GABRIELLA'S KITCHEN INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
(in Canadian dollars)

April 30, 2019

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Gabriella's Kitchen Inc. and all information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity, and objectivity of the consolidated financial statements within reasonable limits of materiality and has ensured consistency with the financial information presented elsewhere in Management's Discussion and Analysis.

To assist management in the discharge of these responsibilities, the Corporation has established an organizational structure that provides appropriate delegation of authority, division of responsibilities, and selection and training of properly qualified personnel. Management is also responsible for the development of internal controls over the financial reporting process.

The Board of Directors is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of a majority of independent directors. The Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Davidson & Company on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

[signed]
Margot M. Micallef
Chair & CEO

[signed]
Barbara Feit
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Gabriella's Kitchen Inc.

Opinion

We have audited the accompanying consolidated financial statements of Gabriella's Kitchen Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Consolidated 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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements of Gabriella's Kitchen Inc. for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2018.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

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 Erez Bahar.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 30, 2019

GABRIELLA'S KITCHEN INC.
Consolidated Statements of Financial Position

In Canadian dollars	Note	As at December 31 **2018**	2017
ASSETS			
Current			
Cash		**53,658**	15,767
Accounts receivable	4	**367,590**	349,294
Inventories	5	**592,771**	169,041
Prepaid expenses and deferred costs	6	**236,259**	245,277
		1,250,278	779,379
Non-current			
Property and equipment	7	**534,028**	336,334
Intangible assets and goodwill	8	**2,775,642**	15,284
Security deposits		**54,194**	32,995
Total assets		**4,614,142**	1,163,992
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Bank indebtedness	9	**-**	167,611
Accounts payable and accrued liabilities	10	**1,510,790**	748,617
Current portion of long-term debt	11	**-**	7,308
Current portion of finance lease obligation	12	**58,600**	15,496
Current liabilities before the following:		**1,569,390**	939,032
Callable debt	13	**-**	3,978,897
Due to related parties	14	**-**	841,488
Contingent consideration payable	3b	**1,615,392**	
		3,184,782	5,759,417
Non-current liabilities			
Finance lease obligation	12	**79,087**	24,329
Deferred lease inducement	28	**46,942**	30,758
Deferred tax liability	22	**332,600**	-
Share subscription liability	16	**-**	239,500
Total liabilities		**3,643,411**	6,054,004
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share issuance obligation	17d	**511,200**	-
Share capital	18	**18,218,110**	6,544,097
Contributed surplus	18	**1,270,663**	-
Deficit		**(19,154,623)**	(11,434,109)
Accumulated other comprehensive loss		**125,381**	-
		970,731	(4,890,012)
Total liabilities and shareholders' equity (deficiency)		**4,614,142**	**1,163,992**
Going concern	1		
Lease commitments	28		
Contingencies	29		

See accompanying notes to the consolidated financial statements

On behalf of board: *[signed]* Margot M. Micallef, Director

[signed] Jackie Altwasser, Director

GABRIELLA'S KITCHEN INC.
Consolidated Statements of Loss and Comprehensive Loss

In Canadian dollars, except number of common shares	Note	Year Ended December 31 **2018**	2017
REVENUE			
Gross revenue		**2,442,236**	1,274,517
Promotional activity		**(838,831)**	(236,990)
Amortization of product listing fees		**(111,804)**	(85,002)
Total revenue		**1,491,601**	952,525
COST OF SALES			
Direct inventory costs	19	**1,340,960**	664,383
Variable gross profit		**150,641**	288,142
Allocated indirect costs	20	**646,711**	564,925
Distribution costs		**204,196**	143,861
Total cost of sales		**2,191,867**	1,373,169
Gross profit (loss)		**(700,266)**	(420,644)
Selling, general and administrative expenses	21	**5,024,538**	2,936,710
Share-based compensation and expenses	17	**803,295**	-
Depreciation of plant and equipment	7	**54,430**	25,030
Amortization of intangibles	8	**15,558**	10,128
Loss from operations before the following:		**(6,598,087)**	(3,392,512)
Foreign exchange gain (loss)		**(173,504)**	20,841
Gain on conversion of callable debt	18c	**72,126**	-
Interest expense		**(633,101)**	(227,569)
Interest income		**9,744**	64
Contract termination payment	17c	**(341,716)**	-
Loss on inventory write-down	5	**(55,976)**	(161,083)
Total other expenses		**(1,122,427)**	(367,747)
Net loss		**(7,720,514)**	(3,760,259)
Other comprehensive loss, net of tax			
Items that may be reclassified to net profit in the future:			
Exchange difference on translation		**125,381**	-
Total comprehensive loss		**(7,595,133)**	(3,760,259)
Net loss per share:			
Basic and diluted	23	**($0.12)**	($0.09)

See accompanying notes to the consolidated financial statements

GABRIELLA'S KITCHEN INC.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

In Canadian dollars	Note	Share issuance obligation	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total
Balance as at December 31, 2016		-	4,599,543	-	(7,673,850)	-	(3,074,307)
Net and comprehensive loss		-	-	-	(3,760,259)	-	(3,760,259)
Issuance of shares		-	1,944,554	-	-	-	1,944,554
Balance as at December 31, 2017		**-**	**6,544,097**	**-**	**(11,434,109)**	**-**	**(4,890,012)**
Net and comprehensive loss		-	-	-	(7,720,514)	125,381	(7,595,133)
Issuance of shares and warrants for cash	18	-	576,199	98,313	-	-	674,512
Issuance of shares and warrants – debt conversion	18	-	4,095,883	698,822	-	-	4,794,705
Issuance of warrants attached to convertible debentures	18	-	-	102,616	-	-	102,616
Share-based compensation	17	511,200	604,510	124,886	-	-	1,240,596
Debenture conversion	15	-	5,861,289	(45,529)	-	-	5,815,760
Warrant exercise	17	-	78,240	(540)	-	-	77,700
Issued on business acquisition		-	457,892	-	-	-	457,892
Issuance of stock options	18	-	-	292,095	-	-	292,095
Balance as at December 31, 2018		**511,200**	**18,218,110**	**1,270,663**	**(19,154,623)**	**125,381**	**970,731**

See accompanying notes to the consolidated financial statements

GABRIELLA'S KITCHEN INC.
Consolidated Statements of Cash Flows

In Canadian dollars	Note	Year Ended December 31 **2018**	2017
OPERATING ACTIVITIES			
Net loss		**(7,720,514)**	(3,760,259)
Adjustments to reconcile net loss to cash flow from operations:			
Depreciation	7	**170,132**	137,463
Amortization of intangible assets	8	**15,558**	10,128
Interest expense		**633,101**	227,569
Interest income		**(9,651)**	-
Share-based payments or payable	17	**1,145,011**	-
Gain on conversion of callable debt	13	**(72,126)**	-
Unrealized foreign exchange loss (gain)		**173,504**	(142)
Increase in deferred lease inducement		**3,258**	13,880
Cash used in operating activities before the following:		**(5,661,727)**	(3,371,361)
Net change in non-cash working capital related to operations	24	**515,820**	(93,598)
Cash used in operating activities		**(5,145,907)**	(3,464,959)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(81,954)**	(49,674)
Purchase of intangible assets		**(42,918)**	(13,998)
Issuance of notes receivable		**(1,124,830)**	-
Purchase acquisition	3c	**151,258**	-
Proceeds on notes receivable		**390,630**	-
Deposits returned (paid)		**-**	3,210
Cash used in investing activities		**(707,814)**	(60,462)
FINANCING ACTIVITIES			
Proceeds on convertible debentures and attached warrants		**6,350,000**	-
Issuance costs paid – convertible debentures		**(649,400)**	-
Proceeds on callable debt		**387,960**	1,058,620
Advances from related parties		**-**	408,038
Repayment to related parties	14	**(8,018)**	-
Repayment of callable debt		**(408,399)**	-
Repayment of long-term debt		**(7,308)**	(30,186)
Repayment of finance lease obligation		**(38,220)**	(9,132)
Cash received for shares not yet issued	16	**-**	239,500
Issuance of share capital from treasury		**435,011**	1,940,466
Proceeds on warrants exercised		**77,700**	-
Interest paid		**(27,646)**	(15,747)
Cash flow provided from financing activities		**6,111,680**	**3,591,559**
Effect of exchange rate change on cash		(52,457)	(47,888)
Net change in cash flow		**205,502**	18,250
Bank indebtedness, beginning of year	9	**(151,844)**	(170,094)
Cash (bank indebtedness), end of year	9	**53,658**	(151,844)

See accompanying notes to the consolidated financial statements

GABRIELLA'S KITCHEN INC.
Consolidated Statements of Cash Flows - Continued

In Canadian dollars	Note	Year Ended December 31 **2018**	2017
CASH (BANK INDEBTEDNESS) CONSISTS OF:			
Cash		**53,658**	15,767
Bank indebtedness			
Canadian dollar account – bank indebtedness		**-**	(132,174)
Canadian dollar account – cheques in excess of bank balance		**-**	(52,126)
US dollar account (stated in Canadian dollars)		**-**	16,689
		53,658	(151,844)
OTHER INFORMATION			
Interest paid		**27,646**	15,747
Interest received		**93**	64
Income taxes paid (recovered)		**-**	-

See Note 25 for detail of non-cash transactions

NATURE OF BUSINESS

Gabriella's Kitchen Inc. ("GABY" or "the Corporation") is incorporated in Canada under the Business Corporations Act of Alberta. The Corporation's registered office is 200, 209 – 8th Avenue SW, Calgary, Alberta T2P 1B8, Canada and it trades on the Canadian Securities Exchange ("CSE") under the symbol GABY. Prior to October 1, 2018, the Corporation operated in the mainstream consumer packaged goods ("CPG") channel or unlicensed channel, with its offering of traditional better-for-you foods in both United States ("USA") and Canada. Subsequent thereto and subsequent to year end, through the acquisitions described in Note 3 and Note 32, respectively, the Corporation now produces, markets, and distributes cannabis-related CPG in the USA.

1. GOING CONCERN

These consolidated financial statements for the years ended December 31, 2018 and 2017 ("Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Corporation is in the initial growth stage of the business life cycle and has not yet reached a profitable level of operations. Until the Corporation reaches profitability, its ability to continue as a going concern is dependent upon the availability of operating and long-term financing. Management is continuing to address the need to increase revenue, control costs, and obtain working capital and long-term financing. As described under the Liquidity section of Note 26, management has short term and long-term financing plans in place to fund future operations. With these plans, the Corporation should have sufficient funds in place to fund operational losses for one year and beyond.

Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they come due. These Financial Statements do not reflect adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Corporation was unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Statement of compliance

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee.

These Financial Statements were approved and authorized for issue by the Corporation's board of directors ("Board") on April 28, 2019.

Basis of presentation

These Financial Statements have been prepared under the historical cost convention, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value, and are expressed in in Canadian dollars unless otherwise indicated. Other measurement bases used are outlined below and in the applicable notes.

Certain comparative figures have been reclassified to conform to the current year's presentation.

Basis of consolidation

The Financial Statements include the accounts of the Corporation and those of its subsidiaries, which are entities over which the Corporation has control. Control exists when the Corporation has power over an investee, is exposed to or has rights to variable returns from its involvement and has the ability to affect those returns. Intercompany transactions and balances are eliminated on consolidation. The results of operation of subsidiaries acquired during the period are included from their respective dates of acquisitions, being the time at which the Corporation obtains control. The Corporation assesses control through share ownership and voting rights. The following companies have been consolidated in the Financial Statements:

	Registered	Holding	Functional Currency
Gabriella's Kitchen Inc.	Alberta, Canada	Parent Company	Canadian dollar
Gabriella's Kitchen LLC	Delaware, USA	100%	Canadian dollar
The Oil Plant, Inc. ("TOP")	California, USA	100%	United States dollar ("**USD**")

Intercompany balances and transactions, and any unrealized gains or losses arising from intercompany transactions, are eliminated in preparing the Financial Statements.

Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Corporation. The consideration transferred in the acquisition is generally measured at fair value, along with identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlements of pre-existing relationships; such amounts are generally included in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Translation of foreign currencies

a. Transactions and balances

The accounts of the Corporation are presented in Canadian dollars. Transactions in foreign currencies are translated at the actual rates of exchange on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Canadian dollar at the exchange rate at that date. Revenue and expense transactions are translated using the actual rate on the date of the transaction. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured at the historical cost, and expenses related to them, are translated using the historical exchange rate at the date of the transaction.

b. Subsidiaries

Items included in the Financial Statements of each entity in the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency") and has been determined for each entity within the Corporation.

Where foreign operations are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy, and the foreign entity does not generate revenue, the functional currency of the foreign subsidiary is determined to be the Canadian dollar. Accordingly, the translation of the subsidiary from foreign currencies to Canadian dollars is accounted for as a translation to the functional currency as described above.

Where foreign operations are carried out with a significant degree of autonomy and generate revenue, the functional currency is different than the presentation currency and its results and financial position are translated into Canadian dollars as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income or loss. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate as described above.

Cash

Cash consists of cash on hand and balances with financial institutions. Cash in bank deposit accounts, at times, exceeds federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the first-in first-out method. The cost of procured finished goods and unprocessed raw material inventory is based on weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing the inventories to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. In the year of acquisition, depreciation is taken at one-half of the rates below. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management. No depreciation is recorded on property and equipment that is not available for use.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the Corporation, and the costs can be measured reliably. This would include costs related to the refurbishment or replacement of major components of the asset, when the refurbishment results in a significant extension in the physical life of the component, and in which case, the carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property and equipment are expensed as incurred in profit or loss.

Any gain or loss on the derecognition of an asset is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognized on a net basis in profit or loss.

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date. The methods of depreciation and depreciation rates applicable for each class of asset are as follows:

Production equipment	4 years Straight-line
Other equipment	20% Declining balance
Signs	20% Declining balance
Furniture and fixtures	20% Declining balance
Computer equipment	30-55% Declining balance

Depreciation of leasehold improvements is recorded over the remaining term of the lease plus the first renewal option.

Assets under finance lease

Assets under finance leases are recorded at cost. The Corporation provides for depreciation using rates designed to depreciate the cost of the assets under finance lease over the lesser of their estimated useful lives, or the lease term, unless buy-out at the end of the lease term is reasonably assured. Half of a year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The depreciation methods and rates are as follows:

Equipment	20% Declining balance

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are recorded at fair value on the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if applicable.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The methods of amortization and amortization rates applicable for each class of intangible asset with finite life are as follows:

Computer software	55% Declining balance
Website costs	55% Declining balance or 3 years Straight-line

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. The life of the licences has been determined to be indefinite.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to the cash generating unit ("CGU") or groups of CGUs which are expected to benefit from the synergies of the combination. Goodwill is tested annually for impairment.

Impairment

a. Financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.
In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

b. Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets ("cash-generating unit"). The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash-generating unit. Impairment losses recognized in prior years are reviewed by the Corporation at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset's carrying amount, increased through the reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial Instruments

The Corporation adopted *IFRS 9, Financial Instruments*, in 2015. Adoption of this standard had no effect on the Corporation's accounting for financial instruments.

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

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

The Corporation 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 Corporation determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Corporation'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 Corporation can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at 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 Corporation has opted to measure them at FVTPL.

The Corporation classifies the fair value of financial instruments according to the following hierarchy based on the reliability of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial instruments include cash, accounts receivable, bank indebtedness, long-term debt, callable debt, accounts payable and accrued liabilities, due to related parties, finance lease obligation, deferred lease inducement, share subscription liability and contingent consideration payable. The carrying value of current financial instruments approximate their fair value due to their immediate or short term to maturity, or their ability for liquidation at comparable amounts. The fair value of the Corporation's non-current financial instruments is approximated by their carrying values as the contractual interest rates are comparable to current market interest rates.

The Corporation has made the following classifications:

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of trade and other receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

b. Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade accounts payable and accrued liabilities, callable debt, long-term debt and obligations under finance lease. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Accrued interest, callable debt, long-term debt and obligations under finance lease are initially recognized at fair value net of transaction costs that are directly attributable to the financial liability, and subsequently at amortized cost using the effective interest method.

c. Compound financial instruments

Convertible debentures, where applicable, are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature. The fair value of the equity components is determined as the difference between the proceeds received on the issuance of convertible debentures and accompanying equity components and the fair value of the liability component. The total fair value of the equity components is apportioned to the individual equity components based on the relative fair values thereof on the date of issuance as determined using the Black-Scholes option pricing model.

The liability component, net of transaction costs that are directly attributable to the acquisition or issue of the financial liability, is subsequently measured at amortized cost using the effective interest method.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability and amount attributable to the conversion feature previously recognized as contributed surplus is reclassified to equity and no gain or loss is recognized.

d. Warrants

Warrants that have been issued in combination with common shares or convertible instruments are evaluated under IAS 32 - Financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares (often referred to as the "fixed for fixed" criteria). Warrants that are classified as equity are valued under the Black Scholes Model. If a warrant is exercised, the value of the warrant is included in share capital. If a warrant expires, the value of the warrant is included in contributed surplus.

Research and development costs

The Corporation incurs costs on activities that relate to the research and development of new and existing products. Research costs are expensed as they are incurred. The Corporation capitalizes development costs as incurred when these costs meet the criteria for deferral and amortization pursuant to IAS 38, Intangible assets. Investment tax credits related to the expenditures are recorded when there is reasonable assurance that the credits will be realized. The cost reduction approach is followed whereby investment tax credits related to non-capitalized expenditures are an offset to research and development expense in the year, and investment tax credits related to capitalized expenditures are deducted from the related assets. Investment tax credits are recoverable from the Government of Canada under the Scientific Research and Experimental Development Incentive Programs and are subject to government approval.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

a. Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Corporation are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

b. Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized in the income statement on a straight-line basis over the period of the lease.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.
In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rate and laws that have been enacted or substantively enacted at the statement of financial statement date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Loss per common share

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. If the Corporation incurs a net loss during a reporting period the calculation of fully diluted loss per share will not include potentially dilutive equity instruments which would reduce the net loss per share.

Revenue recognition

Revenue from the sale of products is recognized when the risks and rewards of the products have been substantially transferred to the customer (usually on delivery of the goods), which is the Corporation's sole performance obligation. The Corporation experiences few product returns and, accordingly, does not record an obligation for estimated returns. Collection of the Corporation's invoices is consistently high and typically occurs within 90 days of the sale.

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Corporation's products. Consequently, sales are recorded net of these estimated marketing costs at the time of sale. All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expenses.

Certain customers require payment of one-time listing allowances (or "product listing fees") to obtain space for a new product in their stores. These fees are considered incremental costs of obtaining a contract and, if recovery is expected through sales to the customer in future periods, are capitalized as product listing fees (included in prepaid expenses and deferred costs) and amortized to contra-revenue over the estimated recovery period. Product listing fees that are insignificant or are not estimated to have future economic benefit are recorded to contra-revenue in the period incurred.

Share-based payments

The Corporation has a share option plan which permits the Board to grant options to acquire common shares of the Corporation at an exercise price that is equal to or greater than the market price of the common shares on the date of the grant. Share-based payments to employees, executives and non-employee directors are measured at the fair value of the instruments issued and amortized as compensation expense over the vesting periods with a corresponding increase to contributed surplus.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to:

Contributed surplus - in the case of stock options;
Share issuance obligation - in the case of an obligation to issue a set amount of shares in the future; and
Share capital - where common shares are awarded directly.

The fair value of share options is determined using a Black-Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Consideration paid on the exercise of options is credited to share capital and the associated amount in contributed surplus is reclassified to share capital. When shares are issued pursuant to the share issuance obligations, the corresponding amount is reclassified from share issuance obligation to share capital.

For equity instruments issued in advance of the services being provided, the share capital would be recognized as the services are provided. The Corporation has not entered any arrangements of that particular nature.

Critical accounting estimates, judgments and measurement uncertainty

The preparation of these Financial Statements requires management of the Corporation to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the Financial Statements are described below. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends, and all available information that management considers relevant at the time of the preparation of the Financial Statements. However, future events and their effects cannot be anticipated with certainty; accordingly, as confirming events occur, actual results could differ from those estimates and such differences could be material.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of these Financial Statements. The sensitivity analysis below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

a. Going concern

The assessment of the Corporation's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in Note 1.

b. Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. The amount of contingent consideration to be paid is based on the occurrence of future events, such as the achievement of future revenue targets ("Targets"). Accordingly, the estimate of fair value contains uncertainties, as it involves judgment about the likelihood of achieving these Targets, and changes in fair value of the contingent consideration will result from changes to the assumptions used to estimate the probability of success for achieving Targets. A change in the assumed probabilities could produce a different fair value, which could have a material impact on the results of operations. The impact of changes in the range of probabilities is described in Note 3.

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

c. Allowance for doubtful accounts

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The carrying amount of the receivable is reduced through use of an allowance account, and impaired receivables are derecognized when they are assessed as uncollectible. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments (such as merchant charge backs), taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. See Note 4.

d. Share-based payments

The Black-Scholes option pricing model is used to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Corporation's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

e. Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debentures, were determined using valuation techniques. The Corporation uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine: (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

f. Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Corporation's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Corporation's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Corporation's ability to utilize the underlying future tax deductions changes, the Corporation would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. See Note 22.

g. Inventories

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. In many cases, products sold by us turn quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. However, code or ''best before'' dates are very important in the determination of realizable value of inventory. Management ensures that systems are in place to highlight and properly value inventory that may be approaching code dates. To the extent that actual losses on inventory differ from those estimated, inventory, net income (loss), and comprehensive income (loss) will be affected in future periods.

h. Product listing fees

The Corporation regularly pays suppliers a listing fee for the supplier to carry the Corporation's product in their stores. Management must assess the useful life of these listing fees based on the expected retail life of the products being listed. Management has determined that three years is the estimated useful life of the listing fees. If the recovery period of these assets changes, future earnings would be affected. See Note 6.

i. Property and equipment

Components of an item of plant and equipment may have different useful lives. Management makes significant estimates and judgments when determining asset depreciation rates and useful lives, which require taking into account company-specific factors, such as our past experience and expected use. The Corporation monitors and reviews asset depreciation rates and useful lives at least once per year, and revises them if they are different from previous estimates. The Corporation recognizes the effect of changes in estimates in net income prospectively. Changes to estimates could be caused by a variety of factors, including changes to the physical life of the assets. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net loss recorded in the period in which the change occurs, with a similar change in the carrying value of the asset in the statement of financial position.

Furthermore, property and equipment is reviewed for indicators of impairment at each reporting date. Where impairment indicators are identified, the Corporation uses the fair-value-less-cost-to-sell approach to determine the recoverable amount of the assets included in property and equipment, which drives the conclusion of whether impairment exists, and if it does, the amount of impairment to record.

Fair value less cost to sell is determined based on the best information available to reflect the amount that the entity could obtain from the disposal of the assets in an arm's length transaction between knowledgeable, willing parties, after deducting costs to sell. This approach requires assumptions to be formulated about the overall physical condition of the assets and the costs involved to sell the equipment. Given the historical negative cash flows from operating activities, the Corporation determined that the value-in-use model would result in a lower value. See Note 7.

Management regularly evaluates these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

j. Intangible assets and goodwill

Management uses estimates in determining the recoverable amount of intangible assets and goodwill. The determination of the recoverable amount for the purpose of impairment testing requires the use of significant estimates, such as:

- future cash flows;
- terminal growth rates; and
- discount rates.

Management regularly evaluates these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgment is also applied in choosing methods of amortizing intangible assets that management believes most accurately represent the consumption of those assets and are most representative of the economic substance of the intended use of the underlying assets. A change in the estimate would result in a change in the amount of amortization and, as a result, a charge to net loss recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the Consolidated Statement of Financial Position.

Accounting standards issued and not applied

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Corporation. The Corporation's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liability for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

In Canadian dollars, unless otherwise stated

The Corporation is in the process of completing its review and analysis of IFRS 16 and will apply IFRS 16 using the modified retrospective approach where the additional right-of-use assets and lease liabilities will be recorded from that date forward and will not require restatement of prior years' comparative information. The Corporation will provide the quantitative impact of adopting IFRS 16 in its first quarter 2019 unaudited condensed consolidated interim financial statements.

3. BUSINESS ACQUISITION

a) Description of acquisition of TOP

On October 1, 2018 the Corporation acquired 100% of issued and outstanding equity of TOP. TOP is a cannabis extractor and infused product manufacturer located in Northern California. Through the acquisition, the Corporation has secured a Type-6 non-volatile manufacturing licence ("Type 6 Licence"); a cannabis extraction and infusion facility in the state of California; a non-exclusive licence held by TOP to access an extensive database ("Database") of formulations and other associated health attributes to create cannabis-infused products. TOP also holds the rights to the trademark "Aunt Zelda's™ ("AZ trademark") for 10 years, which is a brand of proprietary, infused topicals and tinctures, which utilize TOP's extracts.

The acquisition-date fair value of the total consideration is as follows:

	Note	USD	Canadian $
1,115,578 common shares issued		**357,644**	457,892
Contingent consideration payable based on 2019 revenue targets		**1,184,000**	1,515,875
Total consideration	3 b)	**1,541,644**	1,973,767
The amounts recognized as of the acquisition date are as follows:			
Cash		118,143	151,258
Accounts receivable – fair and gross value, estimate 100%		23,146	29,634
Inventory		132,401	169,513
Prepaid expenses and deposits		16,839	21,559
Plant and equipment		109,996	140,828
Intangibles – Type 6 Licence	8	991,000	1,268,777
Goodwill	3 d)	1,012,771	1,296,651
Net deferred tax liability	22	(243,796)	(312,132)
Accounts payable and accrued liabilities		(19,845)	(25,408)
Due to related party		(6,587)	(8,433)
Deferred lease inducement liability		(9,455)	(12,105)
Note and amounts payable to the Corporation	3 e)	(582,969)	(746,375)
		1,541,644	1,973,767

In Canadian dollars, unless otherwise stated

b) Consideration including contingent consideration

The total consideration is payable in the Corporation's common shares and is contingent upon performance targets in respect of TOP's calendar year of 2018 and 2019 as follows:

1) In calendar 2018, TOP met 100% of its performance targets and therefore in October 2018, its sole shareholder, a director of the Corporation, was issued 1,115,178 common shares of the Corporation valued at the 20-day weighted average trading price of the Corporation's share on the acquisition date of October 1, 2018, for total fair value of USD 357,544 (CAD 457,892.) The number of common shares was based on deemed maximum consideration of USD 250,000 divided by a fixed price of CAD 0.28 translated at the foreign exchange rate on the same date to USD 0.2242 per share.

2) In calendar 2019, contingent consideration up to a maximum of USD 1,850,000 payable in the Corporation's shares based on prevailing market price, calculated and paid quarterly, subject to meeting a revenue target of USD 10,000,000 in fiscal 2019 ("Earnout"). The contingent consideration amount of USD 1,850,000 is adjusted in proportion to the percentage of meeting the Earnout (subject to maximum of 100%). The range of value of common shares to be issued is USD nil to USD 1,850,000 or CAD nil to 2,368,555 using the USD/CAD exchange rate on the date of acquisition of October 1, 2018. Based on the assigned probabilities of different outcomes, the Corporation recorded contingent consideration payable of USD 1,184,000 (CAD 1,515,875), which assumes achievement of 64% of the Earnout. As the number of shares issuable in respect of the contingent consideration is variable, it has been recorded as a liability and will be remeasured at each reporting date, with changes recognized in profit or loss until the final share-based consideration is determined. At December 31, 2018, the contingent consideration payable was $1,615,392 to reflect the year end foreign exchange rate and reflects an unchanged estimate of achievement of 64% of the Earnout. Each 10% increase or decrease in the assumed percentage of achieving the Earnout would result in a corresponding increase (decrease) of USD 185,000 (CAD 252,371 based on the year end exchange rate) in the contingent liability and loss, subject to the minimum and maximum amounts described above.

c) Purchase consideration – cash inflow

In $	2018	2017
Cash consideration	**-**	-
Less cash acquired on acquisition	**151,258**	-
Net cash inflow – investing activities	**151,258**	-

d) Goodwill

The composition of goodwill includes knowledge and experience of TOP management in respect of manufacturing cannabis products with industry-leading quality. The goodwill has $nil tax value.

e) Pre-existing arrangements

As a result of the acquisition, a 5% short-term note receivable plus interest receivable thereon, plus a non-interest bearing advance to TOP amounting to USD 631,161 (CAD 860,303) were eliminated on consolidation against the same amounts due from TOP. The interest income and interest expense in respect of the 5% short-term note receivable/payable were eliminated on consolidation effective October 1, 2018. The short-term note payable by TOP has been included in the determination of TOP's net assets in the determination of goodwill.

In Canadian dollars, unless otherwise stated

f) Acquisition costs

Acquisition-related costs of $14,776 that were not directly attributable to the issue of shares are included in selling, general and administrative expenses in the statement of loss and comprehensive loss and in operating cash flows in the statement of cash flows.

g) Revenue and loss contribution

TOP contributed revenues of $117,007 and incurred net loss of $129,309 to the group for the period from October 1, 2018 to December 31, 2018. The revenue and profit and loss of the combined entity as though the acquisition had occurred at the beginning of the annual reporting period has not been provided as it is impractical to provide.

As of the date of these consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized.

4. ACCOUNTS RECEIVABLE

	In $	
Balance comprised of:	**2018**	2017
Trade accounts receivable	**313,121**	309,296
Accrued merchant charge-backs	**-**	(23,299)
GST receivable	**66,298**	46,758
Other accounts receivable	**41,882**	68,404
Sub-total before allowance	**421,301**	401,159
Allowance for doubtful accounts	**(53,711)**	(41,865)
Allowance for merchant charge-backs	**-**	(10,000)
Total allowance	**(53,711)**	(51,865)
	367,590	349,294
Aging of receivables:		
30 days	**227,450**	176,193
60 days	**114,085**	65,465
90 days	**12,716**	59,836
Over 90 days	**67,050**	99,665
	421,301	401,159
Exposure by geographic area:		
Canada	**130,193**	163,511
United States	**291,108**	237,648
	421,301	401,159

Trade accounts receivable bear normal commercial credit terms, usually 30 days or less, and are non-interest bearing.

In Canadian dollars, unless otherwise stated

5. INVENTORIES

	In $	
Balance comprised of:	**2018**	2017
Raw and semi-finished materials	**229,922**	23,538
Packaging materials	**74,805**	57,748
Finished goods	**288,044**	87,755
	592,771	169,041

Inventories expensed in cost of sales for the year amounted to $2,191,867 (2017 - 1,373,169). Total write-offs of inventory amounted to $55,976 (2017 - $161,083). The write-off amounts were excluded from cost of sales and expensed as an other expense item titled "Loss on inventory write-down". This amount resulted from a write-off of inventory that expired and was no longer able to be sold, as well as a write-down of inventory to estimated net realizable value in 2018 and 2017.

6. PREPAID EXPENSES AND DEFERRED COSTS

	In $	
Balance comprised of:	**2018**	2017
Prepaid expenses	**51,146**	40,783
Product listing fees	**185,113**	204,494
	236,259	245,277

Of the amounts above, $91,800 is expected to be recovered more than twelve months after the end of the reporting period (2017 - $106,198).

In Canadian dollars, unless otherwise stated

7. PROPERTY AND EQUIPMENT

In $	Production equipment	Leasehold improve-ments	Equipment	Signs	Furniture and fixtures	Computer equipment	Equipment under finance lease	Total
Balance as at December 31, 2016								
Cost	508,290	24,288	69,750	15,947	17,464	1,701	30,900	668,340
Accumulated depreciation	(192,124)	(1,518)	(53,887)	(4,240)	(8,964)	(1,388)	(5,646)	(267,767)
Net book value	316,166	22,770	15,863	11,707	8,500	313	25,254	400,573
Purchase	-	7,530	22,702	-	3,306	16,136	-	49,674
Additions of assets under lease	-	-	-	-	-	-	23,550	23,550
Depreciation[1]	(112,433)	(3,507)	(5,442)	(2,341)	(2,031)	(4,303)	(7,406)	(137,463)
Balance as at December 31, 2017								
Cost	508,290	31,818	92,452	15,947	20,770	17,837	54,450	741,564
Accumulated depreciation	(304,557)	(5,025)	(59,329)	(6,581)	(10,995)	(5,691)	(13,052)	(405,230)
Net book value	203,733	26,793	33,123	9,366	9,775	12,146	41,398	336,334
Purchase	-	61,762	3,826	-	2,060	5,100	9,206	81,954
Additions of assets under lease	-	-	-	-	-	-	136,081	136,081
Acquired on business acquisition	47,456	5,310	-	-	88,062	-	-	140,828
Depreciation[1]	(115,703)	(8,203)	(7,006)	(1,873)	(6,950)	(7,589)	(22,808)	(170,132)
Foreign exchange[2]	3,007	337	-	-	5,619	-	-	8,963
Balance as at December 31, 2018								
Cost	558,855	99,238	96,278	15,947	116,661	22,937	199,737	1,109,653
Accumulated depreciation	(420,362)	(13,239)	(66,335)	(8,454)	(18,095)	(13,280)	(35,860)	(575,625)
Net book value	**138,493**	**85,999**	**29,943**	**7,493**	**98,566**	**9,657**	**163,877**	**534,028**

[1]**Depreciation recognized was allocated to the following accounts:**	**2018**	**2017**
Cost of sales	**100,019**	97,784
Loss on inventory write-down	**-**	3,442
Inventories	**15,683**	11,207
Depreciation of plant and equipment	**54,430**	25,030
	170,132	137,463

[2]Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

In Canadian dollars, unless otherwise stated

8. INTANGIBLE ASSETS AND GOODWILL

In $	Computer software	Website costs	Licences	Goodwill	Total
Balance as at December 31, 2016					
Cost	6,926	28,066	-	-	34,992
Accumulated amortization	(4,667)	(18,911)	-	-	(23,578)
Net book value	**2,259**	**9,155**	**-**	**-**	**11,414**
Purchase	13,998	-	-	-	13,998
Amortization	(5,093)	(5,035)	-	-	(10,128)
Balance as at December 31, 2017					
Cost	20,924	28,066	-	-	48,990
Accumulated amortization	(9,760)	(23,946)	-	-	(33,706)
Net book value	**11,164**	**4,120**	**-**	**-**	**15,284**
Purchase	-	42,918	-	-	42,918
Acquired on business acquisition	-	-	1,268,777	1,296,651	2,565,428
Amortization	(6,141)	(9,417)	-	-	(15,558)
Foreign exchange[1]	-	-	83,110	84,460	167,570
Balance as at December 31, 2018					
Cost	20,924	70,984	1,351,887	1,381,111	2,824,906
Accumulated amortization	(15,901)	(33,363)	-	-	(49,264)
Net book value	**5,023**	**37,621**	**1,351,887**	**1,381,111**	**2,775,642**

[1]Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

9. BANK INDEBTEDNESS

A demand operating loan has been authorized by a financial institution to a maximum of $150,000 (2017 - $150,000) and bears interest at the bank's prime lending rate plus 3.00% per annum and is secured by a general security agreement and an assignment of insurance. The prime rate at December 31, 2018 was 3.95% (2017 – 3.20%).

In Canadian dollars, unless otherwise stated

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	In $	
Balance comprised of:	**2018**	2017
Trade accounts payable	**1,171,405**	690,914
Credit cards payable	**7,637**	9,600
Payroll liabilities	**28,900**	17,090
Accrued liabilities	**302,848**	31,013
	1,510,790	748,617
Aging:		
30 days	**356,617**	290,683
60 days	**528,478**	217,906
90 days	**61,695**	32,786
Over 90 days	**224,615**	149,539
	1,171,405	690,914

As of December 31, 2018, trade accounts payable includes $295,211 (December 31, 2017 - $53,424) due to shareholders, employees, and entities under common control in respect of services described in Note 14.

11. LONG-TERM DEBT

	In $	
	2018	2017
Equipment finance loan, repaid in current year	**-**	7,308
Less current portion	**-**	(7,308)
	-	-

12. FINANCE LEASE OBLIGATION

Finance leases, all secured by asset financed, due:	**Monthly instalments in $ including interest**	Interest	**In $ 2018**	2017
July 2021	2,634	9.00%	**72,624**	-
February 2021	1,186	15.90%	**25,946**	-
June 2021	587	13.48%	**14,874**	-
June 2020	387	5.00%	**6,701**	11,003
September 2020	346	16.93%	**6,249**	9,075
September 2020	296	14.13%	**5,482**	8,060
January 2020	335	10.63%	**4,096**	7,483
July 2019	262	21.08%	**1,715**	4,204
			137,687	39,825
Less current portion			**58,600**	15,496
			79,087	24,329

In Canadian dollars, unless otherwise stated

Imputed interest related to capital lease obligations amounted to $13,596 during the year (2017 - $3,151).

Estimated payments on finance leases are as follows	**In $**
2019	**71,100**
2020	**61,300**
2021	**24,300**
Total future minimum lease payments	**156,700**
Less amount representing interest	**(19,013)**
Finance lease obligations	**137,687**
Estimated principal repayments are as follows	
2019	**58,600**
2020	**55,500**
2021	**23,587**
	137,687

13. CALLABLE DEBT

	Note	**In $** **2018**	2017
Demand promissory note payable to a related party (family member of multiple shareholders) repaid July 2018. The note paid interest of prime plus 5%.		-	150,000
Demand promissory notes payable to various parties, settled by issuance of share capital and warrants in June 2018	18	-	3,828,897
		-	3,978,897

In Canadian dollars, unless otherwise stated

14. RELATED PARTY TRANSACTIONS

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, apart from the Compensation Warrants, which were valued in accordance with share-based payments as described in Note 17. No amounts are owing to or owing from the related parties in respect of the transactions unless otherwise referenced in the table below.

		In $	
a. Amounts included in Selling, general and administrative expenses (except as otherwise noted):	Note	**2018**	2017
Compensation of key management personnel[1]			
Cash compensation for services provided by separate management entities, which are also corporate shareholders		430,000	299,996
Other cash compensation		39,685	-
Share-based compensation to officers and directors		226,833	-
Total compensation of key management personnel		696,518	299,996
Other expenses on behalf of the Corporation by a corporate shareholder and an entity related by common ownership		185,738	224,487
Rent paid to a company controlled by an officer and director		10,565	-
b. Amounts included in Cost of sales:			
Royalty and licensing fees paid to entities controlled by a close family member of certain key management personnel		7,544	-
c. Amounts included in Interest expense:			
Interest on callable debt to shareholders and an entity related by common ownership		10,119	220,064
d. Convertible debentures issued:			
Finder's fees paid to a company significantly influenced by a controlling owner of a corporate shareholder and who is a family member of multiple shareholders – included in total Issue costs – professional fees and commissions of $649,400	15	205,230	-
285 Compensation Warrants for finder's fees issued to the same company above, in respect of issuance of convertible debentures included in fair value of Compensation Warrants	15, 17	47,330	-

e. Due to (from) related parties			
Corporate shareholder controlled by a director	18c	**-**	845,774
Shareholder and director		**-**	(4,286)
		-	841,488

[1]Key management personnel consist of those that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, which includes the most senior executive team and the Board.

Trade accounts payable due to related parties are included with accounts payable in the statement of financial position and are noted separately in Note 10.

In Canadian dollars, unless otherwise stated

15. CONVERTIBLE DEBENTURES

A total of 6,350 convertible debentures with a face value of $1,000 and 22,225,000 warrants ("Warrants") (See Note 17) were issued by the Corporation on June 13, 2018 for total gross proceeds of $6,350,000. The convertible debentures were contingently convertible as explained below and would have otherwise matured December 13, 2018 at their face value plus accrued interest a rate of 10% per annum. The convertible debentures were convertible into Class A common shares of the Corporation ("Common Shares") at a price of $0.2857 per Common Share at the holder's option anytime up to the maturity date; however pursuant to certain events ("Conversion Event"), one of which occurred on August 28, 2018 with the Corporation's shares being approved for listing on the Canadian Securities Exchange, resulted in the automatic conversion of the convertible debentures into Common Shares at a rate of $0.2857 per Common Share for no additional consideration. Accordingly, the convertible debentures with a face value of $6,350,000 automatically converted into 22,226,092 Common Shares, resulting in a reduction of convertible debentures by $5,815,760 (including interest accretion accruals up to that date); an increase in share capital of $5,861,289 and decrease in contributed surplus of $45,529.

For accounting purposes, the convertible debentures were separated into their liability and equity components using the effective interest method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 13.2% for convertible debentures without the conversion feature. The fair value of the equity components of the Warrants and the conversion feature was determined as the difference between the face value of the convertible debentures and the fair value of the liability component and apportioned to the Warrants and conversion feature based on their relative values using the Black-Scholes option pricing model.

As at June 13, 2018	**In $**
Convertible debenture fair value	**6,247,384**
Embedded option to convert the liability into equity	**45,529**
22,225,000 Warrants	**57,087**
Total proceeds received	**6,350,000**

In conjunction with the issuance, the Corporation also issued 1,076,776 Common Shares, 1,076,776 Warrants and 482 "Compensation Warrants" as compensation to broker and advisory agents (Brokers' fees"). Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants for $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. As detailed in Note 17, this share-based compensation was valued at $387,680. The Brokers' fees, plus legal, commission and advisory fees of $649,400 paid in connection with the issuance, were netted against the convertible debentures and were accreted as interest expense up to August 28, 2018. The interest for the year ended December 31, 2018 is $605,456 (2017 - $nil).

In Canadian dollars, unless otherwise stated

The following table summarizes the outstanding balance and changes in the amounts recognized in the components of the convertible debentures during the periods:

		In $	
		2018	2017
Beginning balance		**-**	-
Gross proceeds received		**6,350,000**	-
Issue costs – 1,076,666 Common Shares issued to agents	17b	**(262,794)**	-
Issue costs – 1,076,666 Warrants issued to agents	17b	**(44,841)**	-
Issue costs – 482 Compensation Warrants issued to agents	17b	**(80,045)**	-
Total of share-based compensation to agents		**(387,680)**	-
Issue costs - professional fees and commissions		**(649,400)**	-
Equity component – 22,225,000 warrants		**(57,087)**	-
Equity component – conversion feature		**(45,529)**	-
Liability component initially recognized		**5,210,304**	-
Interest accretion expense on share-based compensation		**161,004**	-
Interest accretion expense on remaining		**444,452**	-
Total interest accretion expense		**605,456**	-
Balance converted to common shares		**5,815,760**	-

16. SHARE SUBSCRIPTION LIABILITY

As of December 31, 2017, the Corporation had received $239,500 in cash from investors for shares and warrants of the Corporation, for which the shares had not yet been issued. All of the shares and warrants were issued in 2018 as described in Note 18.

17. SHARE-BASED PAYMENTS AND SHARE ISSUANCE OBLIGATION

Amounts recognized from share-based payment transactions recognized during the year are as follows:

		In $	
		2018	2017
Share-based compensation and expenses:			
Stock option plan employee compensation and consulting fees	17a	**292,095**	-
Share-based payments for consulting fees	17d	**466,200**	-
Share-based payments for marketing	17d	**45,000**	-
		803,295	-
Contract termination payment:	17c	**341,716**	-
Total share-based expense in net loss and comprehensive loss		**1,145,011**	-
Share-based compensation offset against convertible debentures	15/17b	**387,680**	-
Total share-based compensation		**1,532,691**	-

a. Stock option plan

During 2018 the Corporation adopted an incentive stock option plan (the "Option Plan") which provides that the Board may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Corporation, non-transferable options ("Options") to purchase Common Shares. The purpose of the plan is to advance the interests of the Corporation and its Shareholders by attracting, retaining and motivating such directors, officers, employees and consultants and to encourage and enable such persons to acquire and retain a proprietary interest in the Corporation through ownership of Common Shares.

The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance, set aside and made available for issuance under the Option Plan may not exceed 10% of the issued and outstanding Common Shares at the time of granting of Options (including all Options previously granted by the Corporation).

The number of Common Shares which may be reserved in any 12-month period for issuance to any one individual upon exercise of all Options held by that individual may not exceed 5% of the issued and outstanding Common Shares of the Corporation at the time of grant.

The Option Plan is to be administered by the Board, or a committee thereof, either of which has full and final authority with respect to the granting of Options under the Option Plan.

The exercise price of any Options granted under the Option Plan shall be determined by the Board, but may not be less than the market price of the Common Shares on the Exchange on the date of the grant. The term of any Options granted under the Option Plan shall be determined by the Board at the time of grant but provided that the term of any Options may not exceed ten years. Options granted up to December 31, 2018 vest evenly on the anniversary dates from the original grant date at either 20% per year or 1/3 immediately and two anniversary dates following; and in one case 1/3 immediately and 2/3 in one year. Options are not transferable or assignable, other than by will or other testamentary instrument or pursuant to the laws of succession.

Subject to certain exceptions, if a director or officer ceases to hold office, any Options held by such person will expire 60 days after they cease to hold office. Subject to certain exceptions, if an employee or consultant ceases to act in that capacity in relation to the Corporation, Options held by such person will expire 60 days after they cease to act in that capacity in relation to the Corporation.

In Canadian dollars, unless otherwise stated

Set out below are summaries of options granted under the plan:

	2018		2017	
	Average exercise price per option in $	Number of options	Average exercise price per option in $	Number of options
As at January 1	-	-	-	-
Granted during the year	$0.39	3,375,000	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Forfeited during the year	-	-	-	-
As at December 31	$0.39	3,375,000	-	-
Vested and exercisable at December 31	$0.36	908,333	-	-

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

			Number of options	
Grant date	Expiry date	Exercise price	2018	2017
September 4, 2018	September 4, 2023	$0.2856	1,775,000	-
October 21, 2018	October 21, 2028	$0.5000	1,300,000	-
November 26, 2018	November 26, 2023	$0.5000	300,000	-
Total			**3,375,000**	-
Weighted average remaining contractual life of options outstanding end of year			6.68 years	-

Fair value of options granted

The assessed fair value at grant date of options granted during 2018 was $0.23 per option (2017 – not applicable). The options are granted for no consideration.

The amount included in share-based compensation and expenses for directors', officers' and consulting services received for the year is $292,095 (2017 - $nil) and is classified as contributed surplus on the Corporation's consolidated statements of financial position.

In Canadian dollars, unless otherwise stated

The fair value at the grant date as determined using the Black Scholes Model which takes into account the following inputs:

Grant date 2018	Exercise price	Share price at measurement date	Risk free interest rate[1]	Expected volatility[2]	Expected life in years	Expected dividend yield
September 4	$0.2857	$0.2478	2.25%	80%	5	0%
October 21	$0.5000	$0.5000	2.47%	80%	5	0%
November 26	$0.5000	$0.4400	2.30%	80%	5	0%
Weighted average	**$0.3873**	**$0.3620**	**2.35%**			

[1] Based on interest rates of Government of Canada Bonds with similar maturity at the date of grant.

[2] Estimated by considering industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may not necessarily be the actual outcome.

b. *Shares, Warrants, and Compensation Warrants issued with convertible debentures*

In conjunction with the convertible debenture offering (see Note 15), the Corporation issued 1,076,776 Common Shares, 1,076,776 Warrants and 482 Compensation Warrants as compensation to the broker and advisory agents engaged for the offering. Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants for $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. The aggregate fair value of this share-based payment was determined to be $387,680 based on an estimated fair value of $875,000 for broker and advisory fees customarily paid on an offering of comparable size less cash consideration paid of $487,320. The fair value of the share-based payment was apportioned as $262,794 for the 1,076,776 Common Shares, $44,841 for the 1,076,776 Warrants and the residual amount of $80,045 to the 482 Compensation Warrants. The combined fair value of the Common Shares and Warrants was based on the Common Shares and Warrants issued April 23, 2018 and June 13, 2018 (see Note 18), at a cash cost or value of $0.2857 for one Common Share and one Warrant, with $0.0416 of fair value being attributable to the Warrant based on the Black-Scholes option pricing model. As described in Note 15, the foregoing amounts were recorded against the value of the convertible debentures and were accreted as interest expense up to August 28, 2018.

The fair value of the Warrants granted during 2018 (2017 – n/a) was estimated on the date of grant using the following assumptions:

i. Weighted average share price of $0.2478 at the measurement date
ii. Expected volatility of 49% estimated by considering industry share price volatility adjusted to consider that Corporation's common shares were not traded publicly at the measurement date.
iii. Risk-free interest rate of 1.75% based on interest rate on two-year Government of Canada bonds
iv. Expected life of two years
v. Expected dividend yield of 0%
vi. Assumed no Conversion Event such that the Warrants entitled holder to acquire 1.1 Common Shares per Warrant.

The weighted average fair value of the warrants granted during 2018 was $0.0416 (2017 – not applicable).

c. Shares issued for services

On June 30, 2018, the Stem for Life Foundation ("SFL") was issued 1,400,070 Common Shares of the Corporation in exchange for terminating a sponsorship agreement with the Corporation. Under the sponsorship agreement, the Corporation received certain sponsorship and promotional rights and opportunities provided by SFL, in exchange for a future donation should the Corporation undergo a form of liquidity event as defined in the agreement, with such amount determined in varying amounts depending on the value of the Corporation. Due to the unique nature of the contract and given that the promotional services received to date are difficult to fair value, the fair value of the payment was determined in reference to the fair value of the 1,400,700 Common Shares issued at $0.24 per share based on the aforementioned share issuances during 2018, for a total of $341,716, recorded as "Contract termination payment" on the statement of loss and comprehensive loss.

During 2017, the Corporation issued shares with a book value of $4,088 in exchange for services. The related expenses for the services were accrued in previous years and were valued at $4,230 in accounts payable at December 31, 2016. As a result, the Corporation recognized a foreign exchange gain on this transaction of $142. The fair value of the equity instruments was determined to be the invoice amount of the services received, which is considered to be the market value of the services.

d. Shares issuable for services

On January 21, 2019 the Corporation issued 1,383,800 common shares to three parties in respect of consulting and advertising services conducted or settled in respect of the year ended December 31, 2018. In 2018, the Corporation recorded marketing expense of $45,000 and consulting expense of $466,200, both of which are included in share-based compensation and expenses. An offsetting amount of $511,200 was recorded as a share issuance obligation in Shareholders' Equity (Deficiency). The advertising expense was determined in reference to the fair value of marketing services provided and approximated the fair value of the 123,800 shares issued to the party on January 21, 2019. The fair value of the consulting services was considered to be the fair value of the 1,260,000 common shares issued to the parties on January 21, 2019.

In Canadian dollars, unless otherwise stated

18. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital – unlimited number of shares without nominal or par value:

Unlimited number of Class A common voting shares
Unlimited number of Class B non-voting, retractable, redeemable, preferred shares, issuable in series

A reconciliation of the Corporation's Common shares and Contributed surplus is as follows:

	Share Capital		Contributed Surplus							
	Class A common voting shares		Warrants[d]		Compensation Warrants[e]		Conversion feature debentures	Stock option plan	Total	Total transaction
	Number	$	Number	$	Number	$	$	$	$	$
Opening, Jan 1, 2017[a]	38,230,689	4,599,543	-	-	-	-	-	-	-	4,599,543
Issued for cash[a]	7,079,681	2,023,804	-	-	-	-	-	-	-	2,023,804
Share issue costs[b]	-	(79,250)	-	-	-	-	-	-	-	(79,250)
Closing, Dec 31, 2017[a]	**45,310,370**	**6,544,097**	-	-	-	-	-	-	-	**6,544,097**
Issued with application of Subscription Liability Proceeds (Note 16)	2,360,796	576,199	2,360,796	98,313	-	-	-	-	98,313	674,512
Issued on callable debt and due to related party balance conversion [c]	16,781,501	4,095,883	16,781,501	698,822	-	-	-	-	698,822	4,794,705
Issued with convertible debentures (Note 15)	-	-	22,225,000	57,087	-	-	45,529	-	102,616	102,616
Debenture conversion	22,226,092	5,861,289	-	-	-	-	(45,529)	-	(45,529)	5,815,760
Issued to agents on convertible debenture issue (see Note 17b)	1,076,776	262,794	1,076,776	44,841	482	80,045	-	-	124,886	387,680
Issued to Stem for Life (Note 17c)	1,400,070	341,716	-	-	-	-	-	-	-	341,716
Warrant exercise	210,000	78,240	(210,000)	(540)	-	-	-	-	(540)	77,700
Issued on business acquisition (Note 3b)	1,115,178	457,892	-	-	-	-	-	-	-	457,892
Stock option plan expense (Note 17a)	-	-	-	-	-	-	-	292,095	292,095	292,095
Closing, Dec 31, 2018	**90,480,783**	**18,218,110**	**42,234,073**	**898,523**	**482**	**80,045**	**-**	**292,095**	**1,270,663**	**19,488,773**

a. Class A common voting shares stock split

On April 18, 2018, the shareholders of the Corporation authorized a 7-for-1 stock split of the Corporation's Common Shares. All shares and loss per share information have been retroactively adjusted to reflect the increase in the number of common shares and SARS (Note 30) from the stock split.

b. Share issue costs

During the year ended December 31, 2017, the Corporation paid finders' fees of $79,250 related to issuance of shares with a fair value of $1,585,000.

In Canadian dollars, unless otherwise stated

c. Callable debt and due to related party conversion

On June 13, 2018, callable debt with a fair value of $4,025,344, based on the foreign exchange rates in effect on the dates of conversion, and $693,224 of amounts due to a corporate shareholder, controlled by a director (see Note 14), for a total of $4,718,568 in fair value were converted into 16,262,551 Common Shares and 16,262,551 Warrants with a fair value of $4,646,442 resulting in a gain on the conversion of debt of $72,126 as reported in the consolidated statement of loss and comprehensive loss.

On December 31, 2018 the related party payable of $148,264 was converted into 518,950 Common Shares and 518,950 Warrants as described in Note 14.

d. Warrants

Each Warrant entitled the holder to acquire one Common Share at a price of $0.37 up to August 28, 2020. The Corporation may accelerate the expiry date of the Warrants upon 30 days written notice to the holders. Subject to the foregoing, the average remaining weighted life of the Warrants is 1.66 years.

e. Compensation Warrants

Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants at a price of $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. The Warrants issuable pursuant to the exercise are subject to the same conditions and terms of the Warrants described above. The average remaining weighted life of the Warrants is 1.45 years.

19. DIRECT INVENTORY COSTS

	In $	
Balance comprised of:	**2018**	2017
Salaries and benefits	**511,399**	192,663
Direct materials	**814,648**	471,720
Other direct costs	**14,913**	-
	1,340,960	664,383

20. ALLOCATED INDIRECT COSTS

	In $	
Balance comprised of:	**2018**	2017
Employee salaries, wages and benefits	**203,472**	186,233
Production facility costs	**200,485**	165,868
Depreciation of production equipment	**100,019**	107,410
Other overhead costs	**142,735**	105,414
	646,711	564,925

In Canadian dollars, unless otherwise stated

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	In $	
Balance comprised of:	**2018**	2017
Employee salaries and benefits	**1,474,652**	1,081,192
Consulting fees	**960,483**	321,654
Administrative costs	**1,399,538**	898,303
Advertising and promotion	**312,383**	553,200
Professional fees	**877,482**	82,361
	5,024,538	2,936,710

22. INCOME TAXES

The provision for income taxes recorded in the Financial Statements differs from the amount which would be obtained by applying the statutory income tax rate of 27% (2017 – 27%) to the loss of the year as follows:

	In $	
	2018	2017
Loss for the year before income taxes	**(7,720,514)**	(3,760,259)
Anticipated tax benefit	**(2,084,539)**	(1,015,270)
Tax effect of the following:		
Benefit of income tax losses not recognized	**1,816,093**	910,547
Foreign exchange and others	**11,446**	-
Non-deductible expenses	**385,000**	3,652
Share issue costs	**(246,000)**	-
Non-deductible expenses of foreign subsidiary	**118,000**	101,071
Income tax benefit	**-**	-

For Canadian income tax purposes, the Corporation has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

Expiry	Balance	Expiry	Balance
2026	15,105	2033	876,549
2027	27,748	2034	336,262
2028	89,553	2035	2,606,150
2029	-	2036	2,881,932
2030	350	2037	3,370,176
2031	151,365	2038	5,732,315
2032	132,230	Total	16,219,735

In Canadian dollars, unless otherwise stated

In addition to the losses carried forward presented above, the Corporation has losses for United States federal income tax purposes of $51,749 which carry forward indefinitely, and losses for California state income tax purposes of $364,142 which expire in 2038.

In addition to the amounts in the table and paragraph above, the Corporation did not recognize deferred income tax assets of $324,051 (2017 - $205,662) in respect of deductible temporary differences amounting to $1,200,187 (2017 - $761,710) that can be carried forward against future taxable income, which consists of net operating losses for United States federal and state tax purposes. These losses have not been recognized as they will not be deductible unless the nature of the operations of its foreign subsidiary incurring these losses changes in the future.

The composition of deferred income tax assets and liabilities are as follows:

	In $	
	2018	2017
Deferred tax assets:		
Losses available for offset against future taxable income	**4,421,000**	2,846,260
Expenses deducted over future periods for tax purposes	**324,415**	19,058
	4,745,415	2,865,318
Valuation allowance	**(4,653,102)**	(2,837,907)
Deferred tax assets available for offset against liabilities	**92,313**	27,411
Deferred tax liabilities:		
Temporary difference in cost basis of intangible assets	**378,300**	-
Accelerated depreciation for tax purposes on property and equipment and intangibles	**46,613**	27,411
Deferred income tax liabilities	**424,913**	27,411
Net deferred income tax liabilities	**332,600**	-

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Corporation does not yet have a history of profitability or other supporting evidence of future profitability to support the recognition of deferred tax assets in excess of deferred tax liabilities. Accordingly, the net deferred tax assets of Gabriella's Kitchen Inc. are offset by a valuation allowance, which is re-evaluated at the end of each reporting period.

23. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. The potentially dilutive Common Shares issuable on the outstanding Warrants, Compensation Warrants and Stock Options are non-dilutive and are therefore excluded from the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding in 2018 was 65,164,311 (2017 – 43,559,481).

In Canadian dollars, unless otherwise stated

24. NON-CASH CHANGES IN WORKING CAPITAL

	In $	
	2018	2017
Accounts receivable	**16,471**	(272,258)
Inventories	**(242,414)**	78,084
Prepaid expenses and deferred costs	**10,736**	(81,851)
Accounts payable and accrued liabilities	**731,027**	182,427
	515,820	(93,598)

25. NON-CASH TRANSACTIONS

The following non-cash transactions took place during the years:

		In $	
		2018	2017
1	Assets under finance lease and finance lease obligations were recognized in equal and offsetting amounts of	**136,082**	23,550
2	Conversion of callable debt and related party balance to share capital and warrants:		
	Decrease in callable debt/related party balance	**4,866,832**	-
	Increase in share capital	**4,095,883**	-
	Increase in contributed surplus	**698,823**	-
	Gain recognized on conversion	**72,126**	
3	Issuance of shares and warrants previously paid for:		
	Decrease in share issuance liability	**239,500**	-
	Increase in share capital	**145,980**	-
	Increase in contributed surplus	**93,520**	-
4	Deferred costs of issuance of convertible debentures which were not paid in cash:		
	Decrease in convertible debentures	**387,680**	-
	Increase in share capital	**262,794**	-
	Increase in contributed surplus	**124,886**	-
5	Conversion of convertible debentures:		
	Decrease in convertible debentures	**5,815,760**	-
	Increase in share capital	**5,861,289**	-
	Decrease in contributed surplus	**45,529**	-
6	Accounts payable settled by share issuance	**-**	4,230
7	Business acquisition - TOP		
	Increase in subsidiary investment (eliminated in consolidation)	**1,973,767**	-
	Increase in share capital	**457,892**	-
	Increase in contingent consideration payable	**1,515,875**	-

26. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES

The Corporation's financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, finance lease obligation, deferred lease inducement, share subscription liability, and contingent consideration payable and are measured at amortized cost. The carrying value of these instruments approximates their fair value due to their short-term maturities. The fair value of the Corporation's non-current financial instruments is approximated by their carrying values as the contractual interest rates are comparable to current market interest rates.

The Corporation's activities are exposed to a variety of financial risks, including price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

The Corporation is exposed to the following risks in respect of certain of the financial instruments held:

(a) Interest rate risk

The Corporation's exposure to interest rate fluctuations is with respect to the use of its bank revolving credits which bears interest at floating rates. The rates are tied to the prime rate of interest. Rate changes are likely to be minimal. A 1.00% change in interest rates would change annual interest expense by approximately $550.

(b) Credit risk

The Corporation is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance due to the nature of its customers. The maximum credit risk is the fair value of the accounts receivable. The allowance for doubtful accounts and past due receivables is reviewed by management for each reporting period. The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer. Management believes that the risk associated with concentrations of credit risk with respect to accounts receivable is limited due to the nature of the customers. See Note 4 for detail of the Corporation's exposure to credit risk for trade receivables by aging of the accounts and by geographic area.

Accounts receivable from three major customers amounted to 84% of gross trade accounts receivable as at December 31, 2018 (2017 – three major customers amounted to 84%).

(c) Foreign currency risk

The Corporation conducts certain of its operations in United States dollars. As at December 31, 2018, the following working capital balances were included in the Financial Statements.

	Receivable (Payable)	
	USD	CAD equivalent
Cash	**79,340**	108,232
Accounts receivable	**213,396**	291,107
Total current assets	**292,736**	399,339
Accounts payable and accrued liabilities	**(308,604)**	(420,747)
Net exposure	**(15,868)**	(21,408)

In addition to the balances above, the Corporation has foreign exchange exposure with regards to the contingent consideration payable relating to the acquisition of TOP of $1,184,000 USD (1,615,392 CAD). As at December 31, 2018, each one cent strengthening (weakening) in the USD relative to the CAD dollar, would decrease (increase) the Corporation's net loss by about $12,000. The Corporation's net exposure to foreign currency risk is minor and, accordingly, the foreign currency exposure above has not been hedged.

(d) Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit lines. The Corporation's accounts payable and accrued liabilities and current portion of finance lease obligation are due within one year. The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to improve cash flows from operations.

The Corporation manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 27. It also manages liquidity risk by continuously monitoring actual cash flows.

With the increased demand on cash resources to fund growth and development, as at December 31, 2018, GABY had a working capital deficiency of $319,112 (excluding contingent consideration payable which will be settled in GABY's common shares). Subsequent to year end, GABY financed this short-term deficiency and ongoing operations through the issuance of $1,300,000 of debentures and $650,000 in promissory notes and arranged for a USD 10 million equity line of credit as more fully described in Note 32. These subsequent financings plus a $150,000 demand operating loan facility should enable GABY to fund operations for the next year while GABY finalizes plans for long-term financing to fund future growth plans towards sustainable growth and positive cash flow.

In Canadian dollars, unless otherwise stated

The Corporation may also be exposed to liquidity risk as a result of its economic dependence on revenues coming from a few major distributors (representing several customers), as outlined in Note 31.

27. CAPITAL DISCLOSURE

The Corporation's objectives when managing capital are:

- to ensure sufficient liquidity to enable the internal financing of capital projects;
- to develop a strong capital base to increase investor, creditor and market confidence; and
- to ultimately provide an adequate return to shareholders.

The Corporation's capital is currently composed of a share issuance obligation, share capital and contributed surplus and subsequent to year-end, includes convertible debentures, promissory notes and access to an Equity LOC as described in Note 32. The Corporation's primary uses of capital in the past have been to finance its operations, growth, and property and equipment purchases. The Corporation maintains a secured operating line of credit with a chartered bank that it uses for its business activities. The Board does not establish quantitative return on capital criteria for management. The Corporation is not subject to any externally imposed capital requirements.

28. LEASE COMMITMENTS

The Corporation has the following operating lease commitments as at December 31, 2018:

Lease of a commercial property in Ontario, Canada, which ends in April 2023, with options under the lease for two one-year extensions. The lease requires monthly payments (plus HST) of $7,619 in year one, $8,577 in year 2, $9,535 in year 3, $9,821 in year 4, and $10,302 in years 5-7. The deferred lease inducements balance related to the recognition of the lease payments on the straight-line basis ($9,494 per month) was $33,138 as at December 31, 2018 (2017 - $30,758).

Lease of a commercial property in California, United States which ends in July 2022. The lease currently requires monthly payments of $9,734 USD ($13,278 CAD), with escalation of 3% each year. The deferred lease inducements balance related to the recognition of the lease payments on the straight-line basis ($13,580 per month) was $13,804 as at December 31, 2018 (2017 - $0).

The Corporation's total commitments under the operating lease agreement described above, exclusive of occupancy costs, are as follows:

Year	**$**
2019	277,532
2020	287,531
2021	293,934
2022	225,190
2023	30,906
	1,115,093

In Canadian dollars, unless otherwise stated

29. CONTINGENCIES

From time to time, the Corporation is subject to legal proceedings and or claims in the normal course of business. Management vigorously defends any allegations under such suits or claims that arise from time to time and believes that the ultimate liability, if any, under any pending matters will not materially affect the financial position or results of operations of the Corporation. At December 31, 2018, the Corporation was not subject to any material legal proceedings.

30. STOCK APPRECIATION RIGHTS

In 2018 and 2017, respectively, the Corporation issued 4,930,331 and 2,599,331 stock appreciation rights (SARs) to employees, consultants, and vendors of the Corporation. Total issued SARs units outstanding as at December 31, 2018 was 9,933,000 (2017 – 5,002,669). The SARs hold no value until a liquidity event occurs, defined in the SARs Plan as either the sale of all or substantially all of the assets or shares of the corporation. As of December 31, 2018, no liquidity event has occurred.

31. SEGMENTED INFORMATION AND ECONOMIC INDEPENDENCE

The Corporation's chief operating decision makers are the Chief Executive Officer, President and Chief Financial Officer. They review the operating performance of the Corporation by two segments comprised of licensed and unlicensed channels, both of which are in the manufacturing, distribution and marketing of wellness products to address a variety of dietary and health concerns. The licensed channel includes cannabis-related products to which the manufacturing, sale and distribution are subject to regulation. The unlicensed channel includes all other wellness products not subject to the licensing requirements in respect of cannabis. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief operating decision makers utilize gross profit as a key measure in making operating decisions and assessing performance. Information by segment is as follows:

	Licensed		Unlicensed		Total (In $)	
	2018	2017	**2018**	2017	**2018**	2017
Gross revenue	**117,007**	-	**2,325,229**	1,274,517	**2,442,236**	1,274,517
Promotional activity	**-**	-	**(838,831)**	(236,990)	**(838,831)**	(236,990)
Amortization of product listing fees	**-**	-	**(111,804)**	(85,002)	**(111,804)**	(85,002)
Total revenue	**117,007**	-	**1,374,594**	952,525	**1,491,601**	952,525
Cost of sales	**88,114**	-	**2,103,753**	1,373,169	**2,191,867**	1,373,169
Gross profit (loss)	**28,893**	-	**(729,159)**	(420,644)	**(700,266)**	(420,644)

In Canadian dollars, unless otherwise stated

The Corporation generates revenues from external customers and has non-current assets in two geographic areas as follows:

	In $	
	2018	2017
Gross Revenue:		
Canada	**378,498**	516,352
United States	**2,063,738**	758,165
	2,442,236	1,274,517
Property and equipment:		
Canada	**392,662**	336,334
United States	**141,366**	-
	534,028	336,334
Intangible assets:		
Canada	**42,644**	15,284
United States	**2,400,398**	-
	2,443,042	15,284

The Corporation has recorded gross revenue of $2,172,465 from three major customers, representing 89% of gross revenue (2017 gross revenue of $1,039,557 from three major customers, representing 82% of total revenue). Accounts receivable due from these customers as at December 31, 2018 amounted to 47% of total accounts receivable (2017 – 84%). The major customers are distributors who represent several retail clients and therefore, if the relationship did not continue with any one of these distributors, the Corporation would still be able access those customers, either through another distributor or directly.

32. SUBSEQUENT EVENTS

Equity Line of Credit

Effective April 2, 2019, the Corporation signed a term sheet that would give it the right, but not the obligation, to issue up to USD 10,000,000 of its common shares to an investor ("Investor") over the course of one year ending April 2, 2020 ("Equity LOC"). GABY has full control and discretion over the timing and amount of any common shares that they sell to the Investor. The purchase price of the shares will be calculated as 85% of the average of the highest four of the eight lowest daily low trading prices of GABY's common shares over the ten consecutive trading days following a put request, subject to the lowest price permitted by the CSE. In consideration for entering into the Equity LOC, the Corporation will issue common shares representing 5% of the total Equity LOC.

Secured Convertible Debentures and Promissory Notes

Subsequent to year-end, the Corporation received gross proceeds of $1,300,000 from a non-brokered private placement of 1,300 units ("Units") of the Corporation at a price of $1,000 per Unit ("Offering"). Each Unit is comprised of a secured convertible debenture in the principal amount of $1,000 ("Debentures") and 500 common share purchase warrants ("Purchase Warrants"). The Debentures accrue interest at a rate of 15% per annum and mature two years from the closing of the Offering (the "Maturity Date"). The principal of the Debentures, plus any accrued and unpaid interest thereon, are redeemable by the Corporation and retractable by the holder of the Debenture, at the option of such party, at anytime following 90 days from the date of issuance up to and including the Maturity Date. The holder of the Debenture also has the option to convert the principal amount of the Debentures, plus any accrued and unpaid interest thereon, at any time following 90 days from the date of issuance up to and including the Maturity Date at the greater of: (i) $0.37; or (ii) the last closing price of the Corporation's common shares. Each Purchase Warrant is exercisable at a price of $0.37 per common share for a period expiring two years from the closing of the Offering. The securities issued under the Offering are subject to a four-month and one-day hold period in accordance with Canadian securities laws. Of the total, $375,000 was issued directly or indirectly to directors of the Corporation. The Corporation will record a liability of $1.3 million less issue costs and less value attributable to the warrants and conversion feature, if applicable, which will be recorded as a credit to contributed surplus.

In addition, the Corporation issued promissory notes totaling $650,000 to an investor. These promissory notes accrue interest at a rate of 5% per month compounded annually, have three-month initial terms, and can be repaid at any time without penalty. After the initial term has ended, the notes are automatically extended and become payable on demand.

Acquisition of Sonoma Pacific Distribution

On, April 1, 2019, the Corporation acquired 100% of the issued and outstanding equity of Sonoma Pacific Distribution ("Sonoma Pac"), a cannabis distribution and marketing company. Through the acquisition, the Corporation has secured a Type 11 distribution licence ("Type 11 Licence") issued by the Bureau of Cannabis Control in the state of California; the distribution facility and related assets located in Santa Rosa, California; and the Sonoma Pacific brand under which a number of products are sold.

The Corporation is in the process of obtaining a valuation of the underlying assets of Sonoma Pac including its property, plant and equipment, intangibles, including the Type 11 Licence, the Sonoma Pacific brand, customer lists and goodwill, and is also determining Sonoma Pac's final working capital balances. The composition of goodwill, if recognized, would include knowledge and experience of Sonoma Pac in respect of distribution of cannabis products in the state of California; it's established relationship with reputable cannabis cultivators and manufacturers, as well as the expected synergies from the combination of Sonoma Pac's distribution licence with TOP's manufacturing licence combined with GABY's consumer packaged goods expertise in branding. Any goodwill recognized would have $nil tax value.

The total consideration is payable in the Corporation's common shares and is contingent upon performance targets in respect of Sonoma Pac's calendar year of 2018 and 2019 as follows:

1) 2018 target: The number of common shares issuable is equal to the verifiable licensed revenue of Sonoma for the year ended December 31, 2018 ("2018 Revenue") translated into Canadian dollars at a rate of 1.30 Canadian to USD divided by the deemed price per share of $0.4148, subject to a maximum of 17,250,000. Pursuant to the closing, 17,250,000 shares were issued in escrow ("2018 Shares"), with the amount and timing of release thereof to Sonoma Pac shareholders subject to final verification of the 2018 Revenue and the schedule outlined below. Any 2018 Shares not released pursuant to the performance conditions will be returned to treasury for cancellation. The 2018 Revenue is still subject to verification procedures; however, it is anticipated that the

maximum target will be met and consideration and common shares of CAD 5,149,769 (USD 3,988,513) will be recorded in respect of the 2018 Revenue target.

2) 2019 target: The number of common shares issuable is equal to 0.35 times the increase in verifiable licensed revenue of Sonoma Pac for the year ended December 31, 2019 over 2018 revenue ("2019 Earn-out") translated into Canadian dollars, divided by the volume weighted average price of the common shares for the 20-day period ending on the day following the public release of GABY's 2019 consolidated financial statements. The range of value of common shares to be issued is $1.1 million (based on revenue as internally reported by Sonoma PAC in the first quarter of 2019) to an unlimited amount. Based on initial assigned probabilities of different outcomes incorporating results reported by the Sonoma Pac in fiscal 2018 and the first quarter of 2019, the Corporation expects to record contingent consideration payable of CAD ~13 million (USD ~10 million) for total consideration payable of CAD ~18 million (USD ~14 million); however the foregoing estimate is subject to independent appraisal of the fair value of Sonoma Pac and expected probabilities. As the number of potential shares issuable is variable, it will be recorded as a liability and remeasured at each reporting date, with changes recognized in the statement of loss until the final share-based consideration is determined.

All of the common shares issued pursuant to this transaction are subject to a three year escrow from the date of issuance, pursuant to which 15% of the shares held in escrow will be released in equal tranches every six months.

Issuance of shares pursuant to share issuance obligation

On January 21, 2019, the Corporation issued 1,383,800 common shares to settle the share issuance obligation of $511,200 at December 31, 2018 as described in Note 17.

Issuance of share options

In January 2019, 5,810,000 stock options were granted to certain officers and consultants of the Corporation with an exercise price of $0.50 per share which vest over a five-year period and expire on the date that is ten years from the grant date.