

## NOTICE TO READER

The attached annual consolidated financial statements (the “**Financial Statements**”) of Elixer Ltd. (formerly LGC Capital Ltd.) for the year ended September 30, 2018 are being refiled with the applicable securities administrators to reflect the following amendments only:

- The date of the Independent Auditor’s Report (the “**Report**”) contained in the Financial Statements has been corrected to reflect the correct date of the Report of February 28, 2019 (rather than February 28, 2018 which was a typographical error); and
- The signatures of the two directors who signed the Financial Statements have been inserted on page 3 of the Financial Statements.

No amendment has otherwise been made to any amount, balance or disclosure in the attached Financial Statements.

September 3, 2019

Consolidated financial statements

**LGC Capital Ltd.**

September 30, 2018

## Independent auditors' report

To the Shareholders of  
**LGC Capital Ltd.**

We have audited the accompanying consolidated financial statements of **LGC Capital Ltd.** [the "Company"], which comprise the consolidated statements of financial position as at September 30, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada  
February 28, 2019

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A122471



**LGC Capital Ltd.**

**Consolidated statements of financial position**

As at,

|                                                                | September 30,<br>2018 | September 30,<br>2017 |
|----------------------------------------------------------------|-----------------------|-----------------------|
|                                                                | \$                    | \$                    |
| <b>Assets</b>                                                  |                       |                       |
| <b>Current assets</b>                                          |                       |                       |
| Cash                                                           | 6,566,218             | 2,018,570             |
| Available for sale investments [note 7]                        | —                     | 677,241               |
| Other receivables                                              | 211,084               | 51,469                |
| <b>Total current assets</b>                                    | <b>6,777,302</b>      | <b>2,747,280</b>      |
| <b>Non-current assets</b>                                      |                       |                       |
| Cash held in trust                                             | 759,136               | —                     |
| Available for sale investments [note 7]                        | 3,652,023             | —                     |
| Loans receivable [note 11]                                     | 1,576,266             | —                     |
| Convertible debentures receivable [note 12]                    | 3,408,580             | —                     |
| Royalty streams [note 12]                                      | 4,191,739             | —                     |
| Loans to directors and officers [note 13]                      | 362,802               | —                     |
| Fixtures and fittings                                          | 9,969                 | —                     |
| <b>Total non-current assets</b>                                | <b>13,960,515</b>     | <b>—</b>              |
|                                                                | <b>20,737,817</b>     | <b>2,747,280</b>      |
| <b>Liabilities and equity</b>                                  |                       |                       |
| <b>Current liabilities</b>                                     |                       |                       |
| Accounts payable and accrued liabilities [note 18]             | 340,345               | 845,902               |
| Deferred revenue [note 7]                                      | 116,357               | —                     |
| Convertible debentures payable [note 15]                       | 2,528,720             | —                     |
| Conversion feature of convertible debentures payable [note 15] | 78,419                | —                     |
| Loan payable [note 16]                                         | —                     | 325,035               |
| <b>Total current liabilities</b>                               | <b>3,063,841</b>      | <b>1,170,937</b>      |
| <b>Equity</b>                                                  |                       |                       |
| Share capital [notes 2 and 17]                                 | 32,335,757            | 13,108,479            |
| Warrants [notes 2, 15 and 17]                                  | 4,537,871             | 1,083,281             |
| Contributed surplus                                            | 10,003,130            | 1,493,711             |
| Accumulated other comprehensive loss                           | (188,876)             | (1,102,365)           |
| Deficit                                                        | (29,013,906)          | (13,006,763)          |
| <b>Total equity</b>                                            | <b>17,673,976</b>     | <b>1,576,343</b>      |
|                                                                | <b>20,737,817</b>     | <b>2,747,280</b>      |

Guarantees [note 7]

Contingent liabilities [note 20]

Commitments [note 21]

Subsequent events [note 22]

See accompanying notes

On behalf of the Board

"Mazen Haddad" (signed)

Director

"Mohammed Ghafari" (signed)

Director

**LGC Capital Ltd.**
**Consolidated statements of loss and comprehensive loss**

Years ended September 30,

|                                                                                                                 | 2018                | 2017        |
|-----------------------------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                                                 | \$                  | \$          |
| <b>Revenues</b>                                                                                                 |                     |             |
| Finance income <i>[notes 5, 11 and 12]</i>                                                                      | 170,315             | 64          |
| Other revenues <i>[notes 7 and 11]</i>                                                                          | 172,544             | —           |
|                                                                                                                 | <b>342,859</b>      | 64          |
| <b>Expenses</b>                                                                                                 |                     |             |
| Administrative expenses <i>[note 5]</i>                                                                         | 13,465,628          | 2,941,505   |
| Finance expense <i>[notes 5, 15 and 16]</i>                                                                     | 993,226             | 55,180      |
| Depreciation                                                                                                    | 330                 | —           |
| Realized net gain on available for sale investments <i>[note 7]</i>                                             | (227,316)           | (444,705)   |
| Share of profits of associate <i>[note 8]</i>                                                                   | —                   | (6,464)     |
| Share of losses of joint ventures <i>[note 9]</i>                                                               | —                   | 56,980      |
| Impairment of available for sale investments <i>[note 7]</i>                                                    | 228,192             | 1,311,575   |
| Impairment of investments in associate <i>[note 8]</i>                                                          | —                   | 69,719      |
| Impairment of investments in joint ventures <i>[note 9]</i>                                                     | 31                  | 81,905      |
| Impairment of loans to associates and joint ventures <i>[note 10]</i>                                           | 405,326             | 903,208     |
| Impairment of loans receivable <i>[note 11]</i>                                                                 | 1,275,047           | —           |
| Provision for doubtful debts <i>[note 11]</i>                                                                   | 51,996              | —           |
| Changes in fair value of convertible debentures receivable and royalty streams <i>[note 12]</i>                 | (257,897)           | —           |
| Realized loss on substantive disposal of subsidiary <i>[note 14]</i>                                            | 1,631,140           | —           |
| Changes in fair value of the conversion feature of convertible debentures payable <i>[note 15]</i>              | (807,712)           | —           |
| Foreign exchange loss                                                                                           | 114,870             | 78,716      |
|                                                                                                                 | <b>16,872,861</b>   | 5,047,617   |
| <b>Net loss for the year</b>                                                                                    | <b>(16,530,002)</b> | (5,047,555) |
| <b>Other comprehensive income (loss)</b>                                                                        |                     |             |
| <b>Items that may be subsequently reclassified to profit or loss</b>                                            |                     |             |
| Decrease in value of available for sale investments <i>[note 7]</i>                                             | (212,348)           | (4,907,780) |
| Realized gain on available for sale investments reclassified to profit or loss <i>[note 7]</i>                  | (227,316)           | (444,705)   |
| Impairment on available for sale investments reclassified to profit or loss <i>[note 7]</i>                     | 228,192             | 1,311,575   |
| Available for sale reserve reclassified to deficit                                                              | (522,859)           | —           |
| Foreign currency reserve reclassified to profit and loss on substantive disposal of subsidiary <i>[note 14]</i> | 1,631,140           | —           |
| Foreign exchange gain (loss) on translation of foreign subsidiaries                                             | 16,680              | (217,700)   |
| <b>Other comprehensive income (loss)</b>                                                                        | <b>913,489</b>      | (4,258,610) |
| <b>Comprehensive loss</b>                                                                                       | <b>(15,616,513)</b> | (9,306,165) |
| <b>Net loss per share</b>                                                                                       |                     |             |
| Basic and fully diluted                                                                                         | (0.05)              | (0.02)      |
| <b>Weighted average number of outstanding shares</b>                                                            |                     |             |
| Basic and fully diluted                                                                                         | 333,680,951         | 235,619,987 |

See accompanying notes

LGC Capital Ltd.

Consolidated statements of changes in equity

Years ended September 30,

|                                                                                                          | Share capital      |                   | Warrants          |                  | Contributed surplus | Available-for-sale reserve | Accumulated other comprehensive loss<br>Foreign currency translation reserve | Deficit             | Total             |
|----------------------------------------------------------------------------------------------------------|--------------------|-------------------|-------------------|------------------|---------------------|----------------------------|------------------------------------------------------------------------------|---------------------|-------------------|
|                                                                                                          | #                  | \$                | #                 | \$               | \$                  | \$                         | \$                                                                           | \$                  | \$                |
| <b>Balance – October 1, 2016</b>                                                                         | 234,045,310        | 11,213,399        | 1,976,000         | 91,579           | 1,049,052           | 4,586,365                  | (1,430,120)                                                                  | (7,959,208)         | 7,551,067         |
| Issuance of shares and warrants [notes 2 and 17]                                                         | 30,000,000         | 2,016,675         | 30,000,000        | 983,325          | —                   | —                          | —                                                                            | —                   | 3,000,000         |
| Issue costs - shares and warrants [note 17]                                                              | —                  | (61,547)          | —                 | (66,539)         | —                   | —                          | —                                                                            | —                   | (128,086)         |
| Issue costs - warrants issued to brokers [note 17]                                                       | —                  | (74,916)          | 992,000           | 74,916           | —                   | —                          | —                                                                            | —                   | —                 |
| Stock-based compensation [notes 6 and 17]                                                                | —                  | —                 | —                 | —                | 449,511             | —                          | —                                                                            | —                   | 449,511           |
| Exercise of stock options [note 17]                                                                      | 156,500            | 14,868            | —                 | —                | (4,852)             | —                          | —                                                                            | —                   | 10,016            |
| Decrease in value of available for sale investments, net of taxes [note 7]                               | 0                  | —                 | —                 | —                | —                   | (4,907,780)                | —                                                                            | —                   | (4,907,780)       |
| Realized gain on available for sale investments reclassified to profit or loss [note 7]                  | —                  | —                 | —                 | —                | —                   | (444,705)                  | —                                                                            | —                   | (444,705)         |
| Impairment loss on available for sale investments reclassified to profit or loss [note 7]                | —                  | —                 | —                 | —                | —                   | 1,311,575                  | —                                                                            | —                   | 1,311,575         |
| Foreign exchange loss on translation of foreign subsidiaries, net of taxes                               | —                  | —                 | —                 | —                | —                   | —                          | (217,700)                                                                    | —                   | (217,700)         |
| Net loss for the year                                                                                    | —                  | —                 | —                 | —                | —                   | —                          | —                                                                            | (5,047,555)         | (5,047,555)       |
| <b>Balance – September 30, 2017</b>                                                                      | <b>264,201,810</b> | <b>13,108,479</b> | <b>32,968,000</b> | <b>1,083,281</b> | <b>1,493,711</b>    | <b>545,455</b>             | <b>(1,647,820)</b>                                                           | <b>(13,006,763)</b> | <b>1,576,343</b>  |
| Issuance of shares and warrants [note 17]                                                                | 43,386,822         | 7,464,316         | 43,386,822        | 4,320,482        | —                   | —                          | —                                                                            | —                   | 11,784,798        |
| Issuance of warrants with convertible debentures payable [notes 15 and 17]                               | —                  | —                 | 1,643,764         | 166,303          | —                   | —                          | —                                                                            | —                   | 166,303           |
| Issuance of shares to settle convertible debenture issue costs [note 15]                                 | 376,162            | 107,206           | —                 | —                | —                   | —                          | —                                                                            | —                   | 107,206           |
| Issuance of shares to acquire available for sale investments [notes 7 and 17]                            | 10,660,000         | 2,362,200         | —                 | —                | —                   | —                          | —                                                                            | —                   | 2,362,200         |
| Issuance of shares to settle accounts payable and accrued liabilities [note 17]                          | 2,391,556          | 309,335           | —                 | —                | —                   | —                          | —                                                                            | —                   | 309,335           |
| Issuance of shares to acquire royalty in Global Canna Labs [notes 14 and 17]                             | 15,854,141         | 3,091,558         | —                 | —                | —                   | —                          | —                                                                            | —                   | 3,091,558         |
| Issue costs - shares and warrants on private placements [note 17]                                        | —                  | (529,769)         | —                 | (321,397)        | —                   | —                          | —                                                                            | —                   | (851,166)         |
| Issue costs - warrants issued to brokers on private placements [note 17]                                 | —                  | (405,493)         | 2,211,728         | 405,493          | —                   | —                          | —                                                                            | —                   | —                 |
| Issue costs - warrants with convertible debentures payable [note 15]                                     | —                  | —                 | —                 | (9,874)          | —                   | —                          | —                                                                            | —                   | (9,874)           |
| Exercise of stock options [note 17]                                                                      | 12,868,779         | 1,613,956         | —                 | —                | (652,972)           | —                          | —                                                                            | —                   | 960,984           |
| Exercise of warrants [note 17]                                                                           | 29,597,371         | 5,409,734         | (29,597,371)      | (970,128)        | —                   | —                          | —                                                                            | —                   | 4,439,606         |
| Exercise of broker compensation warrants [note 17]                                                       | 952,000            | 167,095           | (952,000)         | (71,895)         | —                   | —                          | —                                                                            | —                   | 95,200            |
| Expiry of warrants                                                                                       | —                  | —                 | (442,629)         | (64,394)         | 64,394              | —                          | —                                                                            | —                   | —                 |
| Stock-based compensation [notes 5 and 17]                                                                | —                  | —                 | —                 | —                | 9,097,997           | —                          | —                                                                            | —                   | 9,097,997         |
| Share purchase loans to directors and officers - at fair value [notes 13 and 17]                         | —                  | (362,860)         | —                 | —                | —                   | —                          | —                                                                            | —                   | (362,860)         |
| Decrease in value of available for sale investments [note 7]                                             | —                  | —                 | —                 | —                | —                   | (212,348)                  | —                                                                            | —                   | (212,348)         |
| Realized gain on available for sale investments reclassified to profit or loss [note 7]                  | —                  | —                 | —                 | —                | —                   | (227,316)                  | —                                                                            | —                   | (227,316)         |
| Impairment loss on available for sale investments reclassified to profit or loss [note 7]                | —                  | —                 | —                 | —                | —                   | 228,192                    | —                                                                            | —                   | 228,192           |
| Available for sale reserve reclassified to deficit                                                       | —                  | —                 | —                 | —                | —                   | (522,859)                  | —                                                                            | 522,859             | —                 |
| Foreign currency reserve reclassified to profit and loss on substantive disposal of subsidiary [note 14] | —                  | —                 | —                 | —                | —                   | —                          | 1,631,140                                                                    | —                   | 1,631,140         |
| Foreign exchange gain on translation of foreign subsidiaries                                             | —                  | —                 | —                 | —                | —                   | —                          | 16,680                                                                       | —                   | 16,680            |
| Net loss for the year                                                                                    | —                  | —                 | —                 | —                | —                   | —                          | —                                                                            | (16,530,002)        | (16,530,002)      |
| <b>Balance – September 30, 2018</b>                                                                      | <b>380,288,641</b> | <b>32,335,757</b> | <b>49,218,314</b> | <b>4,537,871</b> | <b>10,003,130</b>   | <b>(188,876)</b>           | <b>—</b>                                                                     | <b>(29,013,906)</b> | <b>17,673,976</b> |

Guarantees [note 7]

Contingent liabilities [note 20]

Commitments [note 21]

Subsequent events [note 22]

See accompanying notes

**LGC Capital Ltd.**

**Consolidated statements of cash flows**

Years ended September 30,

|                                                                                                                 | 2018<br>\$         | 2017<br>\$         |
|-----------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Operating activities</b>                                                                                     |                    |                    |
| Net loss for the year                                                                                           | (16,530,002)       | (5,047,555)        |
| Items not impacting cash:                                                                                       |                    |                    |
| Revenues received in shares <i>[note 7]</i>                                                                     | (172,544)          | —                  |
| Realised gain on sale of available for sale investments <i>[note 7]</i>                                         | (227,316)          | (444,705)          |
| Finance expense <i>[notes 5, 15 and 16]</i>                                                                     | 847,315            | 54,687             |
| Changes in fair value of convertible debentures receivable <i>[note 12]</i>                                     | (257,897)          | —                  |
| Changes in fair value of embedded derivative in convertible debentures payable <i>[note 15]</i>                 | (807,712)          | —                  |
| Share of profit of associates <i>[note 8]</i>                                                                   | —                  | (6,464)            |
| Share of losses of joint ventures <i>[note 9]</i>                                                               | —                  | 56,980             |
| Provision for doubtful debts                                                                                    | 51,996             | —                  |
| Impairment of available for sale investments <i>[note 7]</i>                                                    | 228,192            | 1,311,575          |
| Impairment of investment in associates <i>[note 8]</i>                                                          | —                  | 69,719             |
| Impairment of investment in joint ventures <i>[note 9]</i>                                                      | 31                 | 81,905             |
| Impairment of loans to associates and joint ventures <i>[note 10]</i>                                           | 405,326            | 903,208            |
| Impairment of loans receivable <i>[note 11]</i>                                                                 | 1,275,047          | —                  |
| Depreciation                                                                                                    | 330                | —                  |
| Other comprehensive loss reclassified to profit and loss on substantive disposal of subsidiary <i>[note 14]</i> | 1,631,140          | —                  |
| Unrealized foreign exchange loss (gain)                                                                         | 137,943            | (8,392)            |
| Stock-based compensation <i>[notes 5 and 17(d)]</i>                                                             | 9,097,997          | 449,511            |
|                                                                                                                 | (4,320,154)        | (2,579,531)        |
| Change in non-cash working capital items                                                                        | (284,028)          | (77,207)           |
| <b>Net cash flows from operating activities</b>                                                                 | <b>(4,604,182)</b> | <b>(2,656,738)</b> |
| <b>Investing activities</b>                                                                                     |                    |                    |
| Acquisition of available for sale investments <i>[note 7]</i>                                                   | (1,528,170)        | (18,552)           |
| Disposal of available for sale investments <i>[note 7]</i>                                                      | 958,057            | 1,026,829          |
| Restricted cash transfers to trust account <i>[note 3]</i>                                                      | (759,136)          | —                  |
| Acquisition of investments in joint ventures <i>[note 9]</i>                                                    | (31)               | —                  |
| Acquisition of fixtures and fittings                                                                            | (10,299)           | —                  |
| Issuance of loans to joint ventures and associates <i>[note 10]</i>                                             | (409,879)          | —                  |
| Issuance of loans receivable <i>[note 11]</i>                                                                   | (2,762,281)        | —                  |
| Acquisition of convertible debentures receivable <i>[note 12]</i>                                               | (4,250,864)        | —                  |
| Issuance of loans to directors and officers <i>[note 13]</i>                                                    | (399,083)          | —                  |
| <b>Cash flows from investing activities</b>                                                                     | <b>(9,161,686)</b> | <b>1,008,277</b>   |
| <b>Financing activities</b>                                                                                     |                    |                    |
| Proceeds from issuance of convertible debentures payable <i>[note 15]</i>                                       | 2,947,401          | —                  |
| Convertible debenture issue costs <i>[note 15]</i>                                                              | (67,788)           | —                  |
| Proceeds from issuance of new loans <i>[note 16]</i>                                                            | —                  | 380,245            |
| Repayment of loans <i>[note 16]</i>                                                                             | (325,440)          | (101,505)          |
| Proceeds from issuance of shares and warrants <i>[note 17]</i>                                                  | 11,789,302         | 3,000,000          |
| Share and warrant issue costs <i>[note 17]</i>                                                                  | (851,166)          | (106,486)          |
| Proceeds from the exercise of stock options <i>[note 17]</i>                                                    | 683,860            | 10,016             |
| Proceeds from the exercise of warrants <i>[note 17]</i>                                                         | 4,148,352          | —                  |
| <b>Cash flows from financing activities</b>                                                                     | <b>18,324,521</b>  | <b>3,182,270</b>   |
| <b>Increase in cash</b>                                                                                         | <b>4,558,653</b>   | <b>1,533,809</b>   |
| Net foreign exchange differences                                                                                | (11,005)           | (1,376)            |
| Cash, beginning of year                                                                                         | 2,018,570          | 486,137            |
| <b>Cash, end of year</b>                                                                                        | <b>6,566,218</b>   | <b>2,018,570</b>   |

See accompanying notes

## **LGC Capital Ltd.**

### **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

#### **1. Nature of operations and comparative information**

LGC Capital Ltd. ("LGC Capital") was incorporated under the Canada Business Corporations Act on July 9, 2004. LGC Capital Ltd. is a publicly listed company and its shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "LG" ["QBA" prior to September 19, 2017]. The registered office of LGC Capital is located at 800 Place Victoria, Suite 3700, Montréal, Québec, Canada.

LGC Capital 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 consolidated financial statements.

LGC Capital 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.

On September 22, 2017, the Board of Directors resolved to exit all investments in companies or entities that have any business activities relating to Cuba.

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") and Euros (EUR).

#### **2. Basis of preparation**

##### **Statement of compliance**

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"].

The consolidated financial statements have been prepared on a historical cost basis, except for investments available for sale, convertible debentures receivable, royalty streams and the embedded derivative in connection with the convertible debentures payable that have been measured at fair value.

The Board of Directors approved these consolidated financial statements on February 28, 2019.

##### **Basis of consolidation**

The consolidated financial statements include the financial statements of LGC Capital and its subsidiaries as described in note 1. All intra-group balances, income and expenses are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as LGC Capital.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **Reclassification of fair value of warrants**

On September 12, 2017, the Company completed a private placement by issuing 30,000,000 units at a price of \$0.10 per unit, for gross proceeds of \$3,000,000. 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 \$0.15 for a period of one year 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 20 consecutive trading days is at least \$0.20, 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 (the "Notice"). Initially, in the Company's consolidated financial statements for the year ended September 30, 2017, the Company allocated no value to the warrants based on the initial valuation model based on stochastic simulations. However, during the three-month period ended December 31, 2017, the Company updated its valuation model to properly reflect the fact that upon the receipt of the Notice, the holders of the warrants still had 30 days to exercise their warrants, and reclassified \$983,325 from share capital to warrants as at September 30, 2017 and \$66,539 from issue costs in share capital to warrants based on the relative fair value of the share capital and warrants.

### **Functional and presentation currency**

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

### **Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the date of the consolidated financial statements. Uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **[a] Share-based payments and warrants**

The estimation of the fair value of options and warrants at the date of grant requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The fair value of each option or warrant is evaluated using the Black-Scholes pricing model or a valuation model based on stochastic simulations at the date of grant. The Company has made estimates as to the volatility, the expected life of options or warrants, and where applicable, expected forfeiture rates. The expected life of the option or warrant is based on historical data. The expected volatility is based on the historical volatility of the Company or comparable companies, as applicable, over the period of the expected life of the stock option or warrant. These estimates may not necessarily be indicative of future actual patterns. The assumptions and model used for estimating the fair value are disclosed in notes 15 and 17.

### **[b] Fair value measurement of convertible debentures receivable and royalty streams**

The fair value of convertible debentures receivable and royalty streams 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 IPO, and also appropriate valuation multiples. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. For additional details, refer to note 12.

## **3. Principal accounting policies**

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

### **Cash held in trust**

Cash held in trust represents amounts to secure a portion of future draw downs in respect of the convertible debentures receivable. Funds held in trust are not available to the Company to fund normal operations.

### **Investment in associates and joint ventures**

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

The investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company's share of net assets of the associate or joint venture since the acquisition date.

The Company's net loss reflects the share of the results of operations of the associates or joint ventures. Any change in other comprehensive income (loss) of those investees is presented as part of the Company's other comprehensive income (loss). In addition, when there has been a change recognized directly in the equity of the associates or joint ventures, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates or joint ventures are eliminated to the extent of the interest in the associates or joint ventures.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint ventures. At each reporting date, the Company determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and its carrying value, and then recognizes the loss in net loss.

### **Share Capital and warrants issued through the issuance of units**

Proceeds from share units are allocated between share capital and warrants on a relative fair value basis, whereby the fair value of the warrants is determined using a valuation model based on stochastic simulations and the fair value of share capital is based on the value on the TSX-V. On the exercise of the warrants, the carrying amounts are transferred from warrants to share capital, whereas on expiry of the warrants, carrying amounts are transferred to contributed surplus.

Costs incurred in connection with the issuance of shares or warrants are allocated based on the fair value of each component and netted against each such component.

### **Share-based compensation**

Where employees are rewarded using share-based payments, the fair values of employees' services are determined by reference to the fair value of the equity instruments granted. The fair value of each option is evaluated using the Black-Scholes pricing model at the date of grant. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. All share-based remuneration is recognized as an expense with a corresponding increase to contributed surplus.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates of forfeitures are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Share-based payments for non-employee services, including warrants, are measured at the fair value of the goods or services received and are recorded at the date the goods or services are received. If the Company cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Upon exercise of share options, the proceeds received are allocated to share capital, together with the cumulative expense recorded in contributed surplus. On the exercise of the warrants, the proceeds received as well as the carrying amount of the warrants are transferred from warrants to share capital, whereas on expiry of the warrants the carrying amount is transferred to contributed surplus.

### **Taxes**

#### *Current income taxes*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in total comprehensive loss or equity is recognized in other comprehensive income (loss) or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred income taxes*

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilized. Deferred income taxes are not recognized for temporary differences which arise for initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally-enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### *Commodity taxes*

Expenses are recognized net of the amount of sales taxes, except where the sales taxes incurred are not recoverable from the taxation authority, in which case the sales taxes are recognized as part of the expense item.

### **Net loss per share**

Net loss per share computations are based upon the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shares by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, share options and the convertible debentures payable.

### **Foreign currency translation**

#### **[i] Foreign operations**

The assets and liabilities of subsidiaries that have a functional currency different from that of LGC Capital are translated into Canadian dollars at the closing rate at the date of the statements of financial position, and revenue and expenses are translated at the average rate for the period and the difference is recorded in other comprehensive income (loss). Upon disposal or substantive disposal of a foreign subsidiary, the foreign currency translation reserve is removed from accumulated other comprehensive income and recognized in net loss. In addition, upon disposal of an available-for-sale investment held by a foreign operation, the related foreign exchange amount initially accounted for in other comprehensive income (loss), in excess of the amount reclassified in net loss, is reclassified to deficit.

#### **[ii] Transactions in foreign currency**

Transactions in foreign currencies are translated at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the reporting date. All differences that arise are recorded in net loss. Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **Financial instruments**

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale investments ("AFS"), as appropriate. Financial liabilities are classified as other liabilities. The Company determines the classification of its financial assets or liabilities at initial recognition. When financial assets or liabilities are recognized initially, they are measured at fair value, net, in the case of other liabilities, of any directly attributable transaction costs.

As consideration for convertible debentures receivable issued, the Company may receive multiple financial instruments in the form of convertible debt receivable and rights to future royalties. The Company allocates the fair value of the consideration given which may consists of cash and issuance of common shares, to each component on a relative fair value basis. This involves assessing the fair value of each component received. If the sum of the fair value of each component is greater than the consideration given, this represents a Day-1 gain on initial measurement. This Day-1 gain is recognized only if the fair value of the financial asset is based on a quoted price in an active market or based on a valuation technique that uses only data from observable markets. Otherwise, the difference is deferred and recognized when a quoted price from an active market becomes available, or when such financial asset is disposed of.

Subsequently, financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at their amortized cost using the effective interest rate method. Financial assets classified as fair value through profit or loss and assets classified as AFS are measured subsequently at their fair values.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

|                                                      | <b>Classification</b>              | <b>Subsequent measurement</b> |
|------------------------------------------------------|------------------------------------|-------------------------------|
| Cash                                                 | Fair value through profit and loss | Fair value                    |
| Available for sale investments                       | Available for sale                 | Fair value                    |
| Loans to associates and joint ventures               | Loans and receivables              | Amortized cost                |
| Loans receivable                                     | Loans and receivables              | Amortized cost                |
| Convertible debentures receivable                    | Fair value through profit and loss | Fair value                    |
| Royalty streams                                      | Fair value through profit and loss | Fair value                    |
| Loans to directors and officers                      | Loans and receivables              | Amortized cost                |
| Other receivables                                    | Loans and receivables              | Amortized cost                |
| Accounts payable and accrued liabilities             | Other liabilities                  | Amortized cost                |
| Convertible debentures payable                       | Other liabilities                  | Amortized cost                |
| Conversion feature of convertible debentures payable | Fair value through profit and loss | Fair value                    |
| Loan payable                                         | Other liabilities                  | Amortized cost                |

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss (convertible debentures receivable), derivatives (royalty stream) and embedded derivatives (conversion feature of convertible debentures payable). Gains or losses on these items are recognized in net loss.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or AFS. Such assets are carried at amortized cost using the effective interest method, less impairment. Losses are recognized in net loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Other receivables classified as loans and receivables are non-interest bearing. Where the time value of money is material, receivables are discounted and are carried at their present value. A provision is made where the estimated recoverable amount is lower than the carrying amount.

### *Available for sale investments*

Equity investments classified as AFS investments are those that are neither classified as held for trading nor designated at fair value through profit or loss. The unrealized gains and losses, net of applicable income taxes, on AFS investments are reported in other comprehensive income (loss) until the investment is derecognized, at which time, the cumulative gain or loss is recognized in net loss, or when the investment is determined to be impaired, the cumulative loss is reclassified from the accumulated other comprehensive loss to net loss.

### *Other liabilities*

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other liabilities are presented as current if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

### *Fair values of financial instruments carried at fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or most advantageous market for the asset or liability.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted [unadjusted] market prices in active markets for identical assets or liabilities, or
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. or
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization [based on the lowest level input that is significant to the fair value measurement as a whole] at the end of each reporting period.

### **Impairment of financial assets**

#### *Financial assets carried at amortized cost*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets carried at amortized costs are impaired. A financial asset or a group of financial assets carried at amortized cost is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future credit losses that have not been incurred] discounted at the financial asset's original effective interest rate [i.e. the effective interest rate computed at initial recognition]. The carrying amount of the asset is reduced and the amount of the loss is recognized in the net loss.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in net loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *AFS financial assets*

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of loss and comprehensive loss – is removed from accumulated other comprehensive loss and recognized in net loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income (loss).

### **Revenue recognition**

Revenue, consisting of a guarantee given, is recognized at the fair value of the consideration received over the guarantee period on a straight-line basis.

### **Segment reporting**

The Company operates in one business segment. The information provided is consistent with the internal reporting provided to the chief operating decision maker.

## **4. Recent accounting pronouncements**

The following pronouncements are issued but not yet effective for the year ended September 30, 2018:

### **[a] 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.

The amendments apply for annual periods beginning on or after January 1, 2018. 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. The Company does not expect the amendments to have a material impact on its consolidated financial statements.

### **[b] IFRS 9 Financial Instruments**

The final version of IFRS 9, Financial instruments ["IFRS 9"] was issued by the IASB in July 2014 which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: recognition and measurement ["IAS 39"]. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for the Company on October 1, 2018. Retrospective application is required, but comparative information is not compulsory. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

## Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

### 5. 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 expense for the year ended September 30:

|                                                         | 2018<br>\$        | 2017<br>\$       |
|---------------------------------------------------------|-------------------|------------------|
| <b>Administrative expenses:</b>                         |                   |                  |
| Salaries and other employee benefits                    | 315,585           | 151,974          |
| Directors' fees                                         | 942,667           | 610,426          |
| Legal fees                                              | 918,876           | 297,224          |
| Regulatory expenses                                     | 578,618           | 308,710          |
| Consultancy fees                                        | 251,580           | 366,116          |
| Travel and business development                         | 385,957           | 50,654           |
| Investor and public relations                           | 219,190           | 136,009          |
| Office expenses                                         | 65,309            | 130,726          |
| Professional fees                                       | 131,450           | 78,221           |
| Stock-based compensation [note 17(d)]                   | 9,097,997         | 449,511          |
| House of Hemp expense [i]                               | 162,367           | 335,624          |
| Global Canna Labs finders fee [ii]                      | 257,500           | —                |
| Other administrative                                    | 138,532           | 26,310           |
| <b>Total</b>                                            | <b>13,465,628</b> | <b>2,941,505</b> |
|                                                         |                   |                  |
|                                                         | 2018<br>\$        | 2017<br>\$       |
| <b>Finance income:</b>                                  |                   |                  |
| Interest on loans receivable [note 11]                  | 76,222            | —                |
| Interest on convertible debentures receivable [note 12] | 91,655            | —                |
| Other interest                                          | 2,438             | 64               |
| <b>Total</b>                                            | <b>170,315</b>    | <b>64</b>        |

## Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

|                                                                                         | 2018<br>\$     | 2017<br>\$    |
|-----------------------------------------------------------------------------------------|----------------|---------------|
| <b>Finance expenses:</b>                                                                |                |               |
| Interest on convertible debentures payable [note 15]                                    | 185,356        | —             |
| Accretion of convertible debentures payable [note 15]                                   | 711,921        | —             |
| Issue costs allocated to conversion feature of convertible debentures payable [note 15] | 40,546         | —             |
| Discount on fair valuation of share purchase loans to officers and directors [note 13]  | 79,399         | —             |
| Accretion of loans to directors and officers [note 13]                                  | (23,996)       | —             |
| Interest on loan payable [note 16]                                                      | —              | 17,301        |
| Loan fees payable [note 16]                                                             | —              | 37,386        |
| Other                                                                                   | —              | 493           |
| <b>Total</b>                                                                            | <b>993,226</b> | <b>55,180</b> |

### [i] House of Hemp expense

In June 2017, the Company entered into a strategic alliance with AfriAg (Pty) Ltd. ("AfriAg"), 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, LGC Capital and AfriAg entered into a binding memorandum of agreement to acquire, through the above mentioned joint venture, a 60% interest in South Africa's House of Hemp (Pty) Ltd.'s ("House of Hemp") hemp and cannabis related businesses, subject to an exclusive option for a period ending January 28, 2018.

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 year ended September 30, 2018, the Company incurred due diligence and other related expenses related to this transaction of \$162,367 [2017 – \$335,624].

### [ii] Global Canna Labs finders fee

In January 2018, the Company entered into an agreement with an advisory firm for the identification of investment opportunities, which resulted in the introduction to the Company of Global Canna Labs. Pursuant to this agreement, upon successful completion of a transaction with Global Canna Labs, the Company is to pay a finder's fee calculated as 10 % of the total consideration paid pursuant to the respective definitive agreement up to \$300,000, plus 7.5% of total consideration paid between \$300,000 and \$1,000,000, plus 5.0% of total consideration paid over \$1,000,000. The finder's fee may be satisfied in 50% cash and 50% common shares of the Company as determined by the advisory firm. For the year ended September 30, 2018, the Company incurred a charge of \$257,500 in respect to this finder's fee.

## Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

**6. Income taxes**

A reconciliation of income tax charge applicable to accounting loss before income tax at the Canadian statutory income tax rate to income tax charge at the Company's effective income tax rate for the years ended September 30 is as follows:

|                                                                                           | 2018<br>\$   | 2017<br>\$  |
|-------------------------------------------------------------------------------------------|--------------|-------------|
| Loss before income tax                                                                    | (16,530,002) | (5,047,555) |
| Income tax recovery at the combined Federal and Provincial tax rate 26.5% [2016 – 26.82%] | (4,380,451)  | (1,353,754) |
| Non-deductible expenses and non-taxable revenues                                          | 2,879,019    | 210,573     |
| Effect of changes in tax rates on temporary items                                         | 6,850        | 5,243       |
| Effect of foreign tax rate differences                                                    | (36,309)     | 733,567     |
| Non-recognition of tax benefits related to tax losses and temporary differences           | 1,559,090    | 404,371     |
| Other                                                                                     | (28,199)     | —           |
| Tax recovery at an effective income tax rate                                              | —            | —           |

The deferred tax asset and liability of the Company consist of the following:

|                                                           | 2018<br>\$  | 2017<br>\$ |
|-----------------------------------------------------------|-------------|------------|
| <b>Deferred income tax assets</b>                         |             |            |
| Non-capital loss carry-forwards                           | 2,107,245   | 632,560    |
| Share and convertible debentures issue costs              | 248,548     | 1,260      |
| Available for sale investments                            | 55,262      | —          |
| Investments, loans receivable and loans to joint ventures | 60,027      | 7,187      |
| Convertible debentures receivable                         | 36,810      | —          |
|                                                           | 2,507,892   | 641,007    |
| <b>Deferred income tax liabilities</b>                    |             |            |
| Convertible debentures payable                            | (45,085)    | —          |
| <b>Net deferred income tax assets</b>                     | 2,462,807   | 641,007    |
| Unrecognized deferred income tax assets                   | (2,462,807) | (641,007)  |
| <b>Net deferred income tax</b>                            | —           | —          |

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

#### Tax loss carry-forward

At September 30, 2018, LGC Capital had non-capital loss carry-forwards in the amount of \$7,952,000 which are available to reduce future years' taxable income. These non-capital loss carry-forwards expire as follows:

|      | <b>Non-capital<br/>losses</b> |
|------|-------------------------------|
|      | <b>\$</b>                     |
| 2033 | 7,000                         |
| 2034 | 203,000                       |
| 2035 | 152,000                       |
| 2036 | 450,000                       |
| 2037 | 1,528,000                     |
| 2038 | 5,612,000                     |
|      | <b>7,952,000</b>              |

The deferred income tax assets related to the non-capital losses carry forwards of \$7,952,000 is included in the net deferred income tax assets of \$2,462,807 before valuation allowance as explained above.

#### 7. Available for sale investments

A breakdown of AFS investments as at September 30, 2018 and 2017 and the respective changes during the years then ended are summarized as follows:

|                                      | <b>2018</b>      | <b>2017</b> |
|--------------------------------------|------------------|-------------|
|                                      | <b>\$</b>        | <b>\$</b>   |
| Balance, beginning of year           | <b>677,241</b>   | 6,773,904   |
| Additions                            | <b>4,118,562</b> | 18,552      |
| Disposals                            | <b>(958,057)</b> | (582,124)   |
| Increase (decrease) in fair value    | <b>38,440</b>    | (4,040,910) |
| Impairment                           | <b>(228,192)</b> | (1,311,575) |
| Foreign currency loss on translation | <b>4,029</b>     | (180,606)   |
| <b>Balance, end of year</b>          | <b>3,652,023</b> | 677,241     |

## **LGC Capital Ltd.**

### **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

#### **[a] Petro Australis Limited**

As at September 30, 2017, the Company's interest in Petro Australis was 12.1%.

Prior to September 30, 2017, the Company had received a non-binding offer of AUD50,000 for its interest in Petro Australis. On November 29, 2017, the Company completed and executed an agreement, with third parties, to sell 100% of its shareholding in Petro Australis for total consideration of AUD50,000 (\$48,574). As a result, as at September 30, 2017, the Company recorded a decrease of fair value of its investment in Petro Australis of AUD548,083 (\$820,716) in other comprehensive income (loss) and also an impairment of AUD1,594,250 (\$1,248,417) to net loss. As at September 30, 2017 the balance of LGC Capital's investment in Petro Australis was \$48,574.

#### **[b] Melbana Energy Limited [note 19]**

In March 2016 the Company acquired 140,716,573 new ordinary shares at AUD0.01 per share in Melbana Energy Limited ["Melbana"] [formerly MEO Australia Limited], an Australian incorporated public company listed on the Australian Stock Exchange [ticker "MAY"], for a total cash consideration of AUD1,407,166 (\$1,360,280). The Company's shareholding represented, on acquisition, a 15.8% interest in Melbana. As a result of share issues by Melbana in August and September 2016 and subsequent divestments of shares by LGC Capital, the Company's interest was reduced to 4.81% as at September 30, 2017 and the balance of LGC Capital's investment was \$628,667.

During the year ended September 30, 2018, the Company acquired an additional 1,500,000 shares at an average price of AUD0.02 for a total cost of AUD27,180 (\$26,476). During the year ended September 30, 2018, the movement in fair value of the Company's investment amounted to a gain of AUD168,815 (\$229,556) [2017 – loss of AUD3,167,667 (\$3,220,191)].

During the year ended September 30, 2018, the Company divested 73,402,339 shares in Melbana, at an average price of AUD0.01, for total proceeds of AUD915,918 (\$888,727), which resulted in a reduction of the Company's interest in Melbana from 4.81% as at September 30, 2017 to Nil% as at September 30, 2018. As a result, during the year ended September 30, 2018, the Company reclassified to net loss the realized gain on disposal of the shares of Melbana of AUD168,815 (\$229,556) [2017 - AUD343,458 (\$444,705)].

#### **[c] The Cuba Mountain Coffee Company Limited**

As at September 30, 2017, the Company's interest in Cuba Mountain Coffee Limited ("Cuba Mountain") was 10.14%.

On October 2, 2017 the Company was advised that Cuba Mountain was insolvent and the directors of Cuba Mountain had resolved to appoint a liquidator. Consequently, as at September 30, 2017, the Company recorded an impairment in respect to its Cuba Mountain investment in other comprehensive income (loss) of GBP38,500 (\$63,158), which was subsequently reclassified to net (loss).

As at September 30, 2018, Cuba Mountain was in liquidation and no recoveries are expected. As at September 30, 2018 the carrying value of the Company's investment in Cuba Mountain was \$Nil [2017 - \$Nil].

## **LGC Capital Ltd.**

### **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

#### **[d] Habi Pharma Pty Ltd**

On October 5, 2017, the Company executed a subscription agreement with the licensed Australian medical cannabis company Habi Pharma Pty Ltd [doing business as "Little Green Pharma"]. TSX-V approval for this transaction was received on October 27, 2018.

On October 12, 2017 the Company completed the initial acquisition of 2,161,091 shares of Little Green Pharma representing an initial 4.99% of its issued and outstanding share capital by paying cash of AUD432,218 (\$422,969) and issuing 5,660,000 common shares of LGC Capital at a price of \$0.17 per share on the date of issue (\$962,200) for a total consideration of \$1,385,169.

Further, on November 1, 2017, as a result of share issuances by Little Green Pharma to other parties, the Company subscribed for a further 752,937 shares of Little Green Pharma for cash consideration of AUD150,587 (\$149,668) so as to maintain its 4.99% shareholding.

On December 14, 2017, the Company subscribed for an additional 4,585,972 shares of Little Green Pharma for cash consideration of AUD917,194 (\$906,062), thereby increasing its shareholding to 11.91%.

On February 14, 2018, the Company subscribed for an additional 2,283,495 shares of Little Green Pharma in exchange for issuing 5,000,000 shares of the Company at a price of \$0.28 per share on the date of issue for a total consideration of \$1,400,000 [note 17(a)], thereby increasing its shareholding to 14.99%. The subscription agreement entered into by LGC Capital and Little Green Pharma at closing contained an undertaking by LGC Capital to participate in any capital raise by Little Green Pharma's up to June 30, 2018, to the extent required to maintain LGC Capital's 14.99% shareholding in Little Green Pharma. This condition subsequently lapsed on June 30, 2018 with no further investment required by the Company.

As at September 30, 2018, the fair value of the investment in Little Green Pharma was determined to be AUD0.40 per share, based on an arm's length offering of a significant shareholder in Little Green Pharma, representing a balance of investment of \$3,652,023. As at September 30, 2018, the movement in the fair value of the Company's investment in Little Green Pharma amounted to a loss of \$188,876 [September 30, 2017 – \$Nil].

As at September 30, 2018, the Company's interest in Little Green Pharma was 14.21% [2017 – Nil] following further share issues by Little Green Pharma.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **[e] Etea Sicurezza Group Ltd (note 19)**

On October 10, 2017, the Company entered into an agreement with a Toronto-based investment firm whereby the Company will guarantee repayment [the "Etea Guarantee"] of all of the obligations incurred by Etea Sicurezza Group Ltd ["Etea Sicurezza"], an unrelated entity, pursuant to an issuance of notes (the "Notes") by it to an unrelated party in an aggregate principal amount of USD \$1,000,000 [the "Notes"]. The Notes have a term of two years, maturing in August 2019, bear interest at a rate equal to LIBOR + 8%, and are secured by the assets of Etea Sicurezza and by a pledge of shares by Etea Sicurezza's principal shareholder. As consideration for the Etea Guarantee, on May 15, 2018 the Company was issued shares in Etea Sicurezza, representing 3% of its outstanding share capital, with a deemed value of EUR150,000 (\$228,192). In addition, an annual fee of USD\$30,000 (\$37,636) is chargeable to Etea Sicurezza. During the year ended September 30, 2018, a total of \$149,471 has been recorded in revenues related to Etea guarantee fees [2017 - \$Nil] with the balance of \$116,357 recorded in deferred revenue.

The Company is supportive of Etea Sicurezza's future business prospects and intends to convert its loans into equity in Etea Sicurezza. However, as at September 30, 2018, in view of Etea Sicurezza's current liquidity position and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors has determined to impair in full the Company's investment in Etea Sicurezza. Consequently, the Company has recognized an impairment charge in the consolidated statements of loss related to its investment in Etea Sicurezza amounting to \$228,192 [2017 - \$Nil].

As at September 30, 2018, the Company's interest in Etea Sicurezza was 3% [2017 - Nil].

### **[f] Other AFS investments**

During the year ended September 30, 2018 the Company purchased and disposed of certain quoted securities on listed stock markets in various countries. As at September 30, 2018, the Company's had divested all its holdings in such investments and during the year then ended the Company incurred losses on disposal of these investments amounting to \$2,240 [2017 - \$Nil], recorded in the statement of other comprehensive income (loss) which was subsequently reclassified to net loss.

## **8. Investments in an associate**

On September 22, 2017, the Board of Directors decided to exit all of the Company's investments with interests in Cuba. Consequently, as at September 30, 2017, the Company recorded an impairment, in net loss, on its 40% interest in InCloud9 Group of GBP42,499 (\$69,719) and has written off the balances of all loans provided by the Company to the InCloud9 Group amounting to GBP164,203 (\$269,368) [note 10].

During the year ended September 30, 2017, the Company's share of profit amounted to GBP2,591 (\$6,464).

On November 28, 2017, the Company finalized an agreement with the founder of the InCloud9 Group to assign the Company's 40% interest for no consideration.

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

#### 9. Investments in joint ventures

The table below presents the Company's unincorporated joint ventures, which are accounted for using the equity method.

| Joint venture                   | Country of registration | Nature of business  | Interest September 30, 2018 | Interest September 30, 2017 |
|---------------------------------|-------------------------|---------------------|-----------------------------|-----------------------------|
| CLV Frontier Brands Pty Ltd     | Australia               | Beverage production | 33.3%                       | —                           |
| Rushmans Ltd.                   | Cuba/ International     | Cuban sport         | —                           | —                           |
| Groombridge Trading Corporation | Cuba/Canada             | Trading             | —                           | —                           |

A breakdown of investments in joint ventures as at September 30, 2018 and 2017 and the respective changes during the years then ended are summarized as follows:

|                                      | 2018<br>\$ | 2017<br>\$ |
|--------------------------------------|------------|------------|
| Balance, beginning of year           | —          | 143,055    |
| Additions                            | 31         | —          |
| Share of loss                        | —          | (56,980)   |
| Impairment                           | (31)       | (81,905)   |
| Foreign currency loss on translation | —          | (4,170)    |
| <b>Balance, end of year</b>          | <b>—</b>   | <b>—</b>   |

#### [a] CLV joint venture

On January 11, 2018, the Company announced the launch of the joint venture CLV Frontier Brands Pty Ltd ["CLV"], in which the Company, Creso Pharma Limited ["Creso"] and Baltic Beer Company Ltd (UK) ["Baltic Beer"] will each have a one-third interest. CLV, which is incorporated in Australia, is to develop and market bespoke beers containing terpenes, which carry the flavour and aroma of cannabis and do not contain THC or CBD or any other cannabinoids. The terpenes used in CLV's beer will not contain cannabis or hemp ingredients either.

On April 18, 2018 the Company announced that the TSX-V had conditionally accepted LGC Capital's investment in CLV, subject to LGC filing standard documentation with the TSX-V.

Subsequently, the Company acquired a one-third interest in CLV by providing AUD33 (\$31) in equity funding and EUR270,000 (\$409,879) in additional loan funding during the period ended September 30, 2018 (note 10).

## **Notes to consolidated financial statements**

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In October 2018, the Board of Directors decided to not contribute further funding to CLV to focus resources on its portfolio of cannabis investment opportunities. Given the inherent uncertainty as to CLV obtaining sufficient further capital to further progress its business, as at September 30, 2018, the Company recognized an impairment charge in the consolidated statements of (loss) related to its investment in CLV amounting to \$31 [2017 – \$Nil].

### **[b] Rushmans joint venture**

In April 2016 the Company executed a 50/50 unincorporated joint venture with Rushmans Ltd. [the “Rushmans JV”], to explore the opportunities available for international entities to participate in the development and marketing of Cuban sports.

The Rushmans JV was granted an exclusive licence to use the Rushmans brand and intellectual property in respect to Cuban sporting opportunities, in consideration for the Company paying £100,000 (\$183,750). The Company was to fund any Rushmans JV projects accepted by LGC Capital, as well as providing an initial £40,000 in working capital.

During the year ended September 30, 2017, the Company's share of losses amounted to £33,882 (\$56,980) [2016 – £16,190 (\$30,575)].

On September 22, 2017 the Board of Directors decided to exit all of the Company's investments with interests in Cuba and the Company terminated the Rushmans JV on September 26, 2017. Further, on November 14, 2017, the Company executed an agreement with Rushmans confirming the termination of the Rushmans JV. Consequently, as at September 30, 2017, the Company recognized an impairment in net loss related to its investments in and loans to the Rushmans JV amounting to GBP49,928 (\$81,905) and GBP100,144 (\$164,282) respectively.

### **[c] Groombridge Trading Corporation joint venture**

In November 2016, the Company entered into a binding agreement with Groombridge Trading Corporation [“GTC”] to establish an unincorporated 50/50 joint venture [the “GTC JV”] to expand GTC's existing trading business of supplying products, machinery and equipment to Cuba, in particular to the growing tourism sector. GTC is a Canadian company that is approved to trade in Cuba by the Cuban Ministry of Foreign Trade and Investment and the Ministry of Agriculture and is also authorized to trade with other Cuban Government entities. The GTC JV was granted an exclusive, first right of refusal to participate on a deal by deal, 50/50 basis, on any transaction generated by GTC.

On September 22, 2017 the Board of Directors decided to exit all of the Company's investments with interests in Cuba and the Company terminated the GTC JV on September 25, 2017. Consequently, as at September 30, 2017, the Company recognized an impairment in net loss related to its loan to the GTC JV amounting to GBP206,328 (\$338,474).

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

#### 10. Loans to associates and joint ventures

|                                               | 2018<br>\$ | 2017<br>\$ |
|-----------------------------------------------|------------|------------|
| Loans due from an associate <i>[note 8]</i>   | —          | 269,368    |
| Loans due from CLV <i>[note 9]</i>            | 409,879    | —          |
| Loans due from Rushmans JV <i>[note 9]</i>    | —          | 164,282    |
| Loans due from GTC JV <i>[note 9]</i>         | —          | 338,474    |
| Other                                         | —          | 131,084    |
| Less: Foreign currency translation difference | (4,553)    | —          |
| Less: Impairment <i>[notes 8 and 9]</i>       | (405,326)  | (903,208)  |
| <b>Total</b>                                  | <b>—</b>   | <b>—</b>   |

The loan to CLV is repayable on demand and is interest free.

In October 2018, the Board of Directors decided to not contribute further funding to CLV. Given the inherent uncertainty as to CLV obtaining sufficient further funding to repay its loans, as at September 30, 2018, the Company recognized an impairment in net loss related to its loans to the CLV JV amounting to EUR270,000 (\$405,326) [2017 – \$Nil].

#### 11. Loans receivable

A breakdown of loans receivable as at September 30, 2018 and 2017 are as follows:

|                     | 2018<br>\$       | 2017<br>\$ |
|---------------------|------------------|------------|
| Etea Sicurezza      | 1,275,047        | —          |
| Evolution Debenture | 1,576,266        | —          |
| Impairment          | (1,275,047)      | —          |
| <b>Total</b>        | <b>1,576,266</b> | <b>—</b>   |

##### [a] Etea Sicurezza

On May 22, 2018, the Company entered into an agreement with Etea Sicurezza to provide a bridging loan (the "First Etea Loan") for up to EUR500,000 for a term of six months. Of the First Etea Loan, the first draw down amount, totalling EUR74,465 (\$109,585), is interest free, while the remaining drawdown amounts, totalling EUR424,883 (\$648,272), accrue interest at 8% per annum.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

On June 19, 2018, the Company entered into an agreement with Etea Sicurezza to provide a further bridging loan for up to EUR350,000 (the "Second Etea Loan") repayable at call until superceded by a replacement loan agreement or investment agreement. The Second Etea Loan accrues interest at a rate of 8% per annum. The Company charged Etea Sicurezza a facilitation fee of EUR15,000 (\$23,073) in respect of providing the Second Etea Loan which has been recorded in the consolidated statement of loss under Revenues with the corresponding receivable, adjusted for foreign exchange movements, totaling \$22,518 as at September 30, 2018, being recorded in the consolidated statement of financial position under Other receivables.

As at September 30, 2018, the amounts drawn down on the First and Second Etea Loans are as follows:

|                  | EUR            | \$               |
|------------------|----------------|------------------|
| First Etea Loan  | <b>499,348</b> | <b>749,625</b>   |
| Second Etea Loan | <b>350,000</b> | <b>525,422</b>   |
| <b>Total</b>     | <b>849,348</b> | <b>1,275,047</b> |

During the year ended September 30, 2018 interest earned in respect of these loans, amounting to EUR19,815 (\$29,210) [2017 – \$Nil], has been recorded in the consolidated statement of comprehensive loss under Finance Income (Note 5). Interest receivable in respect of these loans, totaling \$29,478 [2017 - \$Nil], adjusted for foreign exchange movements, has been recorded in the consolidated statement of financial position under Other receivables.

As outlined in note 7(e), the Company is supportive of Etea Sicurezza's future business prospects and intends to convert its loans into equity in Etea Sicurezza. However, as at September 30, 2018, in view of Etea Sicurezza's current liquidity position and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors has decided to record an impairment in full of its loans to Etea Sicurezza, totaling \$1,275,047 [2017 - \$Nil]. and also to make a provision for non-recovery of all outstanding interest and facilitation fees receivable due from Etea Sicurezza, totaling \$51,996 [2017 - \$Nil].

### **[b] Evolution debenture receivable**

On March 12, 2018, the Company announced that it had signed Letters of Intent with Evolution BNK SRL ("Evolution SRL") and Evolution BNK ATM AD ("Evolution ATM") for a EUR3,000,000 (\$4,741,250), secured loan, convertible into a 49% equity interest upon the successful completion of an IPO. The Company will also be entitled to a 5% royalty on net sales. The transactions were subject to due diligence, conformity with Italian laws and regulatory approval, including that of the TSX-V (the "Conditions").

During the reporting period, the Company entered into agreements with Evolution BNK to provide it with bridging loans totalling EUR800,000 (the "Evolution Bridging Loans") to help it fund its operations until the convertible debenture was issued. The Evolution Bridging Loans were secured and bore interest at an annual rate of 10%.

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.

## **Notes to consolidated financial statements**

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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. On August 13, 2018, the Evolution Bridging Loans with a principal amount of EUR800,000 were rolled into the Evolution Debenture.

The completion of the Evolution Debenture transaction is subject to condition precedent, including TSX-V approval. If the Conditions are not complied with and the transaction is therefore not approved, the features of the financial instruments will then be those of a plain vanilla loan bearing interest at 10% and repayable in full.

As at September 30, 2018, drawdowns of the Evolution Debenture totaled EUR1,050,000 (\$1,576,266).

As at September 30, 2018, uncertainties with respect to the compliance with the Conditions were still existing and therefore, the financial instrument was accounted for as a plain vanilla loan at amortised cost.

During the year ended September 30, 2018 interest earned in respect of these loans, amounting to EUR31,589 (\$47,012) [2017 – \$Nil], has been recorded in the consolidated statement of comprehensive loss under Finance Income (Note 5). Interest receivable in respect of these loans, totaling \$47,422 [2017 - \$Nil], adjusted for foreign exchange movements, has been recorded in the consolidated statement of financial position under Other receivables.

### **12. Convertible debentures receivable**

#### **[a] Tricho-Med convertible debentures receivable**

On January 8, 2018, the Company announced that it had finalized a transaction with Quebec based Tricho-Med Corporation ("Tricho-Med"), and had entered into a four-year secured convertible loan agreement in an amount of \$4,000,000 [the "Tricho-Med Debenture"], to be disbursed in accordance with a pre-agreed milestone disbursement schedule. 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. If the full amount of \$4,000,000 is disbursed to Tricho-Med, 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. If the full amount is not disbursed, the equity percentage to be received by LGC Capital would be prorated accordingly. Upon conversion into equity, the Company will also be entitled to a 5% royalty (also prorated on amounts disbursed on the debenture) 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 Tricho-Med's assets.

As at September 30, 2018, drawdowns of the Tricho-Med Debenture totaled \$1,750,864.

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

## **LGC Capital Ltd.**

### **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

#### **[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 ("GCL"), subject to the pending receipt of the TSX-V's final approval. Pursuant to the executed closing agreements, LGC Capital 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 LGC Capital at a deemed issue price of \$0.195 each. GCL has an option to repurchase the 5% royalty for an amount of \$6 million. In addition, the Company paid an arm's length finders 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 LGC Capital. The debenture bears interest at an annual rate of 10%, and 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 LGC Capital's investment into GCL.

#### **[c] Classification as fair value through P&L**

On initial recognition the Tricho-Med Debenture and the GCL Debenture were both 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 LGC Capital 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 year end, the fair values of each convertible debenture and the fair value of the Tricho-Med royalty 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.

## LGC Capital Ltd.

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The weighted average relative fair values assigned, based on the initial recognition dates of tranches drawn down, and the resultant allocation of the consideration paid for each financial instrument comprising each convertible debenture acquired are set out below:

| Financial instrument                        | Weighted Average<br>relative fair<br>value on initial recognition |             | Consideration<br>allocated using<br>relative fair value<br>method |
|---------------------------------------------|-------------------------------------------------------------------|-------------|-------------------------------------------------------------------|
|                                             | \$                                                                | %           | \$                                                                |
| <b>Tricho-Med Debenture</b>                 |                                                                   |             |                                                                   |
| Host debt receivable and conversion feature | 1,037,952                                                         | 59%         | 1,037,952                                                         |
| Royalty stream                              | 712,912                                                           | 41%         | 712,912                                                           |
| <b>Total</b>                                | <b>1,750,864</b>                                                  | <b>100%</b> | <b>1,750,864</b>                                                  |
| <b>GCL Debenture</b>                        |                                                                   |             |                                                                   |
| Host debt receivable and conversion feature | 3,651,213                                                         | 38%         | 2,115,378                                                         |
| Royalty stream                              | 6,000,000                                                         | 62%         | 3,476,180                                                         |
| <b>Total</b>                                | <b>9,651,213</b>                                                  | <b>100%</b> | <b>5,591,558</b>                                                  |
| Host debt receivable and conversion feature | 4,689,165                                                         | 38%         | 3,153,330                                                         |
| Royalty stream                              | 6,712,912                                                         | 62%         | 4,189,092                                                         |
| <b>Total</b>                                | <b>11,402,077</b>                                                 |             | <b>7,342,422</b>                                                  |

## Notes to consolidated financial statements

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As at September 30, 2018 the fair value of each component was re-assessed with increases in fair value for each instrument, except for the Day-1 gain, of \$4,059,655, being recorded as fair value adjustments through the profit and loss. The fair values assessed for each instrument as at September 30, 2018 and the respective movement in fair value recognized in profit and loss for the year ended September 30, 2018 were as follows:

| Financial instrument                        | Fair value on initial recognition<br>\$ | Fair value assessed as at September 30, 2018<br>\$ | Fair value adjustment re unrealized gains recognized through profit and loss<br>\$ |
|---------------------------------------------|-----------------------------------------|----------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Tricho-Med Debenture</b>                 |                                         |                                                    |                                                                                    |
| Host debt receivable and conversion feature | 1,037,952                               | 1,293,202                                          | 255,250                                                                            |
| Royalty stream                              | 712,912                                 | 715,559                                            | 2,647                                                                              |
| <b>Total</b>                                | <b>1,750,864</b>                        | <b>2,008,761</b>                                   | <b>257,897</b>                                                                     |
| <b>GCL Debenture</b>                        |                                         |                                                    |                                                                                    |
| Host debt receivable and conversion feature | 3,651,213                               | 3,651,213                                          | —                                                                                  |
| Royalty stream                              | 6,000,000                               | 6,000,000                                          | —                                                                                  |
| <b>Total</b>                                | <b>9,651,213</b>                        | <b>9,651,213</b>                                   | <b>—</b>                                                                           |
| Host debt receivable and conversion feature | 4,689,165                               | 4,944,415                                          | 255,250                                                                            |
| Royalty stream                              | 6,712,912                               | 6,715,559                                          | 2,647                                                                              |
| <b>Total</b>                                | <b>11,402,077</b>                       | <b>11,659,974</b>                                  | <b>257,897</b>                                                                     |

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

|                                                                               | Tricho-Med Debenture<br>\$ | GCL Debenture<br>\$ | Total<br>\$      |
|-------------------------------------------------------------------------------|----------------------------|---------------------|------------------|
| <b>Balance, October 1, 2017</b>                                               | —                          | —                   | —                |
| Debentures issued during the year – amounts drawn down / allocated face value | 1,750,864                  | 5,591,558           | 7,342,422        |
| Change in fair value recognized in profit or loss in year                     | 257,897                    | —                   | 257,897          |
| <b>Balance, September 30, 2018</b>                                            | <b>2,008,761</b>           | <b>5,591,558</b>    | <b>7,600,319</b> |
| <b>By financial instrument</b>                                                |                            |                     |                  |
| Host debt receivable and conversion feature                                   | 1,293,202                  | 2,115,378           | 3,408,580        |
| Royalty stream                                                                | 715,559                    | 3,476,180           | 4,191,739        |
| <b>Balance, September 30, 2018</b>                                            | <b>2,008,761</b>           | <b>5,591,558</b>    | <b>7,600,319</b> |

## LGC Capital Ltd.

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During the year ended September 30, 2018, total interest earned on these debentures amounted to \$91,655 [2017 – \$Nil].

#### 13. Loans to directors and officers

|                                                 | Year ended<br>September 30, 2018                                                                   |                                            |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------------|
|                                                 | Share purchase loans<br>and advances to<br>exercise stock<br>options / warrants<br>(Note 17)<br>\$ | Loans to<br>fund payment of<br>taxes<br>\$ |
| <b>Outstanding balance, beginning of year</b>   | —                                                                                                  | —                                          |
| Loans issued during the year - at present value | 354,578                                                                                            | 347,088                                    |
| Accretion in year                               | 8,282                                                                                              | 15,714                                     |
| <b>Outstanding balance, end of year</b>         | <b>362,860</b>                                                                                     | <b>362,802</b>                             |

On February 16, 2018, LGC Capital 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 LGC Capital 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 are reclassified and offset against share capital until repayment.

During the year ended September 30, 2018, the value of accretion income recognized in respect of these loans amounted to \$23,996 [2017 - \$nil].

#### 14. Substantive disposal of subsidiary

During the year, management concluded that it has substantively disposed of LGC Finance Limited. Accordingly, the foreign currency translation reserve amounting to \$1,648,040 was removed from accumulated other comprehensive loss and recognized in net loss.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **15. Convertible debentures payable**

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

Under the Debenture Agreement, the Company agreed to issue to YA II and Cuart (collectively the "Noteholders"), 9.5% unsecured convertible debentures in a principal amount totaling US\$2,340,000 (the "YAII/Cuart Debentures") and 1,643,764 common share purchase warrants ("the Debenture Warrants").

Under the Debenture Agreement, YA II and Cuart agreed to subscribe for 25% and 75% respectively, of each of the Debentures and the Debenture Warrants (YA II - US\$585,000 principal amount (\$736,850) and 410,941 common share purchase warrants and Cuart US\$1,755,000 principal amount (\$2,210,551) and 1,232,823 common share purchase warrants). The Debentures were drawn down on February 8, 2018 (the "Advance Date"), for proceeds of US\$2,340,000 (\$2,947,401).

The Debentures mature in one year and bear interest at a rate of 9.5% per annum, payable quarterly and, at any time after the expiry of a four-month period after the Advance Date, at the holder's exclusive option, can be converted into common shares at a price equal to 90% of the volume weighted average trading price of the Company's shares during the 5 trading days prior to the date of the conversion notice, but not lower than \$0.50. The Company has the right to repay any portion of the Debentures, subject to a fee of 5% of the nominal amount, prior to the maturity date if the value of the share is less than 110% of the volume weighted average price at the date the debentures were made. The value of such prepayment options was deemed to be insignificant.

Each of the 1,643,764 common share purchase warrants issued entitles the Noteholders to acquire one common share of the Company at a price of \$0.70, for a period of one year from the date of issuance.

The Debentures were determined to comprise two components, the first being the host debt component, the second being an embedded derivative consisting of the conversion feature. The common share purchase warrants that were issued along with the Debentures are considered another instrument.

On initial recognition, the fair value of these instruments was estimated as outlined below and used to allocate the cash consideration received amongst these instruments, on a relative fair value basis.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

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% 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 values of the of the embedded derivative and of the warrants, issued on February 8, 2018, were determined based on the Black-Scholes option pricing model using the weighted average assumptions set out as follows:

| <b>Assumption</b>        | <b>Common share<br/>purchase warrants<br/>Issued</b> | <b>Conversion feature</b> |
|--------------------------|------------------------------------------------------|---------------------------|
| Risk-free interest rate  | 1.79%                                                | 1.79%                     |
| Expected volatility      | 180%                                                 | 180%                      |
| Dividend yield           | Nil                                                  | Nil                       |
| Expected life [in years] | 1.0                                                  | 1.0                       |
| Exercise price           | \$0.70                                               | \$0.50                    |
| Share Price              | \$0.29                                               | \$0.29                    |
| Fair value at grant date | \$0.13                                               | \$0.15                    |

In connection with the Agreement, the Company incurred cash settled issue costs amounting to \$67,788 and other transaction fees settled by issuing 376,162 shares of the Company at \$0.285 per share amounting to \$107,206, for total issue costs of \$174,994 which have been pro-rated between the host debt component of the convertible debentures, the conversion feature and the common share purchase warrants, in the amounts of \$124,574, \$40,546 and \$9,874, respectively. The issue costs of \$40,546 related to the conversion feature, 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 consolidated statement of financial position at its fair value with movements therein recognized in net loss for the period. The fair value of the embedded derivative as at September 30, 2018 was determined based on the Black-Scholes option pricing model using the weighted average assumptions set out as follows:

| <b>Assumption</b>        | <b>Conversion feature as at<br/>September 30, 2018</b> |
|--------------------------|--------------------------------------------------------|
| Risk-free interest rate  | 1.70%                                                  |
| Expected volatility      | 140%                                                   |
| Dividend yield           | Nil                                                    |
| Expected life [in years] | 0.36                                                   |
| Exercise price           | \$0.50                                                 |
| Share Price              | \$0.18                                                 |
| Fair value               | \$0.01                                                 |

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

A breakdown of convertible debentures payable as at September 30, 2018 is as follows:

|                                             | Host debt<br>component<br>\$ | Conversion<br>feature<br>\$ | Common share<br>purchase<br>warrants<br>\$ | Total<br>\$      |
|---------------------------------------------|------------------------------|-----------------------------|--------------------------------------------|------------------|
| <b>Balance, October 1, 2017</b>             | —                            | —                           | —                                          | —                |
| Debentures issued during the period         | 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           |
| <b>Balance, September 30, 2018</b>          | <b>2,528,720</b>             | <b>78,419</b>               | <b>156,429</b>                             | <b>2,763,568</b> |
| Total in current liabilities                |                              |                             |                                            | 2,607,139        |
| Total equity                                |                              |                             |                                            | 156,429          |
| <b>Balance, September 30, 2018</b>          |                              |                             |                                            | <b>2,763,568</b> |

During the year ended September 30, 2018, interest expense pursuant to Debentures amounted to \$185,356 [2017 – \$Nil].

#### 16. Loan payable

On March 20, 2017, the Company entered into an unsecured loan with Calima Energy Ltd (formerly Azonto Petroleum Limited), an unrelated entity, in the amount of A\$325,000 (\$330,460) for working capital purposes. On May 25, 2017 the Company obtained a further loan of A\$50,000 (\$49,735) bringing the total loan amount to A\$375,000 (\$380,245). Pursuant to the Loan Agreement, financing fees in the amount of A\$37,500 (\$37,386) were payable. The loan was originally maturing on June 23, 2017; the maturity was extended in the prior year. The loan was subject to interest of 10% per annum.

During the year ended September 30, 2017, the Company repaid principal of A\$100,000 (\$101,505) and the amount of interest charged to consolidated statement of loss in respect of these loans amounted to \$17,301 [note 5]. The balance of the loan of A\$330,027 (\$325,440) was repaid in October 2017.

#### 17. Share capital

##### Authorized

##### Common

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

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

#### [a] Common shares

|                                                          | Year ended<br>September 30, 2018 |                   | Year ended<br>September 30, 2017 |            |
|----------------------------------------------------------|----------------------------------|-------------------|----------------------------------|------------|
|                                                          | #                                | \$                | #                                | \$         |
| <b>Issued common shares</b>                              | <b>380,288,641</b>               | <b>32,698,617</b> | 264,201,810                      | 13,108,479 |
| Share purchase loans to directors and officers [note 13] | —                                | (362,860)         | —                                | —          |
| <b>Issued and fully paid common shares</b>               | <b>380,288,641</b>               | <b>32,335,757</b> | 264,201,810                      | 13,108,479 |

#### Issuances during the year ended September 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 LGC Capital at a deemed issue price of \$0.17 per share representing a total consideration of \$962,200 as part payment for a 4.99% initial investment in Little Green Pharma [note 7[d]].
- [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 30<sup>th</sup> 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 17[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 warrants with the debit allocated \$234,709 to share capital and \$104,183 to warrants [note 17[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] In connection with the issuance of the convertible debentures payable on February 8, 2018 [note 15], 1,643,764 common share purchase warrants were issued to unit holders. The portion of the consideration received allocated to the warrants amounted to \$166,303. On February 8, 2018, the Company issued 376,162 common shares of LGC Capital at a deemed issue price of \$0.285 per share representing a total consideration of \$107,206 as payment of costs related to issuance of these debentures. Total issue costs of \$9,874 was netted against the warrants.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

- [iv] On February 14, 2018, the Company issued 5,000,000 common shares of LGC Capital at a deemed issue price of \$0.28 per share representing a total consideration of \$1,400,000 as payment for an additional 3.08% investment in Little Green Pharma [note 7[d]].
- [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 30<sup>th</sup> 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 was allocated \$4,880,470 to share capital and \$3,173,555 to warrants based on relative fair value [note 17[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 warrants with the debit allocated \$170,784 to share capital and \$111,054 to warrants [note 17[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 LGC Capital 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] During the year ended September 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 \$652,972 related to exercised stock options were transferred from contributed surplus to share capital [note 17[b]].
- [viii] During the year ended September 30, 2018, the Company issued 29,597,371 common shares at an average exercise price of \$0.15 per share for total proceeds of \$4,439,606 upon the exercise of share purchase warrants, and \$970,128 related to exercised share purchase warrants were transferred from warrants to share capital [note 17[c]].
- [ix] During the year ended September 30, 2018, 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 \$71,895 related to exercised broker compensation warrants were transferred from warrants to share capital [note 17[c]].
- [x] On April 24, 2018, the Company issued 1,230,468 common shares at a deemed issue price of \$0.10125 per share for total consideration of \$124,585, to settle outstanding liabilities.
- [xi] On August 30, 2018, the Company issued 15,854,141 common shares at a deemed issue price of \$0.195 per share for total consideration of \$3,091,558, to acquire a royalty in Global Canna Labs [note 14].

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

- [xii] On August 30, 2018, the Company issued 1,020,610 common shares at a deemed issue price of \$0.126 per share for total consideration of \$128,750, to settle outstanding liabilities.

### **Issuances during the year ended September 30, 2017**

- [xiii] On September 12, 2017, the Company completed a private placement by issuing 30,000,000 units at a price of \$0.10 per unit, for gross proceeds of \$3,000,000 all of which was allocated to common shares. 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 \$0.15 for a period of one year 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 20 consecutive trading days is at least \$0.20, the warrants will expire at the sole discretion of the Company on the 30<sup>th</sup> day after the Company sends a notice to the holders of the warrants. As a result, using valuation model based on stochastic simulations at the date of grant, no value has been allocated to the warrants [note 17 [c]].

Concurrently, the Company issued a total of 992,000 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of \$0.10 per share at any time for a period of six months from the closing date. The total fair value of broker compensation warrants was \$74,916, allocated to contributed surplus and deducted from share capital.

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of \$128,086 all of which has also been allocated to and deducted from share capital.

- [xiv] During the year ended September 30, 2017, the Company issued 156,500 common shares at an average exercise price of \$0.064 per share for a total cash amount of \$10,016 upon the exercise of stock options, and an amount of \$4,852 related to exercised stock options was transferred from contributed surplus to capital stock [note 17 [b]].

### **[b] Stock options**

On December 8, 2017, the Board of Directors amended the 2016 Stock Option Plan so as to increase the number of shares that can be issued thereunder to 58,946,726 shares, equal to 20% of the 294,733,632 common shares of the Company's issued and outstanding at that date. The amendment to the 2016 Stock Option Plan has been approved by the TSX-V and shareholders approved it at the Company's Annual General Meeting held on April 9, 2018.

## Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

The outstanding options as at September 30, 2018 and 2017 and the respective changes during the years then ended, are summarized as follows:

|                                    | Year ended<br>September 30, 2018 |                                                | Year ended<br>September 30, 2017 |                                                |
|------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|------------------------------------------------|
|                                    | Number of<br>options<br>#        | Weighted<br>average<br>exercise<br>price<br>\$ | Number of<br>options<br>#        | Weighted<br>average<br>exercise<br>price<br>\$ |
| <b>Outstanding, beginning year</b> | <b>46,513,179</b>                | <b>0.28</b>                                    | 40,982,679                       | 0.34                                           |
| Granted during the year            | <b>45,050,000</b>                | <b>0.24</b>                                    | 16,000,000                       | (0.08)                                         |
| Cancelled during the year          | <b>(12,000,000)</b>              | <b>(0.70)</b>                                  | (10,000,000)                     | (0.23)                                         |
| Expiries during the year           | <b>(4,000,000)</b>               | <b>(0.23)</b>                                  | —                                | —                                              |
| Forfeited during the year          | <b>(500,000)</b>                 | <b>(0.16)</b>                                  | (313,000)                        | (0.10)                                         |
| Exercised during the year          | <b>(12,868,779)</b>              | <b>(0.07)</b>                                  | (156,500)                        | (0.06)                                         |
| <b>Outstanding, end of year</b>    | <b>62,194,400</b>                | <b>0.22</b>                                    | 46,513,179                       | 0.28                                           |

The weighted average share price prevailing on the date options were exercised during the year was \$0.49 [2017 - \$0.10]

The following options are outstanding and exercisable as at September 30, 2018.

| Options outstanding              |                            |                                                                    |                                          |                            |                                             |
|----------------------------------|----------------------------|--------------------------------------------------------------------|------------------------------------------|----------------------------|---------------------------------------------|
| Range of<br>exercise price<br>\$ | Number<br>outstanding<br># | Weighted<br>average<br>remaining<br>contractual life<br>(in years) | Weighted average<br>exercise price<br>\$ | Number<br>exercisable<br># | Weighted<br>average<br>exercise price<br>\$ |
| 0.050 to 0.749                   | 2,894,400                  | 3.50                                                               | 0.05                                     | 2,894,400                  | 0.05                                        |
| 0.100 to 0.149                   | 6,000,000                  | 3.06                                                               | 0.11                                     | 3,500,000                  | 0.11                                        |
| 0.150 to 0.199                   | 26,800,000                 | 3.49                                                               | 0.16                                     | 26,000,000                 | 0.16                                        |
| 0.200 to 0.249                   | 8,000,000                  | 2.25                                                               | 0.23                                     | 8,000,000                  | 0.23                                        |
| 0.350 to 0.399                   | 18,500,000                 | 9.19                                                               | 0.36                                     | 18,500,000                 | 0.36                                        |
| <b>0.00 to 1.499</b>             | <b>62,194,400</b>          | <b>4.99</b>                                                        | <b>0.22</b>                              | <b>58,894,400</b>          | <b>0.22</b>                                 |

## Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

The stock options granted during the year ended September 30, 2018 vest over 0-1 year [2017 – 0-1.5 years]. The fair value of stock options granted during the years ended September 30, 2018 and 2017 was estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

|                           | 2018   | 2017    |
|---------------------------|--------|---------|
| Risk-free interest rate   | 2.00%  | 1.12%   |
| Expected volatility       | 180%   | 180%    |
| Dividend yield            | Nil    | Nil     |
| Expected life [in years]  | 6.51   | 4.61    |
| Share price at grant date | \$0.20 | \$0.03  |
| Fair value at grant date  | \$0.19 | \$0.028 |

**[c] Warrants [notes 1]**

The outstanding warrants as at September 30, 2018 and 2017 and the respective changes during the years then ended are summarized as follows:

|                                                                               | Year ended<br>September 30, 2018 |                                             | Year ended<br>September 30, 2017 |                                                |
|-------------------------------------------------------------------------------|----------------------------------|---------------------------------------------|----------------------------------|------------------------------------------------|
|                                                                               | Number of<br>warrants<br>#       | Weighted<br>average<br>exercise price<br>\$ | Number of<br>warrants<br>#       | Weighted<br>average<br>exercise<br>price<br>\$ |
| <b>Outstanding balance, beginning of year</b>                                 | <b>32,968,000</b>                | <b>0.15</b>                                 | 1,976,000                        | 0.23                                           |
| Warrants issued during the year [Note 17(a) ii, v, xiii]                      | <b>45,030,586</b>                | <b>0.36</b>                                 | 30,000,000                       | 0.15                                           |
| Broker compensation warrants issued during the year [Note 17 (a) ii, v, xiii] | <b>2,211,728</b>                 | <b>0.29</b>                                 | 992,000                          | 0.10                                           |
| Warrants exercised in the year [Note 17 viii]                                 | <b>(29,597,371)</b>              | <b>(0.15)</b>                               | —                                | —                                              |
| Broker compensation warrants exercised in the year [Note 17 (a) ix]           | <b>(952,000)</b>                 | <b>(0.10)</b>                               | —                                | —                                              |
| Warrants expired during the year                                              | <b>(402,629)</b>                 | <b>(0.15)</b>                               | —                                | —                                              |
| Broker compensation warrants expired during the year                          | <b>(40,000)</b>                  | <b>(0.10)</b>                               | —                                | —                                              |
| <b>Outstanding balance, end of year</b>                                       | <b>49,218,314</b>                | <b>0.36</b>                                 | 32,968,000                       | 0.15                                           |

As at September 30, 2018, the warrants outstanding had a weighted average life of 1.32 years and all warrants were exercisable.

The fair value of warrants issued during the year ended September 30, 2018 and 2017, for the purpose of applying the relative fair value method, were estimated at their respective grant dates using valuation model based on stochastic simulations, using the following weighted average assumptions:

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

|                             | <b>2018</b>   | <b>2017</b> |
|-----------------------------|---------------|-------------|
| Risk-free interest rate     | <b>1.68%</b>  | 1.54%       |
| Expected volatility         | <b>180%</b>   | 180%        |
| Dividend yield              | <b>Nil</b>    | Nil         |
| Contractual life [in years] | <b>2.10</b>   | 1.00        |
| Share price at grant date   | <b>\$0.41</b> | \$0.15      |
| Fair value at grant date    | <b>\$0.22</b> | \$Nil       |

The fair value of broker compensation warrants granted during the year ended September 30, 2018 and 2017 were estimated at their respective grant dates using the Black-Scholes pricing model, using the following weighted average assumptions:

|                           | <b>2018</b>    | <b>2017</b>    |
|---------------------------|----------------|----------------|
| Risk-free interest rate   | <b>1.64%</b>   | <b>1.54%</b>   |
| Expected volatility       | <b>180%</b>    | <b>180%</b>    |
| Dividend yield            | <b>Nil</b>     | <b>Nil</b>     |
| Expected life [in years]  | <b>2.25</b>    | <b>0.50</b>    |
| Share price at grant date | <b>\$0.331</b> | <b>\$0.137</b> |
| Fair value at grant date  | <b>\$0.281</b> | <b>\$0.076</b> |

### **[d] Stock-based compensation**

For the year ended September 30, 2018, the stock-based compensation expense included in net loss was \$9,097,997 [2017 – \$449,511] *[note 5]*.

### **18. Related party transactions *[note 22]***

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] On November 28, 2017, the Company finalized an agreement with the founder of the InCloud9 Group to assign the Company's 40% interest for no consideration and to write-off in full the working capital loans provided by the Company to InCloud9 Group. During the year ended September 30, 2018, the Company did not purchase any travel services from its former associate InCloud9 Group [2017 – \$20,918]. During the year ended September 30, 2018, the Company made no working capital loans to its former associate InCloud9 Group [2017 - \$97,078].

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

- [b] On September 25, 2017, the Company executed an agreement with Groombridge Trading Corporation ("GTC") confirming the termination of the 50:50 unincorporated joint venture with GTC ("the GTC JV") and the write-off of the working capital loan provided by the Company to the GTC JV. During the year ended September 30, 2018, the Company made no working capital loans to the former GTC JV [2017 - \$100,003].
- [c] On November 14, 2017, the Company executed an agreement with Rushmans Ltd confirming the termination of the 50:50 unincorporated joint venture with Rushmans ("Rushmans JV") and the write-off of the working capital loan provided by the Company to the Rushmans JV. During the year ended September 30, 2018, the Company made no working capital loans to the former Rushmans JV [2017 - \$109,013].
- [d] During the year ended September 30, 2018, the Company incurred expenditures related to the provision of serviced office facilities from a company in which a former director of the Company is a director and the total amount charged to administrative expenses in respect of such related party services amounted to \$Nil [2017 – \$24,936].
- [e] During the year ended September 30, 2018, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party and the total amount for such services was \$352,354, which was recorded in directors' fees [2017 – \$399,986]. As at September 30, 2018, an amount of \$Nil [2017 – \$34,010] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.
- [f] Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the years ended September 30, 2018 and 2017, the Company recorded the following compensation for key management personnel and the Board of Directors:

|                          | <b>2018</b>      | <b>2017</b> |
|--------------------------|------------------|-------------|
|                          | <b>\$</b>        | <b>\$</b>   |
| Directors' fees          | <b>590,314</b>   | 210,440     |
| Management fees          | <b>178,110</b>   | 56,000      |
| Stock-based compensation | <b>6,961,037</b> | 313,008     |
| <b>Total</b>             | <b>7,729,461</b> | 579,448     |

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **19. 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. As well, the Company does not have any externally imposed capital requirements, either regulatory or contractual, to which it is subject.

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.

## Notes to consolidated financial statements

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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 September 30, 2018 and September 30, 2017 respectively:

|                                       |                                    |                  | September 30, 2018 |               | September 30, 2017 |               |
|---------------------------------------|------------------------------------|------------------|--------------------|---------------|--------------------|---------------|
| Classification                        |                                    | Fair value level | Carrying value \$  | Fair value \$ | Carrying value \$  | Fair value \$ |
| <b>Financial assets</b>               |                                    |                  |                    |               |                    |               |
| Available for sale investments        | Available for sale                 | I                | —                  | —             | 677,241            | 677,241       |
| Available for sale investments        | Available for sale                 | II               | 3,652,203          | 3,652,203     | —                  | —             |
| Loans receivable                      | Loans and receivables              | II               | 1,576,266          | 1,576,266     | —                  | —             |
| Convertible debentures receivable (i) | Fair value through profit and loss | III              | 3,408,580          | 4,944,415     | —                  | —             |
|                                       | Fair value through profit and loss | III              | 4,191,739          | 6,715,559     |                    |               |
| Royalty streams (i)                   | Loans and receivables              | II               | 362,802            | 362,802       | —                  | —             |
| Loans to directors and officers       |                                    |                  |                    |               |                    |               |
| <b>Financial liabilities</b>          |                                    |                  |                    |               |                    |               |
| Host debt component                   | Other liabilities                  | II               | 2,528,720          | 2,570,077     | —                  | —             |
|                                       | Fair value through profit and loss | II               | 78,419             | 78,419        | —                  | —             |
| Embedded derivative                   |                                    |                  |                    |               |                    |               |

(i) The difference of \$4,059,655 between the carrying value and the fair value represents an unrecognized Day-1 gain [note12].

For assets and liabilities measured at fair value as at September 30, 2018, 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 and the royalty streams classified as Level 3 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.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the carrying value of its financial instruments.

The Company is exposed to credit risk from its cash. The Company reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure.

As at September 30, 2018, the Company had a total of \$6,556,218 in cash. Accounts payable and accrued liabilities and loans payable have contractual maturities of 30 days or less and are subject to normal trade terms, and amounts due to related parties are due on demand.

### **Market risk analysis**

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's primary market exposures are to foreign exchange risk and interest rate risk.

The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on net (loss) and comprehensive (loss) where applicable.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to foreign currency denominated cash, loans receivable, other receivables convertible debentures receivable and payable, AFS investments, and accounts payable and accrued liabilities.
- The sensitivity of the relevant net (loss) is the effect of the assumed changes in foreign currency. This is based on the financial assets and financial liabilities held at September 30, 2018 and 2017.
- The impact on other comprehensive income (loss) where applicable

### **Foreign exchange risk**

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exchange risk arises primarily with respect to GBP, USD, AUD, EUR and CHF.

## **Notes to consolidated financial statements**

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To the extent that these financial instruments are unhedged, or are not adequately hedged, the value of the Company's financial instruments may fluctuate with exchange rates as well as with price changes in various local markets and currencies. The value of the financial assets may therefore be affected unfavourably by fluctuations in currency rates and exchange control regulations. The Company has not entered into hedging instruments to manage exposure to currency movements at this stage.

As at September 30, 2018 the exposure of the Company to foreign exchange rates is summarized as follows:

|                                                      | <b>GBP</b>    | <b>USD</b>     | <b>AUD</b>     | <b>EUR</b>       | <b>CHF</b>      |
|------------------------------------------------------|---------------|----------------|----------------|------------------|-----------------|
| Cash                                                 | 32,509        | 2,824,374      | 257,317        | 25,282           | —               |
| Available for sale investments                       | —             | —              | —              | 150,000          | —               |
| Other receivables                                    | —             | —              | —              | 31,589           | —               |
| Accounts payable and accrued liabilities             | (11,561)      | (120,420)      | —              | (32,152)         | (18,539)        |
| Loans receivable                                     | —             | —              | —              | 1,050,000        | —               |
| Convertible debentures payable – host debt component | —             | (2,340,000)    | —              | —                | —               |
| <b>Total</b>                                         | <b>20,948</b> | <b>363,954</b> | <b>257,317</b> | <b>1,224,719</b> | <b>(18,539)</b> |

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at September 30, 2018. This sensitivity does not represent the consolidated statement of comprehensive (loss) and the comprehensive (loss) impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in total comprehensive (loss) for the year ended September 30, 2017 would have been as follows:

| <b>Fluctuation in foreign currency rate</b> | <b>Impact on comprehensive (loss)</b> |                     |                     |                     |                     |
|---------------------------------------------|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                             | <b>CAD/GBP rate</b>                   | <b>CAD/USD Rate</b> | <b>CAD/AUD rate</b> | <b>CAD/EUR rate</b> | <b>CAD/CHF rate</b> |
|                                             | <b>\$</b>                             | <b>\$</b>           | <b>\$</b>           | <b>\$</b>           | <b>\$</b>           |
| <b>Year ended September 30, 2018</b>        |                                       |                     |                     |                     |                     |
| + 5%                                        | 1,819                                 | 46,796              | 271                 | 80,976              | 1,216               |
| - 5%                                        | (1,819)                               | (46,796)            | (271)               | (80,976)            | (1,216)             |

### **20. Contingent liability**

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. LGC is not aware of any claims against the Company that could reasonably be expected to have a materially adverse impact on the Company's consolidated financial position, results of operations or the ability to carry on any of its business activities.

## LGC Capital Ltd.

### Notes to consolidated financial statements

Years ended September 30, 2018 and 2017

#### 21. Commitments

##### [a] Evolution Debenture

As at September 30, 2018, principal amounts, as yet undrawn down, under the Evolution Debenture totaled EUR1,950,000.

##### [b] Operating lease commitments

As at September 30, 2018, the Company had commitments under operating leases requiring annual rental payments as follows:

|              | <b>Total</b>  |
|--------------|---------------|
|              | <b>\$</b>     |
| 2019         | 69,637        |
| 2020         | 17,409        |
| <b>Total</b> | <b>87,046</b> |

#### 22. Subsequent events

##### [a] Investment in Viridi Unit SA

On December 12, 2018, the Company announced that it has closed its investment in Swiss cannabis company, Viridi Unit SA ("Viridi"), with LGC Capital issuing 35,167,001 shares of its common stock in exchange for a 30% equity interest in Viridi plus a 5% royalty on Viridi's net sales over ten years. The total consideration amounted to approximately CHF3,000,000 (\$3,868,370 based on the share price of \$0.11 on the date of issue). In respect of this transaction, LGC Capital has paid a finder's fee to an arm's length party equal to 3% of the total consideration in cash and 2% of the total consideration by the issuance of 703,340 common shares of LGC Capital.

##### [b] Investment in EasyJoint Project SRL

On November 12, 2018, the Company announced that it has entered into an agreement to acquire 47% of EasyJoint Project SRL ("EasyJoint"), an Italian cannabis company, for a total cash and share consideration of EUR4,800,000 (\$7,171,200). Payment for the 47% equity in EasyJoint will be effected by way of i) a cash payment in the amount of EUR2,544,000 (\$3,800,736) and ii) in the issuance of common shares for a value of EUR2,256,000 (\$3,370,464) in the share capital of LGC Capital (the "Payment Shares") at a price per share set at 85% of the five (5) day volume weighted average price of LGC Capital shares immediately prior to the closing of the transaction. For this transaction, a finder's fee of 2 % cash of the total consideration and 3% in shares of the total consideration will be paid to an arm's length party. This transaction is subject to normal closing conditions and review and approval by TSX-V.

##### [c] Company Officer Appointments

On October 17, 2018, the Company announced that Mr. Remy Di Meglio had been appointed Chief Operating Officer (COO) at LGC Capital.

On October 19, 2018 the Company announced the resignation of Rafi Hazan as Corporate Secretary and the appointment of Michael Kozub as the new Corporate Secretary of the Company.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **[d] Private Placement**

On January 24, 2019, the Company announced that it had received a binding commitment from Arlington Capital Inc., ("Arlington") a private London based investment company for a private placement of 80,000,000 common shares in the capital of LGC Capital at a price of \$0.10 per share for aggregate proceeds of \$8,000,000 ("the Arlington Placement").

Closing of the Arlington Placement is subject to customary closing conditions including, but not limited to, approval from the TSX Venture Exchange. On closing of the Arlington Placement, the Company will pay a 3% finder's fee to an arms-length third party. Upon closing of this private placement, Arlington Capital will become an insider as they will hold a greater than 10% in LGC Capital and will be entitled to appoint a representative to its board of directors.

### **[e] Loan**

On February 5, 2019, the Company executed a loan agreement with Arlington for an unsecured loan of \$1,500,000 for a period of three months, with interest of 12% per annum, payable quarterly. The loan is to be used for working capital purposes and is to be repaid on completion of the Arlington Placement.

### **[f] Investment Agreement for US\$2,340,000 loan**

On February 28, 2019, the Company announced that, following receipt of conditional approval from the TSX-V, it has now closed its previously announced convertible loan transaction with international investors YA II, PN, Ltd. and RiverFort Global Opportunities PLC (the "Lenders") pursuant to which they have loaned to LGC an aggregate amount of US\$2,340,000 (the "Loan"). The proceeds of the Loan have been used to refinance the existing debt that matured on February 8, 2019.

The Loan has a term of 12 months with one-half of the principal amount outstanding payable in six equal monthly installments beginning on the date falling six months from the date of closing and the remaining outstanding amount payable in a single installment at maturity. The Loan bears interest at an annual rate of 12%, payable in cash on the date which is three months from the date of closing and, thereafter, on each date on which a repayment of principal is made.

The principal amount of the Loan may be convertible into common shares of LGC (the "Shares") at the option of the Lenders at a price per Share equal to the lesser of (i) US\$0.0912 (CAD\$0.120), representing the US dollar equivalent of 120% of CAD\$0.10; and (ii) 90% of the lowest daily VWAP during the five trading days immediately preceding the date of the conversion notice from the Lenders, subject to a minimum conversion price of US\$0.076, representing the US dollar equivalent of CAD\$0.10.

At closing, the Company issued an aggregate of 12,048,055 common share purchase warrants (the "Warrants") to the Lenders, representing an amount equal to 45% of the principal amount of the Loan divided by US\$0.0874, representing the US dollar equivalent of CAD\$0.115. Each Warrant entitles the holder thereof to acquire one Share at an exercise price of CAD\$0.115, for a period of one year from the date of issuance.

In connection with the transaction, the Company paid a cash due diligence fee of US\$13,100 to RiverFort Global Capital Limited ("RiverFort") of London, England.

The Company is at arm's length to both of the Lenders and to RiverFort.

## **Notes to consolidated financial statements**

Years ended September 30, 2018 and 2017

### **[g] The Evolution Debenture**

Subsequent to year end further advances totaling EUR765,000 (\$1,144,683) were made under the Evolution Debenture. The total principal of funds advanced under the Evolution Debenture as at the date of this report was EUR 1,815,000 (\$2,715,815).

### **[h] Freia Farmaceutici S.R.L.**

On October 23, 2018, the Company entered into a Letter of Intent with Freia Farmaceutici S.R.L. ("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 with approved hemp-based pharmaceutical products. The Freia Investment is 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 of EUR100,000, that will be applied to monies payable by the Company on completion of the Freia Investment.

On January 30, 2019, the Company entered into a promissory note ("the Promissory Note") for the advance to Freia of EUR150,000 ("the Advance"). The proceeds from the Advance are to be applied towards the completion of the Freia Investment. In the event the Freia Investment is not completed by March 30, 2019, the Promissory Note shall become due and payable on April 30, 2019. The Promissory Note is unsecured and does not bear interest.

### **[i] Zimmer International**

On January 31, 2019, the Company agreed to purchase from Global Canna, its 6.75% interest in the share capital of Zimmer International Inc ("Zimmer") for USD\$270,000. Zimmer is a pharmaceutical and health care distribution business in the Caribbean, Mexico and South America.

### **[j] The Tricho-Med Debenture**

Subsequent to year end, the balance of the \$4,000,000 Tricho-Med Debenture of \$2,249,136 was drawn down in full.