BC Craft Supply Co. Ltd. (Formerly, Pasha Brands Ltd.)

Consolidated Financial Statements

For the Years Ended September 30, 2020 and 2019

Audited

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BC Craft Supply Co. Ltd. (formerly Pasha Brands Ltd.)

Opinion

We have audited the consolidated financial statements of BC Craft Supply Co. Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

DMCL.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

January 29, 2021

BC CRAFT SUPPLY CO. LTD. (FORMERLY, PASHA BRANDS LTD.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at	**September 30, 2020 $**	September 30, 2019 $
ASSETS		
Current		
Cash	**190,046**	112,836
GST receivable	**356,698**	234,087
Due from Indiva (Note 7)	**232,814**	-
Related party receivables (Note 13)	**-**	54,001
Prepaid expenses (Notes 6)	**235,008**	314,354
Total current assets	**1,014,566**	715,278
Non-current		
Loan receivable (Note 4 and 5)	**-**	673,268
Intangible assets (Notes 4 and 8)	**7,204,064**	33,854,590
Right of use asset (Note 16)	**100,186**	-
Land and leasehold improvements in progress (Notes 5)	**1,158,534**	1,223,924
TOTAL ASSETS	**9,477,350**	36,467,060
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Liabilities		
Accounts payable and accrued liabilities (Notes 9)	**2,881,024**	932,971
Consideration payable (Note 13)	**8,842,773**	11,845,046
Promissory notes (Note 11)	**2,146,611**	1,615,112
Convertible debentures (Note 10)	**2,978,306**	12,405,312
Mortgage payable (Note 12)	**300,000**	-
Derivative liability (Note 10)	**239,116**	73,651
Deferred revenue	**31,756**	232,528
Lease liability (Note 16)	**234,843**	-
Current liabilities	**17,654,429**	27,104,620
Long term liabilities		
Lease liability (Note 16)	**395,968**	-
Total liabilities	**18,050,397**	27,104,620
Shareholders' equity		
Share capital (Note 15)	**73,177,933**	57,369,134
Share-based payment reserve	**9,013,311**	7,168,509
Deficit	**(90,764,291)**	(55,175,203)
Total shareholders' equity (deficiency)	**(8,573,047)**	9,362,440
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	**9,477,350**	36,467,060

Nature of operations and ability to continue as a going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 21)

Approved and authorized for issuance on behalf of the Board on January 29, 2021.

"Tom English" , Director

"Matthew Watters" , Director

BC CRAFT SUPPLY CO. LTD. (FORMERLY, PASHA BRANDS LTD.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

Years ended,	**September 30, 2020**	**September 30, 2019**
	$	$
Revenue		
Consulting	**159,022**	-
Product	**139,289**	-
Cost of sales	**(269,514)**	-
	28,797	-
EXPENSES		
Accretion (Notes 10, 13 and 16)	**1,050,737**	1,052,339
Interest and bank charges (Notes 10, 11 and 12)	**1,235,317**	604,622
Licensing fees	**139,691**	429,489
Consulting fees (Note 14)	**2,192,567**	4,649,266
Office	**480,214**	871,169
Corporate development	**80,893**	1,826,078
Travel	**64,209**	849,093
Professional fees (Note 14)	**1,118,635**	2,173,720
Salaries and benefits (Note 14)	**1,706,230**	1,855,342
Regulatory and listing fees	**52,020**	43,759
Financing fees and transaction cost (Note 10 and 15)	**64,209**	70,000
Research and development	**-**	159,489
Depreciation (Note 16)	**232,995**	-
Total expenses	**(8,417,717)**	(14,584,366)
Loss from operations	**(8,388,920)**	(14,584,366)
Other income (expenses)		
Listing expense	**-**	(4,820,526)
Share based compensation (Note 15)	**(1,830,777)**	(11,607,319)
Impairment of intangible assets (Note 8)	**(4,085,099)**	(18,605,054)
Impairment of leasehold improvements (Note 5)	**-**	(511,299)
Change in fair value of derivative liability (Note 10)	**188,781**	1,344,696
Loss on sale of land (Note 5)	**(101,318)**	-
Write off of right-of-use asset (Note 16)	**(539,175)**	-
Write off of supply contract	**(100,000)**	-
Impairment of land (Note 5)	**(122,000)**	-
Gain (loss) on settlement of debt (Notes 4, 8, 11 and 15)	**(16,716,903)**	-
Change in fair value of consideration payable (Note 13)	**(3,834,719)**	(5,326,237)
Foreign exchange gain (loss)	**(58,958)**	(113,330)
Loss and comprehensive loss for the year	**(35,589,088)**	(54,223,435)
Loss per common share – basic and diluted	**(0.44)**	(4.65)
Weighted average number of common shares – basic and diluted	**80,688,027**	11,658,064

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

BC CRAFT SUPPLY CO. LTD. (FORMERLY, PASHA BRANDS LTD.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
For the years ended September 30, 2020 and 2019
(Expressed in Canadian dollars)

	Number of shares		Share capital		Share-based payment reserve		Deficit		Total
Balance, September 30, 2018	3,635,198	$	5,170,570	$	-	$	(951,768)	$	4,218,802
Shares issued for cash, net of costs	1,784,253		7,496,172		-		-		11,481,502
Share issuance cost	40,000		(562,580)		-		-		-
Finders warrants	-		(34,740)		34,740		-		-
Shares issued for reverse-takeover	1,379,350		5,973,271		-		-		5,973,271
Acquisition of CBD Therapeutics	4,583,333		18,057,151		-		-		18,057,151
Acquisition of Beard Brothers	392,857		1,650,000		-		-		1,650,000
Acquisition of Theraveda	98,214		412,500		-		-		412,500
Acquisition of Aurion Industries	327,381		1,375,000		-		-		1,375,000
Acquisition of Grizzlers	28,870		121,250		-		-		121,250
Acquisition of Baked Edibles	432,871		1,324,695		-		-		1,324,695
Acquisition of Earth Dragon	29,762		125,000		-		-		125,000
Acquisition of Medcann	1,292,593		6,940,463		-		-		6,940,463
Acquisition of Roll Model	16,667		70,000		-		-		70,000
Shares issued as finder common shares	819,403		3,441,492		-		-		3,441,492
Shares issued to settle debt	176,564		775,340		-		-		775,340
Shares issued in lieu of services	100,000		420,000		-		-		140,000
Conversion of convertible debenture	16,667		140,000		-		-		140,000
Share based compensation	1,065,131		4,473,550		7,133,769		-		11,607,319
Net and comprehensive loss for the year	-		-		-		(54,223,435)		(54,223,435)
Balance, September 30, 2019	16,216,612	$	57,369,134	$	7,168,509	$	(55,175,203)	$	9,362,440
Shares issued to settle debt	30,463,634		3,121,977		-		-		3,121,977
Conversion of convertible debenture	37,856,291		11,005,765		-		-		11,005,765
Private placement, net of share issuance cost	35,009,639		1,695,082		-		-		1,695,082
Non-cash share issuance cost	-		(14,025)		14,025		-		-
Share based compensation	-		-		1,830,777		-		1,830,777
Net and comprehensive loss for the year	-		-		-		(35,589,088)		(35,589,088)
Balance, September 30, 2020	119,546,176		73,177,933		9,013,311		(90,764,291)		(8,573,047)

On February 25, 2020, the Company completed a share consolidation on the basis of 12 pre-consolidation shares for one post-consolidation shares ("Consolidation Ratio"). Outstanding stock options and warrants were adjusted by the Consolidation Ratio. All common shares and per common share amounts in these financial statements have been retroactively restated to reflect the share consolidation.

BC CRAFT SUPPLY CO. LTD. (FORMERLY, PASHA BRANDS LTD.)
CONSOLIDTED STATEMENTS OF CASH FLOWS
For the years ended September 30, 2020 and 2019
(Expressed in Canadian dollars)

	September 30, 2020 $	**September 30, 2019** $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year	**(35,589,088)**	(54,223,435)
Non-cash items		
Accretion	**1,050,737**	1,052,339
Share based compensation	**1,830,777**	11,607,319
Consulting service	**-**	420,000
Listing expense	**-**	4,820,526
Derivative liability	**(188,781)**	(1,344,696)
Foreign exchange	**21,537**	11,194
Impairment of intangible assets	**4,085,099**	18,605,054
Impairment of leasehold assets	**-**	511,299
Loss on settlement of debt	**16,716,903**	-
Loss on disposal of land	**101,318**	-
Depreciation	**232,995**	-
Revaluation of consideration payable	**3,834,719**	5,326,237
Financing fee	**-**	70,000
Change in fair value of land	**122,000**	-
Write off of prepaid supply contract	**100,000**	-
Write off of right-of-use asset	**539,175**	-
Interest	**1,229,231**	603,919
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	**2,949,491**	757,562
GST receivable	**(122,611)**	(229,561)
Accounts receivable	**(232,814)**	-
Due to related parties	**-**	(671,200)
Deferred revenue	**(200,772)**	232,528
Prepaid expenses	**(20,654)**	(302,537)
Net cash flows used in operating activities	**(3,540,738)**	(12,753,452)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Aurion	**-**	(250,000)
Acquisition of Baked Edibles	**-**	(3,000,000)
Acquisition of Beard Brothers	**-**	(300,000)
Acquisition of CBD Therapeutics	**-**	(1,446,840)
Acquisition of Earth Dragons	**-**	(250,000)
Acquisition of Theraveda	**-**	(250,000)
Acquisition of Grizzlers	**-**	(250,000)
Acquisition of Medcann	**-**	(3,120,000)
Cash acquired from reverse-take-over	**-**	1,159,186
Cash acquired from acquisition	**-**	10,362
Land acquisition	**-**	(673,024)
Sale of land, net of transaction costs	**571,706**	-
Leasehold improvement	**(80,634)**	(60,834)
Net cash flows provided by (used in) investing activities	**491,072**	(8,431,150)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of loan receivable	**-**	(673,268)
Lease liability	**(103,591)**	-
Net promissory note	**1,240,614**	1,592,145
Mortgage proceeds	**431,000**	-
Mortgage re-paid	**(136,229)**	-
Convertible debentures	**-**	12,961,456
Repayment of convertible debentures	**-**	(270,000)
Interest repaid	**-**	(1,768)
Cash received for shares issued for private placement, net	**1,695,082**	6,933,592
Net cash flows provided by financing activities	**3,126,876**	20,542,157
INCREASE IN CASH	**77,210**	(642,445)
CASH – beginning	**112,836**	755,281
CASH – ending	**190,046**	112,836

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

BC Craft Supply Co. Ltd. (the "Company" or "BC Craft") (formerly Pasha Brands Ltd. or "Pasha") was incorporated in the province of British Columbia on April 5, 2018. The Company is a vertically integrated, prohibition-era brand house rooted in British Columbia's craft cannabis industry and is a listed issuer on the Canadian Securities Exchange ("CSE") under the symbol "CRFT", the Frankfurt Stock Exchange (FSE) trading under the ticker symbol "ZZD" and on OTC Markets, under the symbol "CRFTF". On May 12, 2020, the Company changed its name to BC Craft Supply Co. Ltd.

The Company's registered records office is suite 810-789 West Pender, Vancouver, British Columbia, V6C 2V6.

On July 12, 2018, Pasha entered into a definitive amalgamation agreement (the "Definitive Agreement") with Broome Capital Inc. ("Broome"), a publicly listed entity on the TSX Venture Exchange ("TSX-V") and 1171298 B.C. Ltd. ("Subco"), a wholly owned subsidiary of Broome and completed a reverse take-over ("RTO") on June 3, 2019. The RTO was accounted for as a share-based payment transaction on the basis that Broome did not meet the definition of a business as it had no ongoing business operations. As BC Craft is deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the next 12 months rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity financing and increasing revenues. During the year ended September 30, 2020, the Company had revenues of $298,311 (2019 - $Nil), had accumulated losses of $90,764,291 (2019 - $55,175,203) and had working capital deficiency of $16,639,863 (2019 - $26,389,342). These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods. COVID-19 may impact the Company's ability to raise capital in the near term.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC").

These consolidated financial statements were authorized for issue by the Board of Directors on January 29, 2021.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (CONTINUED)

Basis of Measurement

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Control occurs when the Company is exposed to, or has right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Details of controlled entities are as follows:

		Percentage owned	
	Country of incorporation	**September 30, 2020**	**September 30, 2019**
BC Craft Supply Co. Ltd.	Canada	100%	100%
Royal Green Acres Manufacturing Ltd. ("RGAM")	Canada	100%	100%
Medcann Health Products Ltd.	Canada	100%	100%
BC Craft Supply Laboratory Services Ltd.	Canada	100%	100%
1198937 B.C. Ltd.	Canada	100%	100%
1160899 B.C. Ltd. (d/b/a CBD Therapeutics)	Canada	-	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Significant Accounting Judgements, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity of IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statements of financial position date, could result in a material adjustment to the carrying amounts of assets or liabilities. In the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Significant Accounting Judgements, Estimates and Assumptions (continued)

Share-based payments

The estimation of share-based payments requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes Option Pricing Model.

Deferred taxes

The determination of income tax expense and deferred tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred taxes or the timing of tax payments.

Estimated useful lives and depreciation of intangible assets

Depreciation of finite-life intangible assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Business combination and asset acquisition

Judgement is required to determine if the Company's acquisitions represent a business combination or an asset purchase. More specifically, management concluded that all of the Company's acquisitions did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, no goodwill was recognized on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. As the Company concluded that the acquisitions were asset acquisitions, an allocation of the purchase price to the individual identifiable assets acquired, including intangible assets, and liabilities assumed based on their fair values at the date of purchase was required. The fair values of the net assets acquired was calculated using significant estimates and judgments. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statement of financial position.

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third party qualified valuators to perform the valuation.

Impairment on intangible assets

Significant judgement and estimates are used in assessing whether the carrying value of intangible assets will be recoverable from future operations of through subsequent sale. Judgement is used in the determination of whether the intangible assets will be used in the future. Estimates are used in determining the estimated future revenue and costs that are expected to be derived from the intangible assets and the estimated discount rate and future capital expenditures which are included and form part of the discounted cash flow analysis related to the evaluation of whether the intangible assets are impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Significant Accounting Judgements, Estimates and Assumptions (continued)

Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements for the years ended September 30, 2020 and September 30, 2019. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded there are significant doubts as to the ability of the Company to meet its obligations as they fall due.

b) Foreign currency translation

The functional currency of the Company is measured using the currency of the primary economic environment in which the Company operates. These consolidated financial statements are presented in Canadian dollars which is the Company's and its subsidiaries' functional and presentation currency.

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the consolidated statement of loss in the period in which they arise.

c) Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss). The Company does not have any financial assets as at September 30, 2020 or September 30, 2019 classified in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial Instruments (continued)

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Related party receivable, accounts payable, due from Indiva, accounts payable, promissory notes, convertible debentures and mortgage payable are recognized at amortized cost.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit and loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit and loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss). Cash, loan receivable consideration payable and derivative liability are recognized as FVTPL.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit and loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition of assets are recognized in profit and loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized at the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit and loss.

d) Intangible assets

The Company's intangible assets consist of the licenses and intellectual property arising from the asset acquisitions described in Notes 4 and 8. Indefinite life intangible assets are recorded at cost less accumulated impairment losses. Finite life intangible assets are recorded at cost and are amortized, once they are in use, on a straight-line basis over their estimated useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Impairment of non-financial assets

The Company reviews and evaluates its intangible assets for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

f) Convertible debentures

Convertible debentures issued for cash are recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the face value of the debt to arrive at the liability component which will be accreted to face value over the life of the debenture. The derivative liability is remeasured at fair value at each period end subsequent to initial recognition.

g) Research and development

Research costs are charged to operations as incurred. Research costs consist primarily of certain acquisition costs, consulting expenses and materials related to the design, testing, and manufacture of the various components of the Company's cannabis product lines. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Company intends to or has sufficient resources to complete development and to use or sell the asset.

h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and short-term highly liquid investments and bank overdrafts.

i) Leasehold improvements in progress

Costs incurred toward the construction of the Company's cannabis cultivation facility have been deferred and capitalized until the facility is considered substantially complete and ready for use, at which time it will be transferred to the appropriate asset category. Once the asset is ready for use, amortization will commence.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated by adjusting the loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares.

k) Income Taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statements of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

l) Share purchase warrants

The Company bifurcates units consisting of common shares and share purchase warrants using the residual value approach whereby it first measures the common share component of the unit at fair value using market prices as input values and then allocates any residual amount to the warrant component of the unit. The residual value of the warrant component is credited to reserves. When warrants are exercised, the corresponding residual value is transferred from reserves to share capital.

m) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

n) Deferred revenue and adoption of IFRS 15

Deferred revenue consists of consulting deposits from the Company's micro-cultivators. The deferred revenue balance is reduced and revenue is recognized, by the Company, evenly over the period the consulting services are provided.

The Company has adopted IFRS 15. which deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Deferred revenue and adoption of IFRS 15 (continued)

Product revenue is recognised once ownership of the products has transferred to the buyer, the amount of revenue is known and collection is reasonably assured.

o) Leases

Effective October 1, 2019, the Company adopted IFRS 16 on a modified retrospective approach. This new standard replaces IAS 17 Leases and the related interpretive guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. There has been no adjustment to the comparative financial statements as a result of the adoption of IFRS 16 on October 1, 2019.

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

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

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

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

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

(Expressed in Canadian dollars)

4. ASSET ACQUISITIONS

i) CBD Therapeutics

On November 7, 2018, the Company completed a share purchase agreement and acquired all of the issued and outstanding capital stock of 1160899 B.C. Ltd. (d/b/a CBD Therapeutics). CBD Therapeutics is focused on the development of solvent-free, high bioavailability Cannabinoid ("CBD") products.

As consideration, the Company fulfilled the following commitments:

i. A non-refundable cash deposit of $25,000 (paid);
ii. Cash payment of $391,000 at the date of closing (paid);
iii. Issuance of 4,166,667 common shares of the Company at the date of closing (issued);
iv. Cash payment of $1,528,000, 90 days following the date of closing (paid);
v. Cash payment of $1,528,000, 180 days following the date of closing (settled); and,
vi. Cash payment of $1,528,000, 270 days following the date of closing (settled).

Upon initial recognition, the fair value allocated to consideration payable was $4,244,589 based on the present value of the future cash consideration payable noted above. The Company recorded $339,411 to accretion which is the difference between the face value of the cash consideration payable and the present value of the cash consideration payable.

The estimated fair value of 4,166,667 common shares issued by the Company to CBD Therapeutic shareholders for the acquisition was $16,307,151. This transaction has been accounted for as an asset acquisition by the Company, as CBD Therapeutics did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	24,742,740
Consideration paid:	
Cash payments	416,000
Issuance of 416,666 finder common shares (Note 15)	1,750,000
Issuance of additional 482,143 finder common shares (Note 15)	2,025,000
Issuance of 4,166,667 common shares (Note 15)	16,307,151
Consideration payable (Note 13)	4,244,589
	24,742,740

On February 25, 2020, the Company entered into a debt settlement agreement ("Debt Settlement") with the former CBD Therapeutic shareholders and settled all outstanding obligations associated with the acquisition of CBD Therapeutics in exchange for the transfer of ownership of 1160988 BC Ltd. and all intellectual property associated with the trade name CBD Therapeutics. The Company settled debt of $2,643,440 in exchange for intangible assets with a carrying value of $17,319,918 and recorded a loss on settlement of debt of $14,676,478 (Note 8). Pursuant to the terms of the Debt Settlement, the Company released a total of 1,459,173 common shares from escrow.

(Expressed in Canadian dollars)

4. ASSET ACQUISITIONS (CONTINUED)

ii) Beard Brothers

On November 5, 2018, the Company executed a Letter Agreement ("Letter Agreement") to acquire 100% of the intellectual property of Beard Brothers ("Beard Brothers") from an arm's length individual, including trade names, logos, art and domains. Beard Brothers is a premiere medicinal provider of craft cannabis across Canada. Beard Brothers was granted a non-exclusive license to the intellectual property.

As consideration, the Company fulfilled the following commitments:

i. Cash payment of $300,000 at the date of closing (paid); and,
ii. Issuance of 357,143 common shares at the date of closing (issued).

The estimated fair value of 357,143 common shares issued by the Company to Beard Brothers shareholders for the intellectual property acquisition was $1,500,000. This transaction has been accounted for as an asset acquisition by the Company, as Beard Brothers intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	2,175,000
Consideration paid:	
Cash payment	300,000
Issuance of 35,714 finder common shares (Note 15)	150,000
Issuance of additional 53,571 finder common shares (Note 15)	225,000
Issuance of 357,143 common shares (Note 15)	1,500,000
	2,175,000

As at September 30, 2020, the Company does not intend to use the intellectual property associated with Beard Brothers and recorded an impairment of intangible assets of $1,522,500 as at September 30, 2020 (2019- impairment of $652,500) (Note 8).

iii) Theraveda

On November 29, 2018, the Company executed a letter agreement ("Letter Agreement") to acquire 100% of the intellectual property of 1172172 B.C. Ltd. (d/b/a Theraveda) ("Theraveda"), including trade names, logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties. Theraveda was granted a non-exclusive license to the intellectual property. Theraveda is developing a facility ("Facility") for the licensed production and sale of cannabis.

As consideration, the Company fulfilled the following commitments:

i. Cash payment of $250,000 at the date of closing (paid); and,
ii. Issuance of 89,286 common shares at the date of closing (issued).

The estimated fair value of the 89,286 common shares issued by the Company to Theraveda's shareholders for the intellectual property acquisition was $375,000. This transaction has been accounted for as an asset acquisition by the Company, as Theraveda's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

(Expressed in Canadian dollars)

4. ASSET ACQUISITIONS (CONTINUED)

iii) Theraveda (continued)

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	718,750
Consideration paid:	
Cash payment	250,000
Issuance of 8,928 finder common shares (Note 15)	37,500
Issuance of additional 13,393 finder common shares (Note 15)	56,250
Issuance of 89,286 common shares (Note 15)	375,000
	718,750

As part of the Letter Agreement, the Company will provide a draw-down facility ("Draw Down Facility") of $1,250,000 for the development of Theraveda's Facility. The Draw Down Facility bears no interest, has no specified repayment terms, and is secured by the property purchased by Theraveda for the Facility. In consideration, Theraveda will pay the Company a royalty of 15% of net revenues from the production and sale of cannabis at the Facility. The Company has the right of first refusal for the purchase and sale of all cannabis provided by the Facility. As at September 30, 2019, pursuant to the terms of the Draw Down Facility, the Company has advanced $673,268, which is collateralized by the Facility.

During the year ended September 30, 2020, the Company entered a Revised Letter Agreement ("Revised Letter Agreement") with Theraveda, and settled all outstanding obligations associated with the acquisition of Theraveda and received land with a fair value of $649,000 (Note 5) in exchange for all intellectual property associated with the trade name Theraveda with a carrying value of $503,125 and a loan receivable of $673,268. The Company recorded a loss on settlement of debt of $527,393 (Note 8).

iv) Aurion Industries

On December 7, 2018, the Company executed a Letter Agreement ("Letter Agreement") to acquire 100% of the intellectual property of Aurion Industries Inc. ("Aurion"), including trade names, logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties. Aurion was granted a non-exclusive license to the intellectual property. Aurion is in the business of manufacturing and distributing cannabis products.

As consideration, the Company fulfilled the following commitments:

i. Cash payment of $250,000 at the date of closing (paid); and,
ii. Issuance of 297,619 common shares at the date of closing (issued).

The estimated fair value of 297,619 common shares issued by the Company to Aurion's shareholders for the intellectual property acquisition was $1,250,000. This transaction has been accounted for as an asset acquisition by the Company, as Aurion's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

(Expressed in Canadian dollars)

4. ASSET ACQUISITIONS (CONTINUED)

iv) Aurion Industries (continued)

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	1,812,500
Consideration paid:	
Cash payment	250,000
Issuance of 29,762 finder common shares (Note 15)	125,000
Issuance of additional 44,643 finder common shares (Note 15)	187,500
Issuance of 297,619 common shares (Note 15)	1,250,000
	1,812,500

As at September 30, 2020, the Company impaired the Aurion Industries intellectual property to $Nil and recorded impairment of $1,268,750 as at September 30, 2020 (2019 - impairment of $543,750) (Note 8).

v) Earth Dragon

On February 18, 2019, the Company entered into a Letter Agreement ("Letter Agreement") to acquire 100% of the intellectual property of Earth Dragon Organics ("Earth Dragon") from an arm's length individual, including trade names, logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties. Earth Dragon was granted a non-exclusive license to use the intellectual property. Earth Dragon is in the business of marketing and distributing cannabis-infused cosmetic products.

As consideration, the Company fulfilled the following commitments:

i. Cash payment of $250,000 at the date of closing (paid); and,
ii. Issuance of 29,762 common shares at the date of closing (issued).

The estimated fair value of the 29,762 common shares issued by the Company to Earth Dragon's shareholders for the intellectual property acquisition was $125,000. This transaction has been accounted for as an asset acquisition by the Company, as Earth Dragon's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

The Letter Agreement states that the Company will enter into employment agreements with the former management team. During the year ended September 30, 2019, the Company terminated the employment with Earth Dragon's former management team.

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	375,000
Consideration paid:	
Cash payment	250,000
Issuance of 29,762 common shares (Note 15)	125,000
	375,000

(Expressed in Canadian dollars)

4. ASSET ACQUISITION (CONTINUED)

vi) Grizzlers

On March 1, 2019, the Company purchased certain assets from 1140523 B.C. Ltd. and related vendors (collectively, the "Vendor"), including intellectual property related to the trade name "Grizzlers", and rights to associated logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties.

As consideration, the Company fulfilled the following commitments:

i. Cash payment of $250,000 at the date of closing (paid); and
ii. Issuance of 23,810 common shares at the date of closing (issued).

The estimated fair value 23,810 common shares issued by the Company to Grizzler's shareholders for the intellectual property acquisition was $100,000. This transaction has been accounted for as an asset acquisition by the Company, as Grizzler's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

The total consideration paid was allocated to the assets acquired based on relative fair values:

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	371,250
Consideration paid:	
Cash payment	250,000
Issuance of 5,060 finder common shares (Note 15)	21,250
Issuance of 23,810 common shares (Note 15)	100,000
	371,250

vii) Baked Edibles

On March 5, 2019, the Company purchased certain assets from Baked Edibles Ltd. ("Baked Edibles"), including the rights to trade names, logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties.

As consideration, the Company had the following commitments:

i. Cash payment of $1,500,000 at the date of closing (paid);
ii. Issuance of 393,519 common shares at the date of closing (issued);
iii. Cash payment of $1,500,000 on the 60th day from the date of closing (paid); and,
iv. Cash payment of $1,250,000 on the 120th day from the date of closing (consideration payable).

Upon initial recognition, the fair value allocated to the consideration payable was $2,648,897 based on the present value of the future cash consideration payable noted above. The Company recorded $101,103 to accretion which is the difference between the face value of the cash consideration payable and the present value of the cash consideration payable.

This transaction has been accounted for as an asset acquisition by the Company, as Baked Edible's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

The Company and Baked Edibles will enter into a License Agreement ("License Agreement"), pursuant to which the Company will grant Baked Edibles a non-exclusive, revocable license to use the Acquired Assets solely for the purpose of operating the business. The License Agreement can be terminated by either party upon 30 days written notice.

(Expressed in Canadian dollars)

4. ASSET ACQUISITION (CONTINUED)

vii) Baked Edibles (Continued)

Pursuant to the terms of the agreement with Baked Edibles, the Company is obligated to issue 393,519 anti-dilution warrant ("Anti-Dilution Warrant"). Each Anti-Dilution Warrant is exercisable to acquire common shares on the date that is 360 days after the RTO with Broome, for no additional consideration, if the share price is less than $10.80. This contingent consideration was accounted for as a derivative liability and revalued at year end. As at March 5, 2019, the fair value of the anti-dilutive warrants was $1,053,324.

A summary of the assets acquired and the consideration paid is as follows:	$
Intangible asset	6,774,833
Consideration paid:	
Cash payment	1,500,000
Consideration payable (Note 13)	2,648,897
Issuance of 39,352 finder common shares (Note 15)	165,278
Issuance of additional 59,028 finder common share (Note 15)	247,917
Anti-dilution warrants	1,053,324
Issuance of 393,519 common shares (Note 15)	1,159,417
	6,774,833

On January 1, 2020, the Company entered into an Amending Agreement with the vendors of Baked Edibles and settled all outstanding obligations associated with the acquisition of Baked Edible's intellectual property in exchange for all intellectual property associated with the trade name Baked Edibles. The Company settled obligations of $4,059,172 in exchange for intangible assets with a fair value of $4,742,384 and recorded a loss on settlement of debt of $683,212 (Note 8).

viii) Roll Model Ltd.

On April 3, 2019, the Company purchased certain assets from 2028751 Alberta Ltd. ("Roll Model"), including the rights to trade names, logos, art, domains, work and the rights to modify, license and market any intellectual property to third parties.

As consideration, the Company issued 16,667 common shares with a fair value of $70,000, which was capitalized to the intangible assets acquired.

This transaction has been accounted for as an asset acquisition by the Company, as Roll Model's intellectual property did not have inputs, processes and outputs in place that constituted a business under IFRS 3.

(Expressed in Canadian dollars)

4. ASSET ACQUISITION (CONTINUED)

ix) Medcann Health Products Ltd.

On June 4, 2019, the Company acquired 100% of the issued and outstanding common shares of Medcann Health Products Ltd ("Medcann"). Medcann is a fully licensed, Health Canada approved facility to process, cultivate and sell medical cannabis. As consideration, the negotiated purchase price was to be settled with the issuance of 1,292,593 common shares with a fair value of $6,940,463, cash of $3,120,000 and contingent share consideration ("Contingent Share Consideration") of $1,437,665, depending on stock price performance. The acquisition of Medcann closed on June 4, 2019. The contingent share consideration is due if the Company's trading price is less than $8.64 ("Threshold Price") eighteen months from the date of closing. In such cases, Medcann shareholders are due additional shares and is calculated by multiplying the difference between the Threshold Price and Market Price by $13,000,000 and divided by the market price. This contingent consideration was accounted for as a derivative liability and revalued at year end. The fair value of the contingent shares consideration was determined by applying probabilities of the change in the Company's share price over the next eighteen months and applying a discount rate of 30.6% per annum.

The acquisition was accounted for as an asset acquisition because Medcann did not meet the definition of a business as it had no ongoing business operations.

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the effective acquisition date:

Consideration paid	$
Issuance of 1,203,704 common shares (Note 15)	6,332,463
Issuance of 88,889 finder common shares (Note 15)	608,000
Cash	3,120,000
Contingent share consideration (Note 13)	1,437,665
Total consideration paid	11,498,128

Net assets acquired	
Current assets	
Cash	10,362
Accounts receivable	2,490
Prepaid and other current assets	651
Long-term assets	
Leasehold improvements (Note 5)	505,300
Licenses, permits, applications and intellectual property	10,981,075
Liabilities	
Accounts payable	(1,750)
Total net assets acquired	11,498,128

As at September 30, 2020, the Company partially impaired the Medcann intellectual property to $6,836,752 and recorded impairment of $850,000 (Note 8).

(Expressed in Canadian dollars)

5. LAND AND LEASEHOLD IMPROVEMENTS IN PROGRESS

	Land $	Leasehold improvements $	Total $
Balance, September 30, 2018	-	496,065	496,065
Additions	673,024	60,834	733,858
Impairment		(511,299)	(511,299)
Acquired from asset acquisition (Note 4)	-	505,300	505,300
Balance, September 30, 2019	673,024	550,900	1,223,924
Additions (Note 4)	649,000	80,634	729,634
Impairment	(122,000)	-	(122,000)
Disposal	(673,024)	-	(673,024)
Balance, September 30, 2020	527,000	631,534	1,158,534

On June 30, 2019, the Company acquired land in Nanaimo, British Columbia for $673,024. On June 16, 2020, the Company sold its property for gross proceeds of $571,706 and paid transaction costs of $1,247. The Company recognized a realized loss on disposal of land of $101,318.

During the year ended September 30, 2020, the Company settled all settled all outstanding obligations associated with the acquisition of Theraveda and received land with a fair value of $649,000 in exchange for all intellectual property associated with the trade name Theraveda and a loan receivable of $673,268 (Notes 4 and 8).

RGAM executed an agreement for the construction of a pre-engineered structural steel building located in Nanaimo, B.C. to build its cannabis cultivation facility. The building is being constructed on the Company's leased premises. Due to deterioration of the property, the Company recorded impairment of $511,299 during the year ended September 30, 2019 to the RGAM facility.

In connection with the acquisition of Medcann which completed on June 4, 2019, the Company acquired a facility with a fair value of $505,300 (Note 4). As at September 30, 2020, construction costs incurred of $80,634 (2019 - $60,834) were capitalized and amortization will commence when the facility is put into use.

6. PREPAID EXPENSES

	September 30, 2020 $	**September 30, 2019 $**
Deposits	207,266	183,541
Prepaid travel and miscellaneous expenditures	24,742	30,813
Supply contract	3,000	100,000
	235,008	314,354

(Expressed in Canadian dollars)

7. ACCOUNTS RECEIVABLE

On May 13, 2020, the Company entered into a Master Processing Agreement (the "MPA") with Indiva Limited ("Indiva") (TSXV:NDVA) (OTCQX:NDVAF) to manufacture and distribute pre-rolls and jarred flowers ("Products"). The MPA is for a one-year renewable term. Pursuant to the terms of the MPA, the Company will procure high quality cannabis and Indiva will manufacture, distribute and sell these Products. The Company is entitled to 50% of the profits.

	September 30, 2020 $	**September 30, 2019 $**
Accounts receivable from Indiva	139,289	-
Raw material advanced to Indiva	93,525	-
	232,814	-

8. INTANGIBLE ASSET

The Company acquired intellectual property and licenses as follows:

	Cultivation License $	**Intellectual Property ("IP") $**	**Total $**
Balance, September 30, 2018	3,738,671	-	3,738,671
Additions (Note 4)	11,680,900	37,040,073	48,720,973
Impairment	(7,288,970)	(11,316,084)	(18,605,054)
Balance, September 30, 2019	8,130,601	25,723,989	33,854,590
Debt settlement (Note 14)	-	(22,565,427)	(22,565,427)
Impairment	(1,293,849)	(2,791,250)	(4,085,099)
Balance, September 30, 2020	6,836,752	367,312	7,204,064

The intangible assets are not ready for their intended use and no amortization has been recorded for the year ended September 30, 2019 and September 30, 2020.

Due to the overall decline in the industry throughout fiscal 2019, the Company recorded an impairment provision of $18,605,054 for the year ended September 30, 2019.

The Company recognized an impairment of $4,085,099 during the year ended September 30, 2020 as follow:

- The carrying value of the Beard Brothers' IP (Note 4) of $1,522,500 was fully impaired due to the fact that the Company is not expecting to commercialize it in the future.
- The carrying value of the Aurion's IP (Note 4) of $1,268,750 was fully impaired due to the fact that the Company is not expecting to commercialize it in the future.
- Medcann license (Note 4) was partial impaired by $850,000 based on its estimated recoverable value determine based on a discounted cashflow analysis.
- The carrying value of RGAM license application of $443,849 was fully impaired due to the fact that the Company will not proceed with that business.

(Expressed in Canadian dollars)

8. INTANGIBLE ASSET (CONTINUED)

During the year ended September 30, 2020, the Company settled debts in exchange for Intellectual property with carrying value of $22,565,427 as follow:

- On February 25, 2020, the Company entered into a debt settlement agreement ("Debt Settlement") with creditors and settled all outstanding obligations associated with the acquisition of CBD Therapeutics (Note 4) in exchange for the transfer of ownership of 1160988 BC Ltd. and all intellectual property associated with the trade name CBD Therapeutics. The Company settled debt of $2,643,440 in exchange for the IP with a carrying value of $17,319,918 and recorded a loss on settlement of debt of $14,676,478. Pursuant to the terms of the Debt Settlement, the Company released a total of 1,459,173 common shares from escrow (Note 4).
- On January 1, 2020, the Company entered into an Amending Agreement with an arms-length creditor and settled all outstanding obligations associated with the acquisition of Baked Edible's IP in exchange (Note 4) for all intellectual property associated with the trade name Baked Edibles. The Company settled obligations of $4,059,172 in exchange for intangible assets with a carrying value of $4,742,384 and recorded a loss on settlement of debt of $683,212 (Note 4).
- During the year ended September 30, 2020, the Company entered into a Revised Letter Agreement ("Revised Letter Agreement") with Theraveda (Note 4), and settled all outstanding obligations associated with the acquisition of Theraveda and received land with a fair value of $649,000 (Note 5) in exchange for all intellectual property associated with the trade name Theraveda with a carrying value of $503,125 and a loan receivable of $673,268. The Company recorded a loss on settlement of debt of $527,393 (Note 4).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	**September 30, 2019**
	$	**$**
Accounts payable	2,563,303	816,345
Accrued liabilities	317,721	116,626
	2,881,024	932,971

10. CONVERTIBLE DEBENTURES

On March 14, 2019, the Company closed the first tranche of a convertible debenture ("Debenture") financing by way of a non-brokered private placement for gross proceeds of $7,237,000. The Debentures accrues interest at 10% per annum, have a maturity date of March 14, 2020 and the principal and interest amount is convertible into units ("Units") at $8.40 per Unit, subject to certain adjustment events. In the event that the Company completes an equity financing, the conversion price will be equal to the greater of 80% of the offering price in the equity financing or $0.60. Each Unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $8.40 for an 18-month period.

On April 18, 2019, the Company closed the second tranche of a Debenture financing by way of a non-brokered private placement for gross proceeds of $2,247,000. The Debentures accrues interest at 10% per annum, have a maturity date of April 18, 2020 and the principal and interest amount is convertible into Units at $8.40 per Unit, subject to certain adjustment events. In the event that the Company completes an equity financing, the conversion price will be equal to the greater of 80% of the offering price in the equity financing or $0.60. Each Unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $8.40 for an 18-month period.

(Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

On May 1, 2019, the Company closed the third tranche of a Debenture financing by way of a non-brokered private placement for gross proceeds of $407,000. The Debentures accrues interest at 10% per annum, have a maturity date of May 1, 2020 and the principal and interest amount is convertible into Units at $8.40 per Unit, subject to certain adjustment events. In the event that the Company completes an equity financing, the conversion price will be equal to the greater of 80% of the offering price in the equity financing or $0.60. Each Unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $8.40 for an 18-month period.

On June 5, 2019, the Company closed a convertible promissory note ("Convertible Promissory Note") with an arm's length party for gross proceeds of $700,000. The Convertible Promissory Note is non-interest bearing, has a maturity date of July 26, 2019, and bears a financing fee of $70,000 ("Financing Fee"). The principal and Financing Fee are convertible into common shares of the Company, on or before the maturity date of July 26, 2019, at a price equal to the lesser of the last closing price prior to the date of conversion or $10.80.

On June 12, 2019, the Company closed the fourth tranche of a Debenture financing by way of a non-brokered private placement for gross proceeds of $2,370,456. The Debentures accrues interest at 10% per annum, have a maturity date of June 12, 2020 and the principal and interest amount is convertible into Units at $8.40 per Unit, subject to certain adjustment events. In the event that the Company completes an equity financing, the conversion price will be equal to the greater of 80% of the offering price in the equity financing or $0.60. Each Unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $8.40 for an 18-month period.

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

	Convertible Debt $	Derivative Liability $	Total $
Balance, September 30, 2018	-	-	-
Additions	11,442,456	1,519,000	12,961,456
Conversion of convertible debt	(126,348)	(13,652)	(140,000)
Repayment of interest	(1,768)	-	(1,768)
Repayment	(239,503)	(30,497)	(270,000)
Change in fair value of derivative liability	-	(1,344,696)	(1,344,696)
Maturity of convertible promissory note	56,504	(56,504)	-
Financing fee	70,000	-	70,000
Interest expense	592,146	-	592,146
Accretion	611,825	-	611,825
Balance, September 30, 2019	12,405,312	73,651	12,478,963
Interest expense	937,633	-	937,632
Term amendment	(354,246)	354,246	-
Accretion	995,373	-	995,373
Conversion of convertible debt (Note 15)	(11,005,765)	-	(11,005,765)
Change in fair value of derivative liability	-	(188,781)	(188,781)
Balance, September 30, 2020	2,978,306	239,116	3,217,422

10. CONVERTIBLE DEBENTURES (CONTINUED)

For the convertible debt issued for cash of $12,261,456, the potential adjustment to conversion price would result in a variable number of shares on conversion. For all convertible debt instruments issued, the conversion does not meet the fixed for fixed requirement because a variable number of shares could be issued. On initial recognition, first the derivative liability of $1,519,000 was recognized for all Debentures and Convertible Promissory Notes, with the residual value of $11,442,456 allocated to debt. The Company estimated the fair value of equity as $Nil. The Debentures and Convertible Promissory Note are being accreted to the face value of the debt plus interest to maturity.

During the year ended September 30, 2020, the Company converted principal and interest of $11,005,765 and issued 37,856,291 Units with a fair value of $11,005,765 (Note 15). Each Unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at an exercise price of $1.20 for a period of 18 months (Note 15).

During the year ended September 30, 2020, the Company entered into convertible debenture amending agreements (the “Amending Agreements”) with two Debenture holders of the first tranche. Pursuant to the terms of the Amending Agreements, the expiration date of the Debentures has been extended by 18 months and the conversion price has been amended from $0.70 pre-consolidated to $0.60 post-consolidated and the warrant exercise price has been amended from $0.70 pre-consolidated to $1.20 post-consolidated (“Term Amendments”). All other terms from the original agreement carried forward to the Amending Agreements. Pursuant to the Term Amendments, the Company recorded a derivative liability with a fair value of $354,246 at the modification date.

11. PROMISSORY NOTES

On July 5, 2019, the Company entered into a promissory note agreement with a director of the Company for $717,145 (US $550,000). The promissory note is due on demand and bears 12% compounded interest per annum. During the year ended September 30, 2020, the Company recorded interest of $81,536 (2019 - $9,244) and foreign exchange of $4,634.

On August 22, 2019, the Company entered into a promissory note agreement with a director of the Company for $250,000. The promissory note is due on demand and bears 12% compounded interest per annum. During the year ended September 30, 2020, the Company recorded interest of $27,777 (2019 - $1,604).

On September 5, 2019, the Company entered into a promissory note agreement with an arm’s length party for $225,000. The promissory note is due on demand and bears 12% compounded interest per annum. During the year ended September 30, 2020, the Company recorded interest of $14,017 (2019 - $925) and the Company issued 197,392 common shares with a fair value of $197,392 and settled principal and interest of $179,178. The Company recorded a loss on settlement of debt of $18,214.

On September 23, 2019, the Company entered into a promissory note agreement with the CFO of the Company for $400,000. The promissory note is due on demand and bears 12% compounded interest per annum. During the year September 30, 2020, the Company recorded interest of $46,193 (2019 - $Nil). During the year ended September 30, 2020, the CFO re-assigned the principal of $400,000 to an arm’s length party.

During the year ended September 30, 2020, the Company entered into numerous promissory note agreements with directors, shareholders and arm’s length parties for gross proceeds of $2,122,715. The promissory notes are due on demand and bear 12% compounded interest per annum and 24% per annum. During the year ended September 30, 2020, the Company recorded interest of $116,846. The Company repaid principal and interest of $882,101 to an arm’s length party. The Company issued 13,733,188 common shares with a fair value of $1,098,655 and settled principal and interest of $1,018,973. The Company recorded a loss on settlement of debt of $79,734.

(Expressed in Canadian dollars)

11. PROMISSORY NOTES (CONTINUED)

On May 20, 2020, the Company entered into a credit agreement (the "Credit Agreement") with certain arms-length creditors to replace certain existing promissory notes which bear an interest rate of six percent (6%) per annum.

The below table reconciles the recorded value of the liability:

	Total $
Balance, September 30, 2018	-
Additions	1,592,145
Interest expense	11,773
Foreign exchange	11,194
Balance, September 30, 2019	1,615,112
Additions	2,122,715
Interest expense	286,369
Debt settlement (Note 15)	(1,018,973)
Repayment	(882,101)
Foreign exchange	23,489
Balance, September 30, 2020	2,146,611

12. MORTGAGE PAYABLE

On February 27, 2020, the Company mortgaged its property in Nanaimo, British Columbia for gross proceeds of $131,000. The Mortgage bears interest of 12% per annum, compounded monthly, is secured by the Company's land and matures on July 31, 2020. On June 16, 2020, the Company repaid principal of $131,000 and interest of $5,229.

On August 4, 2020, the Company mortgaged its Old Slope property in Nanaimo, British Columbia for gross proceeds of $300,000. The Mortgage bears interest of 12% per annum, is secured by the Company's land and matures on November 4, 2020. During the year ended September 30, 2020, the Company paid transaction costs of $3,000 and prepaid interest of $9,000. As at September 30, 2020, the Company's mortgage payable is $300,000.

(Expressed in Canadian dollars)

13. CONSIDERATION PAYABLE

The following table reconciles consideration payable balance:

	CBD Therapeutics Cash $	Medcann Health Products Shares $	Baked Edibles Cash $	Baked Edibles Shares $	Total $
Balance, September 30, 2018	-		-		-
Additions (Note 4)	4,244,589	1,437,665	2,648,897	1,053,324	9,384,475
Accretion (Note 4)	339,411	-	101,103	-	440,514
Repayments	(1,030,840)	-	(1,500,000)	-	(2,530,840)
Shares issued (Note 5)	(775,340)	-	-	-	(775,340)
Change in fair value	-	3,570,389	-	1,755,848	5,326,237
Balance, September 30, 2019	2,777,820	5,008,054	1,250,000	2,809,172	11,845,046
Shares issued (Note 15)	(134,380)	-	-	-	(134,380)
Change in fair value	-	3,834,719	-	-	3,834,719
Debt settlement (Notes 4, 8 and 15)	(2,643,440)	-	(1,250,000)	(2,809,172)	(6,702,612)
Balance, September 30, 2020	-	8,842,773	-	-	8,842,773

In addition to the consideration payable amounts settled in exchange for part of the Company's Intellectual Property (Note 8), the Company issued during the year ended September 30, 2020, 127,333 common shares with a fair value of $168,080 to settle debt of $134,380 (Note 15). The Company recorded a loss on settlement of debt of $33,700.

14. RELATED PARTY BALANCES AND TRANSACTIONS

The Company entered into a number of transactions with key management personnel. The Company considers the executive officers and directors as the key management of the Company. The remuneration of key management personnel includes those persons having the authority and responsibility for the planning, directing and controlling of the activities of the Company.

As at September 30, 2020, the Company owed promissory notes to a former director of $1,195,232 (2019 - $989,226) and owed $Nil (2019 - $400,000) in promissory notes to the CFO.

As at September 30, 2020, the Company recorded advance to a former director of $Nil (2019: $59,363).

As at September 30, 2020, the Company owed current and former management $41,564 (2019 - $Nil) and $642,750 (2019 - $5,362), respectively.

	September 30, 2020 $	September 30, 2019 $
Consulting fees paid or accrued to former management of RGAM	210,000	315,675
Salaries paid to the former CEO	62,500	202,501
Professional fees paid to companies controlled by the CFO	116,397	41,500
Salaries paid to the former Chief Scientific Officer	-	116,667
Consulting fees paid or accrued to the CEO of the Company	100,000	-
Consulting fees accrued to a former director	583,471	375,432
Share based compensation (Note 15)	239,277	3,330,018
	1,311,655	4,381,793

During the year the company settled outstanding promissory notes with a value of $625,722 with related parties by the issuance of shares with a fair value of $670,576, resulting in a gain of $44,854, which is recorded in the consolidated statements of loss and comprehensive loss.

15. SHARE CAPITAL

Authorized

Unlimited common shares without par value.

Share Capital

During the year ended September 30, 2020, the Company had the following transactions that resulted in the issuance of its common shares:

- On February 25, 2020, the Company completed a share consolidation on the basis of 12 pre-consolidation shares for one post-consolidation shares ("Consolidation Ratio"). Outstanding stock options and warrants were adjusted by the Consolidation Ratio. All common shares and per common share amounts in these financial statements have been retroactively restated to reflect the share consolidation.
- During the year ended September 30, 2020, the Company issued 37,856,291 Units for the conversion of $11,005,765 convertible debentures (Note 10). Each Unit consists of one common share and one-half common share purchase warrant which will entitle the holder to acquire one additional common share of the Company at an exercise price of $0.275 for a period of 36 months from issuance.
- On November 25, 2019, the Company issued 127,333 common shares with a fair value of $168,080 to settle debt of $134,380 and recorded a loss on the settlement of debt of $33,700. (Note 13)
- On April 1, 2020, the Company issued 22,000,000 common shares with a fair value of $1,760,000 and settled accounts payable of $578,677 and promissory notes of $1,018,921 (Note 11). The Company recorded a loss on the settlement of debt of $162,402.
- On May 15, 2020, the Company issued 6,000,000 common shares with a fair value of $750,000 and settled accounts payable of $420,000. The Company recorded a loss on settlement of debt of $330,000.
- On May 28, 2020, the Company issued 2,336,301 common shares with a fair value of $443,897 and settled accounts payable of $140,178. The Company recorded a loss on settlement of debt of $303,719.
- On July 25, 2020, the Company issued 35,009,639 Units for gross proceeds of $1,750,482. Each Unit comprises one common share and one-half common share purchase warrant. Each whole warrant is exercisable at $0.10 for two years. Using the residual method, no value was attributed to the warrants. The Company paid $15,400 in share issuance costs, issued 800,000 finder common shares with a value of $40,000 and issued 308,000 finder warrants with an exercise price of $0.10 and expiry date of two years from the date of grant. The fair value of the finder warrants was $14,025, using the Black-Scholes Option Pricing Model with the following assumptions: expected life – 1.5 years; expected volatility – 100%; risk-free rate – 0.26%.

During the year ended September 30, 2019, the Company had the following transactions that resulted in the issuance of its common shares:

- On November 5, 2018, the Company issued 1,180,667 Units for gross proceeds of $4,961,112. Each Unit comprises one common share and one-half common share purchase warrant. Each whole warrant is exercisable at $0.70 for two years. Using the residual method, no value was attributed to the warrants. The Company paid $562,580 in share issuance costs and issued 952 finder warrants with a fair value of $4,253. The finder warrants are also exercisable at $0.70 for two years
- On December 3, 2018, the Company issued 4,166,667 common shares with a fair value of $16,307,151, pursuant to the completion of a share purchase agreement with CBD. The Company issued 416,666 finder common shares with a fair value of $1,750,000. (Note 4).

15. SHARE CAPITAL (CONTINUED)

- On December 31, 2018, the Company issued 357,143 common shares with a fair value of $1,500,000, pursuant to the execution of a letter agreement with Beard Brothers. The Company issued 35,714 finder common shares with a fair value of $150,000. (Note 4)
- On December 31, 2018, the Company issued 89,286 common shares with a fair value of $375,000, pursuant to the execution of a letter agreement with Theraveda. The Company issued 8,928 finder common shares with a fair value of $37,500. (Note 4)
- On December 31, 2018, the Company issued 297,619 common shares with a fair value of $1,250,000 pursuant to the execution of a letter agreement with Aurion Industries. The Company issued 29,762 finder common shares with a fair value of $125,000. (Note 4)
- On December 31, 2018, the Company issued 23,810 common shares with a fair value of $100,000 pursuant to the execution of a letter agreement with Grizzlers. The Company issued 5,060 finder common shares with a fair value of $21,250. (Note 4)
- On February 15, 2019, the Company issued 819,403 finder common shares with a fair value of $3,441,492.
- On February 21, 2019, the Company issued 603,586 units for gross proceeds of $2,535,060. Each Unit ("Unit") consists of one common share and one half share purchase warrant. Each whole warrant is exercisable at $8.40 for two years. The Company issued 40,000 Finder Units with a fair value of $168,000, with the same terms as a Unit. the company issued 20,000 finder warrants with a fair value of $30,487. The finder warrants are also exercisable at $8.40 for two years.
- On March 5, 2019, the Company issued 393,519 common shares with a fair value of $1,159,417 pursuant to the execution of a letter agreement with Baked Edibles. The Company issued 39,352 finder common shares with a fair value of $165,278. (Note 4)
- On March 5, 2019, the Company issued 29,762 common shares with a fair value of $125,000 pursuant to the execution of a letter agreement with Earth Dragon. (Note 4)
- On March 5, 2019, the Company issued 83,333 common shares with a fair value of $350,000 for advisory services.
- On March 25, 2019, the Company settled debt of $634,120 and issued 150,981 common shares with a fair value of $634,120.
- On April 1, 2019, the Company issued 16,667 common shares with a fair value of $70,000 in lieu of cash for consulting services.
- On April 20, 2019, the Company issued 16,667 common shares with a fair value of $70,000 pursuant to the acquisition of Roll Model (Note 4).
- On June 1, 2019, the Company issued 1,065,131 common shares with a fair value of $4,473,550 to consultants, directors and management.
- On June 2, 2019, the Company converted convertible debenture and issued 16,667 common shares with a fair value of $140,000. Each Unit consists of one common share and one half share purchase warrant, exercisable at $8.40 for an 18 month period. The Company issued 1,379,350 common shares, pursuant to the RTO, with a fair value of $5,793,271.
- On June 5, 2019, the Company issued 1,292,593 common shares with a fair value of $6,940,463 pursuant to the acquisition of Medcann. (Note 4)
- On June 20, 2019, the Company settled debt and issued 25,583 common shares with a fair value of $141,220.

(Expressed in Canadian dollars)

15. SHARE CAPITAL (CONTINUED)

Warrants

Share purchase warrants transactions for the year ended September 30, 2020 are as follows:

	Number of warrants	Weighted average exercise price
Opening balance, September 30, 2018	177,599	$ 8.40
Warrants issued	964,379	8.04
Ending balance, September 30, 2019	1,141,978	$ 8.08
Warrants issued	36,599,298	0.22
Warrants expired	(220,563)	(7.04)
	37,470,713	$ 0.42

Warrants outstanding at September 30, 2020 are as follows:

Number of warrants outstanding and exercisable	Exercise price	Remaining Life in Years	Expiry dates
591,288	$8.40	0.10	November 5, 2020
321,793	$8.40	0.39	February 21, 2021
8,333	$8.40	0.17	December 2, 2020
416,666	$1.20	2.50	April 6, 2023
15,925,015	$0.275	1.16	November 28, 2021
5,087,309	$0.275	1.20	December 12, 2021
17,412,821	$0.10	1.24	December 25, 2021
312,500	$1.20	2.65	May 28, 2023
156,666	$1.20	2.65	May 28, 2023
238,322	$1.20	2.78	May 28, 20238
37,470,713	$0.42		

Options

On November 28, 2018, the Board approved the adoption of a fixed stock option plan reserving for issuance a maximum of 3,750,000 common shares to be granted. On May 25, 2020, the Board adopted a 20% rolling stock option plan, that remained subject to shareholder approval at the July 17, 2020 annual general and special meeting to replace the fixed number 2018 Plan. The number of common shares proposed to be granted under the 2020 Plan is a maximum of 20% of the issued and outstanding common shares at the time of grant.

The exercise price of each option is set by the Board of Directors within regulatory guidelines. Options can have a maximum term of ten (10) years and typically terminate 90 days following the termination of the optionee's employment or engagement, except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

(Expressed in Canadian dollars)

15. SHARE CAPITAL (CONTINUED)

Options (continued)

	Number of Options	Weighted average exercise price
Opening balance, September 30, 2018	-	$ -
Granted	3,282,390	4.20
Ending balance, September 30, 2019	3,282,390	$ 4.20
Forfeited	(587,499)	(4.20)
Cancelled	(2,694,891)	(4.20)
Granted	8,900,000	0.10
Ending balance, September 30, 2020	8,900,000	0.10

On April 1, 2019, the Company granted 3,282,390 stock options to various directors, officers, employees and consultants of the Company with an exercise price of $4.20 with a term of 3 years. Of the stock option granted 1,094,130 vested immediately, with the remainder vesting 33.33% every 6 months. During the year ended September 30, 2020, the Company recognized $942,498 in share-based compensation expense related to these stock options (2019 - $7,133,769). The fair value of the options totaled was determined using a Black Scholes Option Pricing Model with the following assumptions: expected life of 3 years, volatility of 100%, dividend yield of 0% and a risk-free interest rate of 1.61%.

On May 25, 2020, the Company granted 8,900,000 stock options to consultants of the Company with an exercise price of $0.10, which expire 5 years from the date of grant and vest immediately. The fair value of the options totaled $888,279 and was determined using a Black Scholes Option Pricing Model with the following assumptions: expected life of 5 years, volatility of 281%, dividend yield of 0% and a risk free interest rate of 0.34%.

Share-Based Payment Reserve

The share-based payment reserve records items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

16. LEASES

The Company has lease contracts for various facilities used in the Company's operations. Leases of land generally have a lease term of between 3 to 5 years. The discount rate used was 8%.

Set out below are the carrying amounts of right of use assets and lease liabilities recognized and the movements during the year:

	Right-of-use assets	Lease Liabilities
	$	**$**
As at October 1, 2019	-	-
Additions	872,356	872,356
Depreciation	(232,995)	-
Write-off	(539,175)	-
Accretion	-	55,364
Recorded in accounts payable		(193,318)
Payments	-	(103,591)
As at September 30, 2020	100,186	630,811
Current	-	234,843
Long-term	-	395,968

(Expressed in Canadian dollars)

16. LEASES (CONTINUED)

The following table shows the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as at September 30, 2020:

	$
2021	264,250
2022	232,464
2023	168,678
2024	81,279
	746,671

With respect to the acquisition of RGAM, the Company acquired a lease agreement. The Company has the right to renew the lease for a period of five years with the same terms and conditions of the original lease. In addition, the Company may exercise its option to purchase the facility at any time prior to the expiry of the term of the lease for a purchase price of $1,500,000 if the option is exercised during the initial five-year term of the lease. In the event that the option is exercised during the extension term of the lease, the purchase price for the facility shall be the greater of $1,500,000 and the amount that is calculated by dividing the most recent assessed value of the facility as of the expiry of the initial term of the lease, as published by the Province of British Columbia, by the most recent assessed value of the facility as of the effective date, and multiplying the product by $1,500,000.

During the year ended September 30, 2020, the Company defaulted on two of three of its leases and recorded a write-off of the right-of-use asset of $539,175.

17. FINANCIAL INSTRUMENTS

Fair value

The carrying value of account receivable, due from Indiva, accounts payable and promissory note approximate its fair values due to the short-term nature of these financial instruments. The fair value of the convertible debenture and mortgage payable approximate to their principal balances.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

Cash is carried at fair market value based on quoted market prices in an active market. The derivative liability is also carried at fair value and it was calculated as at September 30, 2020 using a Black-Scholes Option Pricing Model with the following assumptions (level 3 inputs): expected life – 0.9 years; expected volatility – 378%; risk-free rate – 0.23%, stock price - $0.080 and exercised price - $0.6.

17. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the consideration payable was determined as at September 30, 2020 and 2019 based on the present value of the future payments and part of the consideration payable was based on the fair value of the number of shares to be issued determined based on the change of the share price after the acquisition of Medcann (Note 4), probability of issuance of 100%, (2019 – 100%) share price as at September 30, 2020 of $0.01, acquirer's cost of equity of 30.6% (2019 – 30.6%) and discount period of 0.18 years (2019 – 1.18 years).

18. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

(b) Market risk

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

(i) Interest rate risk

The Company's cash is held in bank accounts, which have nominal interest rates attached to them; therefore, fluctuations in market interest rates would not have a material impact on their fair market values as at September 30, 2020 and September 30, 2019.

The Company's convertible debentures have fixed interest rates of 10% per annum and the Company's promissory notes have a fixed interest rate ranging from 12% to 24% per annum. As at September 30, 2020, the principal and accrued interest is $2,978,306 (2019 - $14,405,312). As such, the Company's cash flow would not be impacted by changes in market rates of interest. Consideration payable does not bear interest rate risk.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company's functional currency and presentation currency are the Canadian dollar. The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk and foreign currency risk. The Company is not exposed to significant other price risks.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company's exposure to credit risk is limited to its cash balances and accounts receivable balances. The risk exposure is limited to the carrying amounts at the statement of financial position dates.

The Company's cash balances are held in accounts at a major Canadian financial institution and GST receivable is due from the Canada Revenue Agency. The Company evaluates the credit risk of customers on an ongoing basis and evaluates collection of the receivable balances. The credit risk related to accounts receivable is not considered significant. The credit risk associated with cash is mitigated, as cash is held at major institutions with high credit ratings.

(v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company assesses its liquidity risk by forecasting cash flows required by operations and anticipated financing activities. The Company has a working capital deficiency of \$16,639,863 (2019 - \$26,389,342). The Company relies upon financing to maintain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

The Company's accounts payable and accrued liabilities are due in the short-term (0 to 3 months).

19. COMMITMENTS

During the year ended September 30, 2019, the Company entered into agreements with a number of suppliers as follows. To date no product has been delivered from suppliers to the Company.

a) Ten of these agreements have the following key terms:
   i) The Company has the right to purchase all or any portion of cannabis produced by the supplier; and
   ii) The Company will reimburse the supplier for up to \$100,000 in regulatory consulting fees related to the supplier's application for a micro-cultivation or micro-processor license, to be reimbursed \$25,000 for every 50kg of product delivered to the Company.
b) Another five agreements have the following key terms:
   i) The Company has the right to purchase any and all product from the supplier during the initial term, ranging from 12 to 18 months from the date of first delivery;
   ii) The product will be purchased at a minimum price of \$6.50/gram during the initial term for product with a minimum tetrahydrocannabinol (THC) content of 15%; and
   iii) After the initial term, the Company has first right of refusal to purchase the supplier's product.
c) One agreement obligates the Company to pay a one-time signing bonus of \$100,000 to the supplier (paid) and a one-time fee of \$23,350 upon the supplier delivering the first 100kg of product to the Company.

Should the Company enter into a supply agreement with a supplier introduced by 10050432 Manitoba Ltd. During the term, the Company shall pay a referral fee of 1% of the proceeds paid by the Company to that supplier for the supply of cannabis products.

See Note 16 for commitments on lease agreements.

(Expressed in Canadian dollars)

20. INCOME TAX NOTE

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

	September 30, 2019		September 30, 2019	
Loss for the year before income taxes	**$**	**(35,589,088)**	$	(54,223,435)
Statutory income tax rate		**27%**		27%
Expected income tax recovery		**(9,609,054)**		(14,640,327)
Non-deductible items and other		**7,404,359**		9,501,064
Change in valuation allowance		**2,204,695**		5,139,263
	$	-	$	-

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

	September 30, 2020		September 30, 2019	
Deferred income tax assets:				
Non-capital loss carry forwards	**$**	**7,349,427**	$	5,259,600
Share issue costs		**97,161**		125,562
Other		**161,089**		17,820
		7,607,677		5,402,982
Unrecognized deferred income tax assets		**(7,607,677)**		(5,402,982)
Net deferred tax assets	$	-	$	-

As at September 30, 2019, the Company has estimated non-capital losses for Canadian income tax purposes of approximately $27,220,000 that may be carried forward to reduce taxable income in future years. These losses expire as follows:

Expiry		
2032	$	52,098
2033		625,267
2034		237,158
2035		94,974
2036		104,966
2037		95,016
2038		1,031,824
2039		17,239,393
2040		7,709,406
	$	27,220,102

21. SUBSEQUENT EVENTS

On October 2, 2020, the Company issued 11,000,000 stock options to directors, officers and consultants with an exercise price of $0.10 and expires five years from the date of grant.

On November 12, 2020, the Company entered into debt settlement agreements and issued 6,809,380 common shares to settle debt of debt of $680,938.

On December 2, 2020, the Company acquired 100% of Olympic View Botanicals Ltd. ("OVB"). OVB is in the process of building an indoor micro cannabis cultivation facility. OVB has signed a purchase and processing agreement with Sitka Weed Works Inc., a cannabis processing facility located on Vancouver Island. As consideration, the Company will issue 15,000,000 common shares.

On January 15, 2021, the Company entered into a binding letter of intent to acquire 100% of Ava Pathways Inc. ("Ava Pathways"). Ava Pathways is an innovative company exploring the therapeutic scientific benefits of proprietary formulations, using compounds from mushrooms.

Effective January 1, 2021, the Company entered into an amended agreement with the vendors of Medcann Health Products Ltd. whereby the clause in the original share purchase agreement, related to the contingent consideration was deleted (note 13) and in consideration for this amendment the Company issued 1,052,000 stock option to the vendors, which are exercisable at $0.10 per share for a period of 5 years.