ORGANIC GARAGE LTD.

Interim Condensed Consolidated Financial Statements

For the six months ended July 31, 2019 and 2018

(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The management of Organic Garage Ltd. is responsible for the preparation of the accompanying unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor. These unaudited interim condensed consolidated financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

September 30, 2019

Organic Garage Ltd.

Per:	*(signed) "Matt Lurie"*	Per: *(signed) "Paul Mason"*
	Name: Matt Lurie	Name: Paul Mason
	Title: Chief Executive Officer	Title: Chief Financial Officer

Organic Garage Ltd.
Interim Condensed Consolidated Statements of Financial Position
(In Canadian dollars)
(Unaudited)

As at		**July 31, 2019**		**January 31, 2019**
Assets				
Current				
Cash and cash equivalents (Note 3)	$	642,150	$	2,055,764
Accounts receivable		-		89,583
Inventory (Note 4)		1,873,965		1,817,174
Prepaid expenses and deposits (Note 5)		49,561		76,121
		2,565,676		4,038,642
Property, plant and equipment (Note 6)		15,742,382		7,119,291
Prepaid expenses and deposits- non-current (Note 5)		7,500		337,509
Goodwill		2,233,968		2,233,968
Total Assets	**$**	**20,549,526**	**$**	**13,729,410**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	2,626,520	$	2,484,768
Bank loans (Note 7)		2,490,696		3,002,118
Current portion of lease liability (Note 8)		241,831		151,435
		5,359,047		5,638,321
Lease liability, net of current portion (Note 8)		8,893,852		-
Deferred rent liability		-		524,000
Total Liabilities		14,252,899		6,162,321
Shareholders' Equity				
Capital stock (Note 9)		10,921,267		10,921,267
Contributed surplus		2,025,666		1,982,168
Retained earnings		(6,650,306)		(5,336,346)
		6,296,627		7,567,089
Total Liabilities and Shareholders' Equity	**$**	**20,549,526**	**$**	**13,729,410**

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

APPROVED ON BEHALF OF THE BOARD:	*"Matt Lurie"*	*"Kevin Williams"*
	Director	**Director**

Organic Garage Ltd.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended July 31, 2019 and 2018
(In Canadian dollars)
(Unaudited)

	Three months ended July 31		Six months ended July 31	
	2019	**2018**	**2019**	**2018**
Sales	**$ 6,248,778**	$ 5,703,550	**$ 12,934,675**	$ 11,453,119
Cost of sales				
Inventory - Beginning of period	1,917,461	1,639,594	1,817,174	1,586,526
Purchases	4,713,574	4,226,209	9,532,743	8,487,320
	6,631,035	5,865,803	11,349,917	10,073,846
Less: Inventory- End of period	1,873,965	1,707,992	1,873,965	1,707,992
	4,757,070	4,157,811	**9,475,952**	8,365,854
Gross profit	**1,491,708**	1,545,739	**3,458,723**	3,087,265
Expenses				
Store wages and benefits (Note 10)	609,019	433,574	1,076,934	914,677
Rent	175,331	357,352	315,675	704,137
Administrative wages and benefits	378,989	391,906	762,704	623,860
Utilities	97,945	94,815	189,976	172,223
Shareholders' communication and marketing	43,331	47,706	76,331	73,206
Professional fees	119,057	263,783	175,673	322,187
Repairs and maintenance	78,468	66,936	153,901	117,857
Bank charges and merchant fees	72,395	19,399	145,952	126,562
Store supplies	50,186	66,893	67,324	101,454
Office and general	21,781	11,625	35,149	23,220
Transportation	16,147	22,516	40,029	32,289
Insurance	20,942	15,068	41,857	30,073
Interest on lease liability	311,481	3,623	584,220	7,858
Telephone	8,051	5,887	17,145	11,984
Regulatory and filing	14,667	9,144	19,729	16,846
Interest on long-term debt	90,156	24,675	178,973	28,268
Advertising and promotion	19,302	22,091	58,994	72,810
Depreciation (Note 6)	408,950	131,031	795,005	262,060
Total expenses	**2,536,198**	1,988,024	**4,735,571**	3,641,571
Other expenses/(income)				
Stock-based compensation (Note 9)	30,023	221,500	43,498	371,991
Interest income	(2,503)	(508)	(6,386)	(2,458)
Total other expenses/(income)	**27,520**	220,992	**37,112**	369,533
Loss before income taxes	**(1,072,010)**	(663,277)	**(1,313,960)**	(923,839)
Income tax (recovery) expense	-	-	-	-
Net loss and comprehensive loss	**$ (1,072,010)**	$ (663,277)	**$ (1,313,960)**	$ (923,839)
Basic and diluted loss per share	**$ (0.03)**	$ (0.02)	**$ (0.04)**	$ (0.03)
Weighted average number of common shares outstanding	**37,162,156**	36,079,383	**37,162,156**	35,963,225

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

Organic Garage Ltd.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
For the six months ended July 31, 2019 and 2018
(In Canadian dollars)
(Unaudited)

	Share capital				
	Number of shares	**Amount**	**Contributed Surplus**	**Retained Earnings**	**Total Shareholders' Equity**
Balance, February 1, 2017	21,742,956	$7,516,526	$337,577	$(2,067,554)	$5,786,549
Private placement (Note 9)	10,993,500	2,748,375	-	-	2,748,375
Share issuance costs (Note 9)		(429,401)	-	-	(429,401)
Warrants issued (Note 9)	-	(708,190)	708,190	-	-
Finder's warrants issued (Note 9)		(100,683)	100,683	-	-
Warrants exercised (Note 9)	3,108,000	1,288,014	(200,214)	-	1,087,800
Stock-based compensation (Note 9)	-	-	751,327	-	751,327
Net loss for the period	-	-	-	(1,250,894)	(1,250,894)
Balance, January 31, 2018	**35,844,456**	**$ 10,314,641**	**$ 1,697,563**	**$ (3,318,448)**	**$ 8,693,756**
Warrants exercised (Note 9)	1,067,700	442,475	(68,780)	-	373,695
Stock Options exercised (Note 9)	250,000	164,151	(74,151)	-	90,000
Stock-based compensation (Note 9)	-	-	371,991	-	371,991
Net loss for the period	-	-	-	(923,839)	(923,839)
Balance, July 31, 2018	**37,162,156**	**$ 10,921,267**	**$ 1,926,623**	**$ (4,242,287)**	**$ 8,605,603**

Balance, February 1, 2018	35,844,456	$10,314,641	$1,697,563	$(3,318,448)	$8,693,756
Warrants exercised (Note 9)	1,067,700	442,475	(68,780)	-	373,695
Stock Options exercised (Note 9)	250,000	164,151	(74,151)	-	90,000
Stock-based compensation (Note 9)	-	-	427,536	-	427,536
Net loss for the period	-	-	-	(2,017,898)	(2,017,898)
Balance, January 31, 2019	**37,162,156**	**$ 10,921,267**	**$ 1,982,168**	**$ (5,336,346)**	**$ 7,567,089**
Stock-based compensation (Note 9)	-	-	43,498	-	43,498
Net loss for the period	-	-	-	(1,313,960)	(1,313,960)
Balance, July 31, 2019	**37,162,156**	**$ 10,921,267**	**$ 2,025,666**	**$ (6,650,306)**	**$ 6,296,627**

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

Organic Garage Ltd.

Interim Condensed Consolidated Statements of Cash Flows
For the six months ended July 31, 2019 and 2018
(In Canadian dollars)
(Unaudited)

		July 31, 2019		July 31, 2018
Cash flows from operating activities				
Net loss for the period	$	**(1,313,960)**	$	**(923,839)**
Items not affecting cash:				
Depreciation (Note 6)		795,005		262,060
Interest on lease liability		584,220		-
Stock-based compensation (Note 9)		43,498		371,991
		108,763		**(289,788)**
Net changes in non-cash working capital				
Short-term investments		-		200,000
Accounts receivable		89,583		(182,288)
Inventory		(56,791)		(121,466)
Prepaid expenses		26,560		30,008
Accounts payable and accrued liabilities		141,752		395,824
		309,867		**32,290**
Cash flows used in financing activities				
Exercise of warrants (Note 9)		-		373,695
Exercise of options (Note 9)		-		90,000
Bank loans (repayment) (Note 7)		(511,422)		2,866,971
Repayment of lease liabilities		(786,215)		(95,282)
		(1,297,637)		**3,235,384**
Cash flows used in investing activities				
Purchase of property, plant and equipment (net)		(425,844)		(1,817,458)
		(425,844)		**(1,817,458)**
Decrease in cash and cash equivalents		(1,413,614)		1,450,216
Cash and cash equivalents, beginning of period		2,055,764		1,707,910
Cash and cash equivalents, end of period	$	**642,150**	$	**3,158,126**

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

1. NATURE OF OPERATIONS

Organic Garage Ltd. (the "Company" or “Organic Garage”) was incorporated on July 25, 2011 under the Business Corporations Act (British Columbia) (“BCCA”). The Company’s common shares are listed for trading on the TSX Venture Exchange (the “TSX-V”) (Tier 1 Issuer) under the trading symbol “OG”.

Organic Garage is an independent, Ontario-based natural and organic grocery chain with 4 stores operating in the Greater Toronto area. Organic Garage’s main business activities are selling natural and organic products to consumers through its retail network of store locations. The Company operates its business through its wholly owned subsidiary, Organic Garage (Canada) Ltd. (“OGC”), which also has six wholly owned subsidiaries whose primary business is to hold its premises leases. OGC and each subsidiary was incorporated under the Business Corporations Act (Ontario) (the “OBCA”). The Company also has two numbered company subsidiaries with no current operations.

The registered and records office of Organic Garage is located at 101 – 1500 Howe Street, Vancouver, BC V6Z 2N1 and its head office and mailing address is 50 Akron Road, Toronto, ON M8W 1T2.

As at July 31, 2019, the Company had cash and cash equivalents of $642,150 and a working capital deficit of $2,793,371. The working capital deficit was primarily caused by the classification of a $2,500,000 (2018 - $nil) bank loan, with a maturity date of November 30, 2019, included within current liabilities. As at July 31, 2019, the Company has taken steps to refinance the bank loan and should this not be completed prior to maturity, the Company has an option pursuant to the terms of the bank loan to extend the maturity date for a period of up to 36 months (Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The interim condensed consolidated financial statements of the Company have been prepared by management in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, effective for the Company’s reporting for the period ended July 31, 2019. The interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended January 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies as set out below were consistently applied to all the periods presented unless otherwise noted.

These interim condensed consolidated financial statements were approved and authorized by the Board of Directors of the Company on September 30, 2019.

(b) Basis of Measurement

The interim condensed consolidated financial statements of the Company were prepared on a historical cost basis except where certain financial instruments are required to be measured at fair value as described in the accounting policies, if applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of Consolidation

The interim condensed consolidated financial statements of the Company as at and for the period ended July 31, 2019 and 2018 include the Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated in preparing these interim condensed consolidated financial statements.

(d) Functional Currency

The interim condensed consolidated financial statements are presented in Canadian dollars which is the Company's and its subsidiaries' functional currency.

(e) Use of estimates and key judgments

The preparation of these interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the recognition, measurement and disclosure of amounts reported in these interim condensed consolidated financial statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates. Significant estimates are made with respect to the valuation of goodwill, stock based compensation and the estimated useful life and residual values of property, plant and equipment.

Goodwill valuation

The values associated with goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. The Company assesses impairment by comparing the recoverable amount of the cash generating unit with its carrying value. The recoverable amount is defined as the higher of value in use, or fair value less cost to sell. The determination of the recoverable amount involves management estimates.

Share based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them which are disclosed in Note 9.

Changes in the intended use of plant, property and equipment as well as changes in technology or economic conditions may cause the estimated useful life of these assets to change.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Accounting Standards Adopted on February 1, 2018

(i) On February 1, 2018, the Company implemented IFRS 9 "Financial Instruments" ("IFRS 9"). IFRS 9 is the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with the accounting treatment. The Company applied the requirements of the standard retrospectively. IFRS 9 classifications did not result in significant changes in measurement or the carrying amount of financial assets or liabilities.

(ii) On February 1, 2018, the Company implemented IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"). IFRS 15 introduces a single model for recognizing revenue from contracts and customers. This standard applies to all contracts with customers, with some exceptions.
The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Company applied the requirements of the standard retrospectively. The implementation of IFRS 15 did not have a significant impact on the Company's revenue, no adjustment was recorded through retained earnings.

(g) Accounting standard adopted on February 1, 2019

Effective February 1, 2019, the Company adopted IFRS 16, Leases, replacing IAS 17, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in the standard, IFRS 16 was adopted retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at February 1, 2019. The Company also utilized certain practical expedient elections whereby (i) there is no need to reassess whether an existing contract is a lease, or contains an embedded lease if previously determined under IAS 17, (ii) short term and low value leases are treated as operating leases, and (iii) there is no need to reassess the previous assessments in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

respect of onerous contracts that confirmed there were no existing onerous lease contracts. Under IFRS 16, most leases are now recognized on the statement of financial position for lessees, essentially eliminating the distinction between a finance lease and an operating lease under IAS 17, where operating leases were reflected in the consolidated statements of earnings (loss). As a result, as at February 1, 2019, the Company recognized lease obligations and leased assets under existing operating leases of $9,286,348, with no impact on total shareholders' equity. Each lease obligation was measured at the present value of the remaining lease payments, discounted using the Company's estimated weighted average incremental borrowing rate of 10.0% to 12.25%. Leased assets were recognized as right-of-use assets in property, plant and equipment and were measured at the amount equal to the lease obligations. Leases previously classified as finance leases and recognized in the carrying amounts of the Company's lease obligations and leased assets are now recognized in the carrying amounts of the lease obligations and the right-of-use assets as at February 1, 2019.

The following are the Company's new accounting policies for its leases under IFRS 16:

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on the inception date.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of loss and comprehensive loss. The right of-use asset is included in property, plant and equipment and is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of loss and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily small equipment.

3. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

		July 31, 2019		January 31, 2019
Cash in Bank	$	642,150	$	2,055,764

The Company had security posted for a letter of credit in favour of a landlord in the amount of $200,000. The security was released on April 24, 2017 and deposited into an interest bearing one-year non-redeemable Guaranteed Investment Certificate ("GIC"). As at January 31, 2018, the GIC had been recorded in short-term investments.

On June 14, 2018, the Company was notified that a letter of credit that was required under a store lease agreement had expired and the $200,000 short-term investment held as security for the lease was released. The cash was deposited into the Company's bank account.

4. INVENTORY

Inventory consists of meat, produce and grocery items. The amount of inventory recognized in cost of goods sold was $4,757,070 for the three-month period ended July 31,2019 and $9,475,952 for the six-month period ended July 31, 2019 ($4,157,811 for the three-month period and $8,365,854 for the six-month period ended July 31, 2018).

5. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits are comprised primarily of insurance and utility deposits for stores.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost					Accumulated Depreciation				
Assets	**Balance at January31, 2019**	**Additions**	**Disposals**	**Balance at July 31, 2019**		**Balance at January 31, 2019**	**Depreciation**	**Disposals**	**Balance at July 31, 2019**	**Carrying amount at July 31, 2019**
Computer Equipment	$109,312	$44,642	$ -	$153,954	45%	$48,077	$17,882	$ -	$65,959	$87,995
Computer Software	70,569	43,915	-	114,484	100%	57,000	14,988	-	71,988	42,496
Truck	81,818	-	-	81,818	30%	23,620	8,730	-	32,350	49,468
Furniture, Store Fixtures and Equipment	4,443,947	254,450	-	4,698,397	20%, SL	649,023	281,551	-	930,574	3,767,823
Equipment Under Capital Lease	589,188	-	-	589,188	SL	121,216	26,488	-	147,704	441,484
Leasehold Improvements	2,189,252	8,754	-	2,198,006	SL	199,836	68,246	-	268,082	1,929,924
Leasehold Improvements Under Capital Lease	78,342	-	-	78,342	SL	15,207	3,322	-	18,529	59,813
Right-of-use Asset	8,992,254	-	-	8,992,254	SL	-	328,386	-	328,386	8,663,868
Signs	491,587	12,663	-	504,250	20%	111,402	38,244	-	149,646	354,605
Branding/Design	99,555	-	-	99,555	20%	27,877	7,168		35,045	64,510
Sub-total	17,145,824	364,424	-	17,510,248		1,253,258	795,005	0	2,048,263	15,461,985
Construction In Progress	218,977	61,420	-	280,397	n/a	-	-	-	-	280,397
Total	**$17,364,801**	**$425,844**	-	**$17,790,645**		**$1,253,257**	**$795,005**	**$0**	**$2,048,263**	**$15,742,382**

7. BANK LOANS

	July 31, 2019	January 31, 2019
(a) Term loan for new location leasehold improvements, principal amount of $3,000,000, which is repayable by way of the repayment of $500,000 and $1,500,000 during the term of the loan and the balance as a balloon payment at the maturity date of November 30, 2019. The loan bears interest at 14% per annum (the lender's Base Rate plus 7.95%) and is payable monthly in arrears. The loan is secured by a general security agreement and guaranteed by the subsidiaries of the Company. The term loan contains financial covenants on the Company's consolidated working capital and tangible equity, which is assessed quarterly. As at July 31, 2019, the Company was not in compliance with its financial covenants. The bank has issued a forbearance agreement until the loan maturity date. The term loan is presented net of deferred financing costs of $9,304.	$2,490,696	$2,969,613
(b) Term loan, principal repayable in monthly instalments of $10,835 plus interest at the floating base rate (January 31, 2019 – 6.05%, January 31, 2018 – 5.55%). The loan matured on April 28, 2019. The loan is secured by specific equipment being financed under this loan, a security interest in all other present and after acquired personal property and the landlord's waiver of distrain. The loan was guaranteed by an officer of the Company for 50% of the outstanding loan balance.	-	32,505
	2,490,696	3,002,118
Less: Current portion	2,490,696	3,002,118
	-	-

Principal repayments are approximately as follows:

Fiscal year (ended January 31)	Amount
2020	$2,500,000

8. LEASE LIABILITIES

Lease liabilities relate to store rent, equipment and leasehold improvements.

Future minimum lease payments	Amount
Due in less than one year	$1,453,608
Due between one and two years	1,428,642
Due between two and three years	1,459,350
Due thereafter	16,010,472
Interest	(11,216,390)
Present value of minimum lease payments	9,135,682
Current portion	241,831
Non-current portion	$8,893,852

Interest expense on lease liabilities charged to operations amounts to $311,481 for the three-month period ended July 31,2019 and $584,220 for the six- month period ended July 31, 2019 ($3,623 for the three-month period and $7,858 for the six- month period ended July 31,2018).

9. CAPITAL STOCK

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

At July 31, 2019, there were 37,162,156 common shares issued and fully paid (July 31, 2018 – 37,162,156).

During the six months ended July 31, 2019 and year ended January 31, 2019:

There was no change to share capital during the six months ended July 31, 2019.

On July 11, 2018 through July 19, 2018 the Company received $373,695 and issued 1,067,700 common shares for the exercise of 1,067,700 share purchase warrants. The warrants were issued on February 28, 2017 pursuant to the Company's private placement financing of units, each unit consisting of one common share and one common share purchase warrant entitling the holder to acquire one common share of the Company at a price of $0.35 for a period of two years from the closing date (February 28, 2017).

On July 18, 2018 the Company received $90,000 and issued 250,000 common shares for the exercise of 250,000 options by a former director of the Company. The options were issued on July 31, 2017 pursuant to the Company's stock-based compensation plan.

9. CAPITAL STOCK (CONTINUED)

Escrow Shares

As at July 31, 2019, nil common shares were subject to escrow (January 31, 2019 – nil).

Stock Options

3,430,000 options were issued and outstanding as at July 31, 2019, 2,780,000 expiring on July 31, 2022 at an exercise price of $0.36 per share, vesting at various times over a 12-month period from the date of grant, 200,000 expiring on July 3, 2023, at an exercise price of $0.42 per share, fully vested from the date of grant, 200,000 expiring September 15, 2023 at an exercise price of $0.50 per share, vesting at various times over a 9-month period from the date of grant, the final portion vesting on September 15, 2019, and 250,000 expiring May 1, 2024 at an exercise price of $0.40 per share, vesting 50% on issuance and 50% on May 1, 2020.

	Period Ended 31-Jul-19		Year Ended 31-Jan-19	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance outstanding, beginning of period	3,180,000	$0.36	3,580,000	$0.36
Expired/cancelled	-	-	-350,000	$0.36
Expired/cancelled	-	-	-200,000	$0.40
Issued	250,000	-	-	$0.40
Issued	-	-	200,000	$0.42
Issued	-	-	200,000	$0.50
Exercised	-	-	-250,000	$0.36
Balance outstanding, end of period	3,430,000	$0.36	3,180,000	$0.36
Balance exercisable, end of period	3,305,000	$0.36	3,080,000	$0.36

The fair value of the options granted on July 31, 2017, July 3, 2018, September 15,2018 and May 1, 2019 have been estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free weighted-average interest rate of 1.5%, expected dividend yield of nil, expected forfeiture rate of nil, weighted-average expected volatility of 141% and expected life term of five years. Under this method of calculation, a total fair value of the options is $1,013,810 and the Company has recorded a total of $43,498 as stock-based compensation expense, being the fair value of the options vested during the six months ended July 31, 2019 (July 31, 2018- $371,991).

9. CAPITAL STOCK (CONTINUED)

Warrants

Summary of the warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 31, 2019	7,477,410	$0.34
Expired during the period	(659,610)	$0.25
Balance, July 31, 2019	6,817,800	$0.35

In February 2019, the term of the 6,817,800 share purchase warrants, exercisable at $0.35, originally scheduled to expire on February 28, 2019, were extended for one year to February 28, 2020. The weighted average life of the warrants outstanding and exercisable at July 31, 2019 is 0.58 years.

10. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The Company's key operational management personnel are comprised of the President, Director of Operations, Director of Marketing, Controller and Manager of Human Resources. Total compensation earned by key management personnel for the six months ended July 31, 2019 was $206,598 and was comprised of salaries and other short-term employee benefits (during the six months ended July 31, 2018-$387,067 which included a bonus paid to the President and CEO of the Company per an Arrangement Agreement dated April 29, 2016, approved by the shareholders of the Company on June 8, 2016).

The Company also paid, during the six months ended July 31, 2019, $NIL to an entity owned and/or controlled by a director of the Company for consulting services rendered (July 31, 2018-$21,000), $NIL to an entity owned and/or controlled by the Company's former CFO for services rendered (July 31, 2018-$15,000), $54,450 to an entity affiliated with the current CFO for services rendered (July 31, 2018 - $8,500) and $28,660 to an entity owned by the Company's Corporate Secretary, which relates to legal services rendered by a lawyer who also acts as the Company's Corporate Secretary (July 31, 2018-$50,989).

11. FINANCIAL INSTRUMENTS

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

(a) Cash and cash equivalents is designated as financial assets at fair value through profit or loss;

(b) Short term investments and accounts receivable are classified as financial assets at amortized cost;

(c) Accounts payable and accrued liabilities, bank loans, and obligations under capital lease are classified as financial liabilities at amortized cost.

Fair Value Measurement

The following describes the fair value determinations of financial instruments:

(a) Short-term investments, accounts receivable, accounts payable and accrued liabilities and short-term debt

Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the short-term maturity of these instruments.

(b) Long-term debt

Fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amounts approximate fair value due to the majority of the long-term debt bearing variable interest rates.

12. FINANCIAL RISK MANAGEMENT

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the entity's risk exposure and concentrations at July 31, 2019.

(a) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due in the normal course of business. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns. The Company manages its liquidity risk by monitoring its operating requirements to ensure financial resources are available, actively monitoring market conditions and by diversifying its sources of funding and maintaining a diversified maturity profile of its debt obligations. Refer to Notes 1, 7 and 8 for maturity analysis of debt obligations and Note 13 for analysis of commitments.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The entity's main credit risk relates to its accounts receivable. The Company's credit risk is reduced by a broad customer base and a review of customer credit profiles.

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to any currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its bank loans. The Company manages interest rate risk by monitoring its debt levels. The Company estimates that a 100-basis point fluctuation in short term interest rates, with all other variables held constant, would not result in material adjustment to interest expense.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk.

(d) Capital management

The Company's capital consists of total shareholders' equity. The Company's capital management is designed to ensure that it has sufficient financial flexibility both in the short and long-term to support its financial obligations and the future development of the business.

The Company manages its capital with the following objectives:

a) Ensuring sufficient liquidity is available to support its financial obligations and to execute its operating strategic plans;

b) Maintaining financial capacity and flexibility through access to capital to support future development of the business;

c) Minimizing its cost of capital and considering current and future industry, market and economic risks and conditions; and

d) Utilizing short-term funding sources to manage its working capital requirements and long-term funding sources to match the long-term nature of the property, plant and equipment of the business.

13. COMMITMENTS AND CONTINGENCIES

In the ordinary course of operating the Company's business it may from time to time be subject to various claims or possible claims. Management is of the position that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations or cash flows.

The Company, directly or through its subsidiaries, has entered into various lease agreements expiring between December 2020 and November 2028. The Company has entered into a twenty-year lease agreement that has yet to commence as at July 31, 2019. The future minimum annual payments of the existing leases and future lease commitments have been included in the table below.

Future minimum annual payments required under these leases are as follows:

Fiscal period (ended January 31)	Amount
2020	$660,404
2021	$1,405,739
2022	$1,711,021
2023	$1,807,050
2024	$1,738,420
Thereafter	$20,430,518

14. SUBSEQUENT EVENTS

There are no events subsequent to the six-month period ended July 31, 2019 other than as disclosed in these financial statements.