RMMI CORP.

Condensed Interim Consolidated Financial Statements
For the Three-Month and Nine-month Periods Ended September 30, 2019 and 2018
(unaudited)
(In Canadian dollars)

NOTICE TO READER

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

RMMI Corp.
Condensed Interim Consolidated Statements of Financial Position

		As at September 30, 2019 (unaudited)		As at December 31, 2018 (audited)
Assets				
Current Assets				
Cash	$	**1,068,788**	$	5,376,054
Prepaid expenses and other receivables (Note 3)		**180,157**		53,367
Total Current Assets		**1,248,945**		5,429,421
Non-Current Assets				
Property, plant and equipment (Note 4)		**6,578,321**		1,720,403
Deposits (Note 4)		**408,715**		489,604
Right-of-use asset (Note 5)		**24,839**		-
Total Assets	$	**8,260,820**	$	7,639,428
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$	**717,980**	$	184,374
Secured note (Note 7)		**1,000,000**		-
Lease obligation liability (Note 6)		**27,402**		-
Total Liabilities		**1,745,382**		184,374
Shareholders' Equity				
Share capital (Note 8)		**6,717,580**		7,665,709
Warrants (Note 8)		**2,368,339**		1,525,508
Contributed surplus		**761,202**		526,339
Deficit		**(3,331,683)**		(2,262,502)
Total Shareholders’ Equity		**6,515,438**		7,455,054
Total Liabilities and Shareholders’ Equity	$	**8,260,820**	$	7,639,428

Going concern (Note 1)
Commitments (Note 13)

Approved on behalf of the Board of Directors:

Signed “Earl Connors”
Director

Signed “Dave Guebert”
Director

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

RMMI Corp.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three-month and nine-month periods ended September 30, 2019 and 2018
(unaudited)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Expenses				
General and administration	**$250,279**	$241,683	**$849,004**	$646,293
Interest and financing costs	**55,600**	-	**55,600**	-
Lease finance expense	**658**	-	**2,405**	-
Transaction costs (Note 8 iv)	**-**	353,400	**-**	353,400
Depreciation (Notes 4 & 5)	**14,255**	5,410	**42,557**	6,375
Share based compensation (Note 9)	**50,000**	52,500	**119,615**	250,465
Total Expense	**370,792**	652,993	**1,069,181**	1,256,533
Net Loss and comprehensive loss	**$370,792**	$652,993	**$1,069,181**	$1,256,533
Net loss per share:				
- Basic and diluted (Note 10)	**$0.03**	$0.05	**$0.08**	$0.11

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

RMMI Corp.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)
(In Canadian dollars, except the number of shares and warrants)

	Number of Shares	Number of Warrants	Share Capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity
As at December 31, 2018	13,548,928	2,184,546	$ 7,665,709	$ 1,525,508	$ 526,339	$ (2,262,502)	$ 7,455,054
Broker warrant exercises (Note 8)	3,700	(3,700)	6,405	(2,705)	-	-	3,700
Option exercises (Note 9)	25,000	-	12,053	-	(5,803)	-	6,250
Warrant expiries (Note 8)	-	(165,590)	-	(121,051)	121,051	-	-
Warrant extension (Note 8)	-	-	(966,587)	966,587	-	-	-
Share based compensation (Note 9)	-	-	-	-	119,615	-	119,615
Net loss and comprehensive loss	-	-	-	-	-	(1,069,181)	(1,069,181)
Balance September 30, 2019	**13,577,628**	**2,015,256**	**$ 6,717,580**	**$ 2,368,339**	**$ 761,202**	**$ (3,331,683)**	**$ 6,515,438**

	Number of Shares	Number of Warrants	Share Capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity
As at December 31, 2017	9,071,272	3,041,527	$ 1,719,292	$ 1,213,586	$ 105,290	$ (558,711)	$ 2,479,457
Private placement (Note 8)	2,498,428	-	2,498,428	-	-	-	2,498,428
Broker warrants issued (Note 8)	-	310,546	-	377,121	-	-	377,121
Warrant exercises (Note 8)	213,528	(213,528)	179,865	(19,190)	-	-	160,675
Issue of new warrants on warrant exercise (Note 8)	-	100,000	(63,975)	63,975	-	-	-
Warrant expiries (Note 8)	-	(1,053,999)	-	(109,984)	109,984	-	-
Initial public offering (Note 8)	1,765,700	-	4,414,250	-	-	-	4,414,250
Share issue costs (Note 8)	-	-	(1,082,060)	-	-	-	(1,082,060)
Share based compensation (Note 9)	-	-	-	-	250,465	-	250,465
Net loss and comprehensive loss	-	-	-	-	-	(1,256,533)	(1,256,533)
Balance September 30, 2018	**13,548,928**	**2,184,546**	**$ 7,665,800**	**$ 1,525,508**	**$ 465,739**	**$ (1,815,244)**	**$ 7,841,803**

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

RMMI Corp.
Condensed Interim Statements of Cash Flows
For the three-month and nine-month periods ended September 30, 2019 and 2018
(unaudited)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Operating				
Net loss	**$(370,792)**	$(652,993)	**$(1,069,181)**	$(1,256,533)
Items not affecting cash:				
Depreciation (Notes 4 & 5)	**14,255**	5,410	**42,557**	6,375
Share based compensation (Note 9)	**50,000**	52,500	**119,615**	250,465
Change in non-cash working capital (Note 14)	**44,165**	318,889	**(87,109)**	16,260
Net cash used in operating activities	**(262,372)**	(276,194)	**(994,118)**	(983,433)
Investing				
Additions to property, plant and equipment (Note 5)	**(378,751)**	(286,871)	**(4,875,650)**	(1,445,178)
Deposits (Note 5)	**(60,000)**	-	**80,889**	-
Change in non-cash working capital (Note 14)	**(943,129)**	(58,851)	**497,961**	116,422
Net cash used in investing activities	**(1,381,880)**	(345,722)	**(4,296,800)**	(1,328,756)
Financing				
Proceeds from private placements (Note 8)	**-**	-	**-**	2,498,428
Proceeds from warrant exercise (Note 8)	**-**	-	**3,700**	157,500
Proceeds from option exercise (Note 9)	**-**	-	**6,250**	-
Proceeds from broker warrant exercise (Note 8)	**-**	-	**-**	3,175
Proceeds from initial public offering (Note 8)	**-**	4,414,250	**-**	4,414,250
Repayment of lease liability (Note 6)	**(6,539)**	-	**(22,262)**	-
Proceeds from secured note financing (Note 7)	**1,000,000**	-	**1,000,000**	-
Share issue costs (Note 8)	**-**	(517,782)	**-**	(704,939)
Change in non-cash working capital (Note 14)	**-**	-	**(4,036)**	26,250
Net cash provided by/(used in) financing activities	**993,461**	3,896,468	**983,652**	6,394,664
Net increase in/(use of) cash	**(650,791)**	3,274,552	**(4,307,266)**	4,082,475
Cash, beginning of period	**1,719,579**	3,199,412	**5,376,054**	2,391,489
Cash, end of period	**$1,068,788**	$6,473,964	**$1,068,788**	$6,473,964

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

1. REPORTING ENTITY AND GOING CONCERN

RMMI Corp. (the "Company" or "RMMI") was incorporated under the Business Corporations Act (Alberta) on February 6, 2018. The registered office is located at Suite 1050, 639 – 5th Avenue S.W., Calgary, Alberta, T2P 0M9. RMMI completed its initial public offering on September 24, 2018 and became a listed entity on the Canadian Securities Exchange ("CSE" or the "Exchange") under the symbol "RMMI". The shares of RMMI commenced trading on CSE on September 25, 2018.

On April 1, 2018, the Company issued 11,779,700 common shares of RMMI Corp. in exchange for all of the issued and outstanding shares (the "Transaction") of Rocky Mountain Marijuana Inc. ("RM"). For accounting purposes, the Transaction was treated as a reverse acquisition with RM being the accounting acquirer. Therefore, the Company's historical financial statements reflect those of RM. Prior to the Transaction, RMMI had no business operations or activities.

On October 11, 2019, RM received its standard cannabis cultivation, processing and medical sales licence from Health Canada under Canada's *Cannabis Act and Regulations* ("Cannabis Act"). The Company owns a facility in Newell County, Alberta (the "**RMMI Property**") which has being renovated as a cannabis cultivation facility and is substantially complete, with some interior wall construction and utility installation remaining. RMMI is a development stage company and commencement of operations depends on obtaining adequate financing to become operational.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company is a development stage company and has not commenced cannabis operations, it has not generated any revenue. During the nine-months ended September 30, 2019, the Company incurred a net loss and comprehensive loss of $1,069,181 (September 30, 2018 - $1,256,533). The Company's net positive working capital has decreased from $2,971,284 at March 31, 2019 to a working capital deficit of $496,437 at September 30, 2019 due to capital expenditures on property and equipment to become operational and general and administrative expenses. The continued operations of the Company are dependent on its ability to obtain additional financing and generate future operating cash flows. The Company received its cultivation, processing and medical sales license (the "License") from Health Canada on October 11, 2019. RMMI will commence its test-cultivations immediately upon completion of some utility system modifications.

Management is of the opinion that sufficient working capital can be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. The Company has incurred operating losses since inception and has cash requirements to meet its overhead and to commence cannabis operations. As is common with development stage companies in the cannabis industry, these conditions indicate the existence of material uncertainties that may cast doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the expenses and the balance sheet classifications used. Such adjustments could be material.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These unaudited condensed interim financial statements ("interim financial statement") have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual financial statements as at and for the year ended December 31, 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

These interim financial statements were approved and authorized for issuance by the Board of Directors on November 18, 2019.

(b) Adoption of IFRS 16, Leases

The Company adopted IFRS 16 at its effective date on January 1, 2019. IFRS 16, Leases ("IFRS 16") requires lessees to recognize assets and liabilities for most leases.

RMMI's head-office lease agreement qualifies for recognition under IFRS 16. The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's consolidated balance sheet, consolidated statements of earnings, other comprehensive income, shareholders' equity and cash flows have not been restated.

On adoption of IFRS 16, the Company utilized the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset ("RUA") at the date of initial application. Based on current estimates and assumptions, the Company recorded a RUA and offsetting lease obligation liability of $49,664 (classified as current portion of lease obligation liability - $31,212 and non-current lease obligation liability - $18,452) at January 1, 2019 with no impact on retained earnings. The Company had not previously recognized any RUA or lease obligation liabilities.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases" ("IAS 17"). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at January 1, 2019. RMMI estimated its incremental borrowing rates as at January 1, 2019 to be approximately 9.5 percent.

Prior to the adoption of IFRS 16, future operating lease obligations were disclosed in the Commitments and Contingencies note. The following is a reconciliation of the operating lease obligations included at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019:

	Amount
Operating lease obligations at December 31, 2018	**$114,608**
Variable lease payments not included in the measurement of lease liabilities	**(61,607)**
Undiscounted minimum lease payments at January 1, 2019	**53,001**
Effect of discounting	**(3,337)**
Total	**$49,664**

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Use of judgments and estimates

In preparing these interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in that last annual financial statements, except as amended below:

i. Critical judgments in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

(d) Significant accounting policies

Please refer to the December 31, 2018 audited financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2018 financial statements were consistently applied to all periods presented unless otherwise noted below. These unaudited interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2018.

i. Leases

The Company applied IFRS 16 using the modified retrospective approach; therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy found in the annual Consolidated Financial Statements for the year ended December 31, 2018.

The following accounting policy is applicable from January 1, 2019:

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Leases are recognized as a RUA and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term.

(In Canadian dollars)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Significant accounting policies (continued)

i. Leases (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the RUA or is recorded in the consolidated statement of earnings if the carrying amount of the RUA has been reduced to zero.

The RUA is initially measured at cost, which comprises the initial amount of the lease liability any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date.

The RUA is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The RUA may be adjusted for certain remeasurements of the lease liability and impairment losses.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of earnings on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the RUA. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the RUA and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets and are comprised of:

	Sept. 30, 2019	**December 31, 2018**
Prepaid expenses	**$18,611**	$35,583
Goods and service tax (GST) receivable	**161,546**	17,784
Total	**$180,157**	$53,367

(In Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Furniture & equipment	Buildings & improvements	Land	**Total**
Cost				
At December 31, 2018	$ 51,333	$ 1,422,425	$ 259,000	$ 1,732,758
Additions	77,208	4,798,442	-	**4,875,650**
At September 30, 2019	128,541	6,220,867	259,000	**6,608,408**
Accumulated depreciation				
At December 31, 2018	$ 5,095	$ 7,260	$ -	$ 12,355
Depreciation for the period	6,341	11,391	-	**17,732**
At September 30, 2019	11,436	18,651	-	**30,087**
Net book value				
At December 31, 2018	$46,238	$1,415,165	$259,000	$1,720,403
At September 30, 2019	**$117,105**	**$6,202,216**	**$259,000**	**$6,578,321**

In January, 2018, the Company acquired land and buildings in Newell County, Alberta for $1,025,000. This amount includes $125,000 of deposits that was paid at December 31, 2017. The Company incurred other directly attributable costs totaling $9,556 in connection with the acquisition of land and building. The purchase price was allocated to land and buildings based on a third-party appraisal report. The buildings include two warehouse facilities which are expected to be retrofitted as the Company's cannabis production facilities. A portion of the smaller of the two warehouse facilities was put in use for the Company's hemp cultivation testing program during the year and was subjected to depreciation.

In the nine months ended September 30, 2019, the Company incurred $4,798,442 of costs related to the renovations of the Newell property. These expenses primarily relate to design, engineering, construction and project management. The majority of the buildings and improvements are not considered available for use and are not subject to depreciation.

During the nine months ended September 30, 2019, the Company purchased equipment totaling $77,208 mostly for cannabis operations.

At September 30, 2019, the Company had made deposits totaling $408,715 to two vendors (December 31, 2018 - $489,604 to two vendors) as progress payments on long lead-time equipment to be delivered in the future. Additional progress payments on this equipment are due when specific construction or delivery and installation milestones have been met (Note 12).

(In Canadian dollars)

5. RIGHT-OF-USE ASSET

Right of use asset consist of the following:

	Office lease
Cost	
At December 31, 2018	$ -
Recognition on January 1, 2019 (Note 2)	49,664
Additions	-
At September 30, 2019	49,664
Accumulated depreciation	
At December 31, 2018	$ -
Recognition on January 1, 2019	-
Depreciation for the period	24,825
At September 30, 2019	24,825
Net book value	
At December 31, 2018	$ -
At September 30, 2019	**$24,839**

6. LEASE OBLIGATION LIABILITY

	Amount
Recognition on January 1, 2019 (Note 2)	$49,664
Repayments in the period	22,262
At September 30, 2019	**$27,402**
Current portion	$27,402

The Company has lease liabilities for contracts related to office space. The Company has not included extension options in the calculation of lease obligation liabilities as it is currently not more than likely to exercise the extension option. The Company had variable lease payments related to operating costs and property taxes for real estate contracts which were recorded as general and administrative expenses.

7. SECURED NOTE

On September 13, 2019, the Company issued secured notes totaling $1,000,000. Certain members of RMMI's executives and board of directors have participated in the financing in the collective amount of $425,000. The secured notes carry a 12% per annum interest rate, matures December 31, 2019 and are secured by the Newell property. A 5% facility fee is also payable at maturity.

(In Canadian dollars)

8. SHARE AND WARRANT CAPITAL

Authorized: an unlimited number of voting common shares, no par value
an unlimited number of preferred shares, no par value

Shares and warrants issued:

	Common shares		Warrants		
	Number of shares	**Amount**	**Number of warrants**	**Number of broker warrants**	**Amount**
Balance December 31, 2018	**13,548,928**	**$ 7,665,709**	**1,874,000**	**310,546**	**$ 1,525,508**
Options exercises *(Note 8)*	25,000	12,053	-	-	-
Broker warrants exercises (*vi*)	3,700	6,405	-	(3,700)	(2,705)
Warrant extension *(vii)*	-	(966,587)	-	-	966,587
Warrants expired *(viii)*	-	-	-	(165,590)	(121,051)
Balance September 30, 2019	**13,577,628**	**6,717,580**	**1,874,000**	**141,256**	**2,368,339**
Balance December 31, 2017	**9,071,272**	**$ 1,719,292**	**2,963,999**	**77,528**	**$ 1,213,586**
Issued in private placement *(i)*	2,498,428	2,498,428	-	-	-
Broker warrants issued *(ii)*	-	-	-	169,290	123,756
Warrant exercises (*ii*)	210,000	175,388	(210,000)	-	(17,888)
New Warrants Issued *(ii)*	-	(63,975)	100,000	-	63,975
Broker warrants exercised *(iii)*	3,528	4,477	-	(3,528)	(1,302)
Issued in initial public offering *(iv)*	1,765,700	4,414,250	-	-	-
Broker warrants issued *(iv)*	-	-	-	141,256	253,365
Warrants expired *(v)*	-	-	(979,999)	(74,000)	(109,984)
Share issue costs *(i), (iv)*	-	(1,435,460)	-	-	-
Balance September 30, 2018	**13,548,928**	**$ 7,312,400**	**1,874,000**	**310,546**	**$ 1,525,508**

8. SHARE AND WARRANT CAPITAL (Continued)

(i) In two closings on January 19, 2018 and February 7, 2018, the Company completed a private placement for total proceeds of $2,498,428 at a price of $1.00 per common share. Total common shares of 2,498,428 were issued. As partial compensation, 169,290 broker warrants were issued with an exercise price of $1.00 and May 30, 2018 expiry. The Black-Scholes option model was used in calculating the fair value of the broker warrants using a nil dividend yield, an interest rate of 1.25% and an expected volatility of 130%. The fair market value at issuance of the broker warrants was $47,320. On May 30, 2018, the broker warrants expiry was extended to March 31, 2019. The Black-Scholes option model was used in calculating the fair value of the broker warrants expiry extension using a nil dividend yield, an interest rate of 1.70% and an expected volatility of 130%. The fair market value of the broker warrant extension was $76,436. The fair value of the broker warrants, including the extension, was recorded to share issue costs. The Company also paid cash commissions of $181,382 and other costs of $5,775 which were recorded as share issues costs.

(ii) In the nine months ended September 30, 2018, 210,000 warrants were exercised for gross proceeds of $157,500. The original fair market value of the exercised warrants of $17,888 was transferred from warrant capital to share capital. 100,000 warrants were issued in consideration for a portion of the warrant exercises. The Black-Scholes option model was used in calculating the fair value of these warrants using a nil dividend yield, an interest rate of 1.68% and an expected volatility of 160%. The fair value of the warrants $63,975 was transferred from share capital to warrant capital.

(iii) In the nine months ended September 30, 2018, 3,528 broker warrants were exercised for gross proceeds of $3,175. The original fair market value of the exercised broker warrants of $1,302 was transferred from warrant capital to share capital.

(iv) On September 24, 2018, the Company completed an initial public offering of common shares and became listed for trading on the CSE on September 25, 2018. The Company issued 1,765,700 common shares for total gross proceeds of $4,414,250. As partial compensation, 141,256 broker warrants were issued with an exercise price of $2.50 and September 24, 2020 expiry. The Black-Scholes option model was used in calculating the fair value of the broker warrants using a nil dividend yield, an interest rate of 2.19% and an expected volatility of 150%. The fair market value at issuance of the broker warrants was $253,365. The fair value of the broker warrants was recorded to share issue costs. The Company also paid cash commissions of $353,140 and other costs of $164,642 which were recorded as share issues costs. Additionally, $353,400 of costs associated with becoming a listed entity were expensed as transaction costs.

(v) In the nine months ended September 30, 2018, 979,999 warrants and 74,000 broker warrants expired. The fair value of the warrants at time of grant of $109,984 was transferred from warrant capital to contributed surplus.

(vi) In the nine months ended September 30, 2019, 3,700 broker warrants were exercised for gross proceeds of $3,700. The original fair market value of the exercised warrants of $2,705 was transferred from warrant capital to share capital.

(vii) On May 7, 2019, the Company approved the extension of 1,874,000 warrants scheduled to expire on September 30, 2019 until September 30, 2020. No other terms of the warrants were changed. The Black-Scholes option model was used in calculating the fair value of the warrant expiry extension using a nil dividend yield, an interest rate of 1.62% and an expected volatility of 155%. The fair market value of the warrant extension was $966,587. The fair value of the warrants extension was recorded to share issue costs as these warrants are related to warrants issued on the exercise of previously issued warrants.

(In Canadian dollars)

8. SHARE AND WARRANT CAPITAL (Continued)

(viii) In the nine months ended September 30, 2019, 165,590 broker warrants expired. The fair value of the warrants at time of grant of $121,051 was transferred from warrant capital to contributed surplus.

The following summarizes warrant transactions for the nine months ended September 30, 2019 and 2018:

	2019		**2018**	
	Number of warrants	**Weighted average price**	**Number of warrants**	**Weighted average price**
Beginning of year	2,184,546	$1.31	3,041,527	$1.03
Warrants exercised	-	-	(210,000)	$0.75
Warrants expired	-	-	(979,999)	$0.75
Broker warrants exercised	(3,700)	$1.00	(3,528)	$0.25
Broker warrants expired	(165,590)	$1.00	(74,000)	$0.25
Broker warrants issued	-	-	169,290	$1.00
Warrants issued	-	-	100,000	$1.25
Balance September 30	**2,015,256**	**$1.34**	**2,043,290**	**$1.23**

Outstanding warrants at September 30, 2019 were as follows:

	Warrants	**Weighted average prices**	**Weighted average years to expiry**
Broker warrants	141,256	$2.50	1.0
Warrants	1,874,000	$1.25	0.8
Balance September 30, 2019	**2,015,256**	**$1.34**	**0.8**

Outstanding warrants at September 30, 2018 were as follows:

	Warrants	**Weighted average prices**	**Weighted average years to expiry**
Broker warrants	310,546	$1.68	1.2
Warrants	1,874,000	$1.25	0.7
Balance September 30, 2018	**2,184,546**	**$1.40**	**0.9**

Escrowed securities:

Pursuant to an escrow agreement dated June 24, 2018, 1,826,668 common shares of the Company were deposited into escrow with respect to the Company’s initial public offering. In addition, 216,668 warrants at $1.25 per share expiring September 30, 2019 and 985,000 stock options with exercise prices of $0.25 and $1.00 per share expiring March 31, 2022 and March 5, 2023, respectively, were also subject to the escrow agreement. Under the escrow agreement, 10% of the escrowed common shares were released from escrow on September 24, 2018, the date of closing of the Company’s initial public offering, and 15% will be released every nine months thereafter over a period of 36 months. As of September 30, 2019, 1,096,002 common shares remain in escrow.

(In Canadian dollars)

9. SHARE BASED COMPENSATION

The following summarizes information about stock options outstanding as at September 30, 2019:

	For the nine months ended September 30, 2019		For the nine months ended September 30, 2018	
	Number of options	Weighted average price	Number of options	Weighted average price
Beginning of year	1,137,500	$0.66	620,000	$0.25
Options forfeited and expired	(70,000)	$1.30	(20,000)	$0.25
Options exercised	(25,000)	$0.25	-	-
Options issued	-	-	510,000	$1.00
End of the period	**1,042,500**	**$0.62**	**1,110,000**	**$0.59**

The following table summarizes information about the share options outstanding and exercisable as at September 30, 2019:

Options outstanding				Options exercisable	
Exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$0.25	550,000	2.5	$0.25	455,000	$0.25
$1.00	455,000	3.4	$1.00	235,000	$1.00
$1.56	37,500	4.2	$1.56	18,750	$1.56
-	1,042,500	3.0	$0.62	708,750	$0.53

The following table summarizes information about the share options outstanding and exercisable as at September 30, 2018:

Options outstanding				Options exercisable	
Exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$0.25	600,000	3.5	$0.25	290,000	$0.25
$1.00	510,000	4.4	$1.00	127,500	$1.00
-	1,110,000	3.9	$0.59	417,500	$0.48

During the nine months ended September 30, 2019, the Company issued NIL options (for the nine months ended September 30, 2018 – 510,000 options). The share-based compensation expense during the three months and nine months ended September 30, 2019 was $50,000 and $119,615, respectively (for the three months and nine months ended September 30, 2018 - $52,500 and $250,465). During the nine months ended September 30, 2019, 25,000 options were exercised for gross proceeds of $6,250. The original fair market value of the exercised options of $5,803 was transferred from contributed surplus to share capital.

(In Canadian dollars)

10. NET LOSS PER SHARE

The calculation of basic and diluted loss per share for the three months and nine months ended September 30, 2019 was based on the loss attributable to common shareholders of $370,792 and $1,069,181, respectively (for the three months and nine months ended September 30, 2018 – $652,993 and $1,256,533, respectively) and the weighted average number of common shares outstanding of 13,577,628 and 13,574,915, respectively (for the three months and nine months ended September 30, 2018 – 11,898,382 and 11,488,012, respectively).

Share options and warrants were anti-dilutive during the three months and nine months ended September 30, 2019 and 2018.

11. RELATED PARTY TRANSACTIONS

Related party transactions are incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties.

The following is a summary of transactions with directors and officers, and companies controlled by directors of the Company. The amounts are measured at the exchange amount which is the fair value of the transactions.

(a) Transactions with related parties

	Nine months ended September 30, 2019	**Nine months ended September 30, 2018**
Legal fees paid or payable to a firm at which a director of the Company is a partner:	$65,822	$368,232

At September 30, 2019, $44,290 (September 30, 2018 - $58,300) was owing to the law firm at which a director of the Company was a partner. This amount is recorded in accounts payable and accrued liabilities.

Several officers and directors of the Company participated in the secured note financing described in Note 7. These related parties are owed their proportionate share of the facility fee and interest and these amounts are recorded in accounts payable and accrued liabilities.

12. FINANCIAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As at September 30, 2019, the Company had entered into a $1,000,000 secured note debt financing. The Company is not subject to externally imposed capital requirements.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All of the Company's cash was held at one financial institution at September 30, 2019, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

The Company has a GST receivable outstanding with the Canada Revenue Agency ("CRA") for $161,546. The Company received $120,224, which was the amount receivable on June 30, 2019, in October 2019. The Company deems CRA to be creditworthy and collection of the receivable will occur.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the period. The Company's financial liabilities consist of accounts payable and accrued liabilities. As at September 30, 2019, the Company had a cash balance of $1,068,788, which was not sufficient to settle its liabilities as and when they fall due. The Company will have to raise additional capital in the form of debt, equity or convertible securities to settle its liabilities.

Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company purchases some equipment that are denominated in United States dollars ("US dollars"). The purchase value of some of the Company's equipment is subject to currency transaction and translation risks.

The Company's main risk is associated with fluctuations in U.S. dollars as the Company holds cash in Canadian dollars and has commitments in U.S. dollars (Note 12). Assets are translated based on the foreign currency translation policy.

The Company has determined that as at September 30, 2019, the effect of a $0.01 increase or decrease in U.S. dollars against the Canadian dollar on commitments would result in an increase or decrease of approximately $2,750 (September 30, 2018 - nil) to the Company's commitments.

At September 30, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(In Canadian dollars)

12. FINANCIAL RISK MANAGEMENT (Continued)

Capital management risk

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As at September 30, 2019, the Company had entered into a $1,000,000 secured note debt financing. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers its shareholders' equity as capital which, as at September 30, 2019 is $6,515,438.

13. COMMITMENTS

Purchase of property, plant and equipment

The has Company placed purchase orders with several suppliers in the normal course of business for acquisition of property, plant and equipment related to its Newell Facility that had not been supplied or delivered at September 30, 2019. Certain progress payments had been completed and recorded as Deposits. At September 30, 2019, payments of $28,000 and US$275,000 remain outstanding subject to future delivery and construction milestones.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Nine months ended September 30, 2019	**Nine months ended September 30, 2018**
Source/(use) of cash:		
Prepaid expenses and other current assets	**$(126,790)**	$(30,226)
Accounts payable and accrued liabilities	**533,606**	189,158
Net change in non-cash working capital	**406,816**	(158,932)
Operating	**(87,109)**	16,260
Investing	**497,961**	116,422
Financing	**(4,036)**	26,250
Total	**$406,816**	$(158,932)