year from October 1, 2018 to December 31, 2019 (with a comparative of the 12 months ended September 30, 2018). Afterwards, the Company will revert to a customary reporting calendar on a December 31 year end, with fiscal quarters ending on the last day of March, June, September and December each year.

The Company believes this change of financial year end will allow it to complete the audit requirements of its investee companies with greater efficiency and will be useful to consolidate other companies in the future.

[d] On August 2, 2019, the Company announced that, following receipt of conditional approval by the TSX-V, it is has subscribed for convertible notes (the "Notes") of Little Green Pharma Ltd. ("LGP") in the aggregate amount of AUD800,000 (approximately $717,000).

The Notes were issued by LGP as part of a larger offering brokered by Canaccord Genuity (Australia) Limited. The Notes bear interest at the rate of 10% per annum and have a maturity date of July 31, 2020. The Notes are convertible into common shares of LGP upon LGP completing a qualifying initial public offering, a qualifying financing or an asset or share sale. In relation to a qualifying initial public offering, 50% of the Notes shall automatically convert at AUD0.30 per common share and the remaining 50% of the Notes shall convert at the higher of AUD0.30 per share and 70% of the IPO price per common share.

[e] Effective August 6, 2019, the Company has changed its name from "LGC Capital Ltd." to "Elixxer Ltd.". The name change was approved by the Company's shareholders at the annual and special meeting held on May 22, 2019. The Company now trades under the new symbol "ELXR" on the TSX-V. The Company's new website is Elixxer.com.

[f] On August 20, 2019, the Company has entered into an agreement to settle an aggregate amount of $60,000 for services rendered to the Company by an arm's length service provider through the issuance of common shares of Elixxer (the "Debt Settlement"). Pursuant to the Debt Settlement, Elixxer would issue a total of 600,000 common shares at a deemed issue price of $0.10 per common share.

Completion of the Debt Settlement is subject to acceptance by the TSX-V, and any shares issued pursuant to the Debt Settlement will be subject to a four month hold period commencing on the date of issuance.

[g] On August 29, 2019, the Company entered into a loan agreement with Arlington. Under the terms of the loan Arlington agreed to lend to the Company up to $4,670,000 for a period of four months. The funds are to be used for working capital purposes. The loan is unsecured and bears interest at the rate 12% per annum. The Company has the right to repay the loan at any time. As of August 29, 2019, amounts drawn down by the signing date were $2,621,328.

[h] On August 26, 2019, the Company announced that following receipt of conditional approval by the TSX-V and payment has been executed for the amount of AUD5,500,000, it had successfully closed the acquisition of additional shares from a non-executive founder in Little Green Pharma, increasing its equity ownership from 14.06% up to 40.4%.