1933 INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2019 and 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
1933 Industries Inc.

Opinion

We have audited the accompanying consolidated financial statements of 1933 Industries Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2019 and 2018, and the consolidated statements of loss and comprehensive income (loss), cash flows, and changes in equity for the years 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 July 31, 2019 and 2018, and its financial performance and its cash flows for the years 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 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.

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 are responsible for the direction, supervision and performance of the group audit. 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 Grant P. Block.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada | Chartered Professional Accountants

November 27, 2019

1933 INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note		**July 31, 2019**		July 31, 2018
ASSETS					
Current					
Cash		**$**	**17,613,900**	$	5,056,183
Restricted cash	7		**-**		4,425,602
Receivables			**1,726,060**		1,316,562
Inventory	5		**2,512,283**		1,933,061
Biological assets	6		**168,400**		311,037
Prepaid expenses and deposits	7		**1,945,780**		311,533
Deferred financing costs	11		**-**		45,000
Total current assets			**23,966,423**		13,398,978
Property and equipment	7		**21,320,793**		6,666,034
Goodwill	4,8		**16,366,878**		21,274,604
Total assets		**$**	**61,654,094**	$	41,339,616
LIABILITIES AND EQUITY					
Current					
Accounts payable and accrued liabilities	16	**$**	**1,383,774**	$	1,078,807
Notes payable	9,16		**-**		39,339
Current portion of lease liability	10		**45,665**		-
Income taxes payable	22		**-**		1,272,942
Total current liabilities			**1,429,439**		2,391,088
Lease liability	10		**13,032,126**		-
Convertible debentures	11		**9,879,125**		1,965,031
Deferred income tax liability	22		**125,000**		-
Total liabilities			**24,465,690**		4,356,119
EQUITY					
Share capital	12		**67,467,929**		47,338,683
Reserves	12(d)		**6,329,323**		1,846,376
Accumulated other comprehensive loss			**(8,444)**		(138,081)
Deficit			**(36,310,938)**		(12,294,920)
Equity attributable to shareholders of the Company			**37,477,870**		36,752,058
Non-controlling interest	13		**(289,466)**		231,439
Total equity			**37,188,404**		36,983,497
Total liabilities and equity		**$**	**61,654,094**	$	41,339,616

Commitments and contingencies (note 17)
Events after the reporting period (note 23)

Approved on behalf of the Board of Directors and authorized for issuance on November 27, 2019:

"Signed"
Cam Watt, Director

"Signed"
Brayden Sutton, Director

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

1933 INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF LOSS
For the years ended July 31, 2019 and 2018
(Expressed in Canadian dollars, except share numbers)

	Note		2019		2018
Revenues		**$**	**18,059,774**	$	12,550,683
Cost of sales					
Inventory expensed to cost of sales			**12,395,038**		6,687,982
Gross margin, excluding fair value items			**5,664,736**		5,862,701
Fair value adjustment on sale of inventory			**(365,873)**		(254,459)
Fair value adjustment on biological assets	6		**(1,883)**		743,224
Gross margin			**5,296,980**		6,351,466
Expenses					
General and administration	20		**6,609,668**		3,350,153
Management and consulting fees			**1,634,041**		1,858,495
Wages and benefits			**3,196,619**		1,384,720
Professional fees			**971,451**		911,471
Bad debt expense			**-**		120,914
Share-based compensation	12,16		**2,204,712**		915,896
Interest expense	11		**1,573,626**		477,582
Accretion expense	11		**1,215,212**		364,542
Loss on shares issued for interest			**-**		565,502
Depreciation	7		**648,966**		278,607
Foreign exchange (gain) loss			**(5,391)**		109,479
			18,048,904		10,337,361
Loss on disposal of property and equipment	7		**1,850,837**		-
Goodwill impairment	4(a),8		**5,044,866**		-
Loss from continuing operations before income tax			**(19,647,627)**		(3,985,895)
Current income tax (recovery) expense	22		**(1,237,470)**		1,178,441
Deferred income tax expense	22		**125,000**		-
Total income tax (recovery) expense			**(1,112,470)**		1,178,441
Net loss from continuing operations			**(18,535,157)**		(5,164,336)
Net loss from discontinued operations	21		**(576,834)**		(564,716)
Net loss for the year		**$**	**(19,111,991)**	$	(5,729,052)
Net (loss) income from continuing operations attributable to:					
Shareholders of the Company		**$**	**(18,209,961)**	$	(5,280,100)
Non-controlling interest		**$**	**(325,196)**	$	115,764
Net (loss) income attributable to:					
Shareholders of the Company		**$**	**(18,786,795)**	$	(5,844,816)
Non-controlling interest		**$**	**(325,196)**	$	115,764
Net loss from continuing operations per share					
Basic and Diluted		**$**	**(0.07)**	$	(0.03)
Net loss per share					
Basic and Diluted		**$**	**(0.08)**	$	(0.03)
Weighted average number of shares outstanding					
Basic and Diluted			**252,121,055**		192,470,497

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

1933 INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

		2019		2018
Net loss for the year	**$**	**(19,111,991)**	$	(5,729,052)
Other comprehensive income				
Foreign currency translation adjustment		**100,427**		937,752
Comprehensive loss for the year		**(19,011,564)**		(4,791,300)
Comprehensive loss attributable to:				
Shareholders of the Company		**(18,786,795)**		(5,844,816)
Non-controlling interest		**(325,196)**		115,764
Translation adjustment – Shareholders of the Company		**129,637**		907,736
Translation adjustment – Non-controlling interest		**(29,210)**		30,016
	$	**(19,011,564)**	$	(4,791,300)

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

1933 INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended July 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
Operating Activities			
Net loss from continuing operations		**$ (18,535,157)**	$ (5,164,336)
Adjustments to non-cash items:			
Fair value adjustment on growth of biological assets	6	**1,883**	(743,224)
Share-based compensation	12(f)	**2,204,712**	915,896
Accrued interest		**103,767**	-
Accretion	11	**1,215,212**	364,542
Depreciation	7	**648,966**	278,607
Shares issued for services		**-**	483,500
Shares issued for interest	11	**59,650**	821,640
Shares issued for compensation	12	**100,000**	-
Loss on disposal of discontinued operations	21	**-**	239,000
Loss on disposal of property and equipment, net	7	**1,850,837**	-
Goodwill impairment	4(a),8	**5,044,866**	-
Changes in non-cash working capital items:			
Inventory and biological assets		**(420,472)**	(529,079)
Receivables		**(397,479)**	(955,922)
Prepaid expenses and deposits		**(1,641,470)**	(93,880)
Assets and liabilities held for sale		**-**	(109,045)
Deferred financing costs		**45,000**	(45,000)
Accounts payable and accrued liabilities		**283,234**	341,484
Due to related parties		**-**	(428,463)
Income taxes payable		**(1,147,942)**	1,207,939
Cash used in operating activities of continuing operations		**(10,584,393)**	(3,416,341)
Cash used in operating activities of discontinued operations	21	**(576,834)**	(564,716)
Investing Activities			
Property and equipment	7	**(17,098,585)**	(5,390,977)
Acquisition of businesses, net of cash acquired		**-**	(25,594)
Sale of QuikFlo Technologies Ltd.		**-**	150,000
Restricted cash	7	**4,425,602**	(4,425,602)
Cash used in investing activities		**(12,672,983)**	(9,692,173)
Financing Activities			
Common shares issued for cash – private placement	12(c)	**4,500,000**	-
Common shares issued for cash – exercise of stock options	12(c)	**715,724**	947,501
Common shares issued for cash – exercise of warrant and agent options	12(c)	**3,906,514**	13,186,666
Sale of property and equipment, net	7	**12,962,591**	-
Convertible debenture units, net	11	**15,581,986**	6,013,272
Repayment of notes payable	4(b),9	**(1,287,707)**	(1,744,822)
Cash provided by financing activities		**36,379,108**	18,402,617
Effect of exchange rate changes on cash		**12,819**	(271,845)
Increase in cash		**12,557,717**	4,457,542
Cash, beginning of year		**5,056,183**	598,641
Cash, end of year		**$ 17,613,900**	$ 5,056,183

Supplemental disclosure with respect to cash flows (note 18)

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

1933 INDUSTRIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except share numbers)

	Note	Number	Issued capital	Reserves	Non-controlling interest	Accumulated other comprehensive income	Deficit	Total
Balance, July 31, 2017		149,641,349	$ 21,431,946	$ 1,985,195	$ 85,659	$ (1,045,817)	$ (6,450,104)	$ 16,006,879
Shares issued - exercise of options	12	6,041,670	1,499,334	(551,833)	-	-	-	947,501
Shares issued - exercise of warrants	12	43,684,883	13,314,714	(659,863)	-	-	-	12,654,851
Shares issued - exercise of agent options	12	2,127,300	750,714	(218,899)	-	-	-	531,815
Equity portion of convertible debenture	11,12	-	-	624,360	-	-	-	624,360
Shares issued - conversion of convertible debentures	11,12	17,100,000	4,036,835	(552,534)	-	-	-	3,484,301
Shares issued for acquisition of Spire	4,12	7,692,308	5,000,000	-	-	-	-	5,000,000
Shares issued for services	12	650,000	483,500	-	-	-	-	483,500
Shares issued for interest	11,12	1,024,550	821,640	-	-	-	-	821,640
Share-based compensation	12	-	-	915,896	-	-	-	915,896
Agent options and warrants issued as finders' fees	12	-	-	304,054	-	-	-	304,054
Translation adjustment		-	-	-	30,016	907,736	-	937,752
Net loss for the year		-	-	-	115,764	-	(5,844,816)	(5,729,052)
Balance, July 31, 2018		**227,962,060**	**$ 47,338,683**	**$ 1,846,376**	**$ 231,439**	**$ (138,081)**	**$ (12,294,920)**	**$ 36,983,497**

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

1933 INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except share numbers)

	Note	Number		Issued capital		Reserves		Non-controlling interest		Accumulated other comprehensive income		Deficit		Total
Balance, July 31, 2018		227,962,060	$	47,338,683	$	1,846,376	$	231,439	$	(138,081)	$	(12,294,920)	$	36,983,497
Shares issued - exercise of options	12	2,109,997		570,133		(253,633)		-		-		-		316,500
Shares issued - exercise of warrants	12	12,760,376		3,936,548		(30,034)		-		-		-		3,906,514
Shares issued - exercise of agent options	12	896,454		610,084		(210,860)		-		-		-		399,224
Shares issued - private placement	12	10,000,000		4,500,000		-		-		-		-		4,500,000
Shares issued - conversion of convertible debentures $0.25	11,12	9,700,000		2,319,924		(71,826)		-		-		-		2,248,098
Shares issued - conversion of convertible debentures $0.45	11,12	10,642,206		4,182,907		(696,780)		-		-		-		3,486,127
Shares issued - compensation	12	200,000		100,000		-		-		-		-		100,000
Shares issued for acquisition of Infused	4,12	7,000,000		3,850,000		-		-		-		-		3,850,000
Warrants issued - Infused 9% equity acquisition	4,12	-		-		297,722		-		-		-		297,722
Shares issued for interest	11,12	238,600		59,650		-		-		-		-		59,650
Equity portion of convertible debenture	11,12	-		-		2,505,099		-		-		-		2,505,099
Share-based compensation	12	-		-		2,204,712		-		-		-		2,204,712
Agent options issued as finders' fees	12	-		-		738,547		-		-		-		738,547
Translation adjustment less Infused 9% equity acquisition		-		-		-		(29,210)		129,637		-		100,427
Infused 9% equity acquisition	4	-		-		-		(166,499)		-		(5,229,223)		(5,395,722)
Net loss for the year		-		-		-		(325,196)		-		(18,786,795)		(19,111,991)
Balance, July 31, 2019		**281,509,693**	**$**	**67,467,929**	**$**	**6,329,323**	**$**	**(289,466)**	**$**	**(8,444)**	**$**	**(36,310,938)**	**$**	**37,188,404**

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

1. NATURE OF OPERATIONS

1933 Industries Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act of Alberta. The Company is a publicly traded corporation with its registered office located at 105 – 45655 Tamihi Way, Chilliwack, British Columbia, Canada. On September 27, 2018, the Company continued out of the province of Alberta and into the province of British Columbia.

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as (i) a cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. Infused Mfg ("Infused"), a 100% owned subsidiary of the Company, is focused on developing, acquiring and designing hemp and CBD-infused products and brands for retail sale and use in jurisdictions where permitted. On April 1, 2019, the Company acquired the remaining 9% interest in Infused from the holder to make the Company's share in Infused 100% (note 4).

While some states in the United States ("U.S.") have authorized the use and sale of cannabis, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against cannabis is subject to change. Because the Company engages in cannabis related activities in the U.S., it assumes certain risks due to conflicting state and federal laws. The federal law relating to cannabis could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized.

On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States district attorneys (the "Sessions Memorandum") which rescinded previous guidance from the United States Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum. With the Cole Memorandum rescinded, United States federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis related violations of United States federal law. In response to the Sessions Memorandum, on April 13, 2018, the United States President Donald Trump promised Colorado Senator Cory Gardner that he will support efforts to protect states that have legalized cannabis. Nevertheless, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could cause significant financial damage to the Company. The Company may be irreparably harmed by a change in enforcement policies of the federal government depending on the nature of such change.

Given the current illegality of cannabis under U.S. federal law, the Company's ability to access both public and private capital may be hindered by the fact that certain financial institutions are regulated by the U.S. federal government and are thus prohibited from providing financing to companies engaged in cannabis related activities. The Company's ability to access public capital markets in the U.S. is directly hindered as a result. The Company may, however, be able to access public and private capital markets in Canada in order to support continuing operations.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements were approved by the Board of Directors and authorized for issue on November 27, 2019.

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

b) Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for cash and biological assets measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar. See "Basis of consolidation" for the functional currency of the Company's subsidiaries.

(Expressed in Canadian dollars, except where noted)

2. BASIS OF PRESENTATION (continued)

d) Basis of consolidation

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of subsidiary	Abbreviation	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
1080034 B.C. Ltd.	0034 BC	Canada	100%	CAD	Holding company
1933 Management Services Inc.	FNM	USA	100%	USD	Holding company for Infused
Infused Mfg LLC	Infused MFG	USA	100% [1]	USD	Hemp and CBD – Infused products
FN Pharmaceuticals LLC	FNP	USA	100%	USD	Holding company for AMA
Alternative Medicine Association LLC	AMA	USA	91%	USD	Cannabis cultivation and production
AMA Productions LLC	AMA Pro	USA	91%	USD	Holding Company
Spire Secure Logistics Inc.	Spire	Canada	100%	CAD	Inactive
QuikFlo Technologies Ltd. [2]	QuikFlo	Canada	100%	CAD	Inactive

(1) On April 1, 2019, the Company acquired the remaining 9% interest from the holder to make the Company's share in Infused 100%.
(2) The Company disposed of QuikFlo in 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Effective August 1, 2018, the Company adopted the following accounting standards:

a) IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on August 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at August 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39*, Financial Instruments: Recognition and Measurement* ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39. We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	**IFRS 9**	**IAS 39**
Cash	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Receivables	Amortized cost	Loans and receivables
Financial Liabilities	**IFRS 9**	**IAS 39**
Accounts payable and accrued liabilities	Amortized cost	Other Financial liabilities
Convertible debentures	Amortized cost	Other Financial liabilities
Notes payable	Amortized cost	Other Financial liabilities

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, did not have an impact on the carrying amounts of financial assets.

b) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard.

c) New accounting standards and interpretations issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 16, *Leases*: New standard to establish principles for recognition, measurement, presentation, and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The adoption will be applied on a prospective basis resulting in an increased August 1, 2019 property and equipment and lease liability. In addition, for Fiscal 2020 there will be a reduction in rent expense and increase in interest expense. The Company does not anticipate the adoption of this standard to have a material impact on its financial statements.

- IFRIC 23, *Uncertainty over Income Tax Treatments:* This standard was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. IFRIC 23 is effective January 1, 2019. The Company is currently assessing the impact of this new standard on its financial statements.

d) Discontinued operations

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operation; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation; or (iii) is a subsidiary acquired exclusively with a view to resell. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

e) Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company determined its functional currency, and its Canadian subsidiaries, to be the Canadian dollar, and the functional currency of its US subsidiaries to be the United States dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

ii. Assessment of indicators of impairment

At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or cash generating unit ("CGU") may be impaired, thereby requiring adjustment to the carrying value. The Company identified the limited activities of Spire as an indicator of impairment related to the Spire acquisition during the year ended July 31, 2019.

As a result of these impairment indicators, the Company assessed the goodwill associated with the Spire CGU for impairment and concluded the recoverable value of the CGU was less than its carrying value and an impairment of $5,044,866 was required.

iii. Estimated useful lives and depreciation of property and equipment

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

iv. Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition.

Estimates are made as to the fair value of assets and liabilities acquired. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates.

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of the equity in the acquiree's identifiable net assets.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

v. Revenue recognition as a result of adopting IFRS 15

Determination of performance obligations
The Company applied judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of product to its clients.

Transfer of control
Judgement is required to determine when transfer of control occurs relating to the sale of the Company's goods to its clients. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi. Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

vii. Current and deferred taxes

The Company's provision for income taxes is estimated based on the expected annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the expected annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations based on production and customer demand are internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

viii. Equity-settled share-based payments

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of stock options granted to directors, officers, employees, and consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecasted future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the share-based compensation calculation value, however the most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has a limited operating history and is in an emerging industry. Due to the emerging nature of the industry, volatility estimates require significant estimates.

The Company estimates volatility based on historic share prices of companies with significant operating history in the cannabis industry. Historical volatility is not necessarily indicative of future volatility. The expected life of stock options was determined based on the estimate that they would be exercised evenly over their term.

ix. Contingencies

Due to the nature of the Company's operations, various legal and tax matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

xi. Impairment of long-lived assets

Long-lived assets, including property and equipment, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets ("CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

f) Foreign currencies

i. Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"). The functional currency of the Company and its subsidiaries is included within Note 2.

ii. Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Non-monetary assets and liabilities are translated at historic rates. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

iii. Translation of the functional currency into the presentation currency

The results of foreign operations which have a different functional currency than the Company are translated to Canadian dollars at appropriate average rates of exchange during the period. The assets and liabilities of foreign operations are translated to Canadian dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of the foreign operation to Canadian dollars at period end are recognized in accumulated other comprehensive income (loss) as a translation adjustment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments

i. Classification of financial assets

Amortized cost:

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

The Company has classified accounts receivable, accounts payable and accrued liabilities, notes payable and convertible debentures as amortized cost.

FVTOCI:

Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

Equity instruments designated as FVTOCI:

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not currently hold any equity instruments designated as FVTOCI.

Financial assets measured subsequently at fair value through profit or loss:

By default, all other financial assets are measured subsequently at FVTPL.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The Company does not currently hold any equity instruments designated as FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Classification of financial liabilities
Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

iii. Financial instruments designated as hedging instruments

The Company does not currently apply nor have a past practice of applying hedge accounting to financial instruments.

iv. Expected credit loss

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

h) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

i) Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

Revenue from the sale of inventory is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits of the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Inventory

Inventories of harvested finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of goods sold' on the statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the statements of loss and comprehensive loss.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

k) Biological assets

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as facilities overhead costs, excluding depreciation, to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item "inventory expensed to cost of sales" on the statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gain/losses on growth of biological assets are recorded in a separate line on the face of the statements of loss and comprehensive loss. Biological assets are measured at fair value less costs to sell on the statement of financial position.

l) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following terms and methods:

Office equipment	Straight-line	5-7 years
Production equipment	Straight-line	7-20 years
Leasehold improvements	Straight-line	Over lease term
Right of use	Straight-line	20 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

m) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of an acquired business. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest acquired, less the fair value of the identifiable assets acquired, and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

n) Income taxes

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Share capital

Common shares are classified as shareholders' equity (deficiency). Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity (deficiency). Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing market price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

p) Share-based payments

The fair value of stock options granted is recognized as a share-based payment expense with a corresponding increase in reserves. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options granted is measured using the Black-Scholes option pricing model considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserves.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods and services received.

q) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Diluted loss per share is equal to basic loss per share for the periods presented as the effect would be anti-dilutive.

r) Assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less cost to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or the disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment is not depreciated once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

4. ACQUISITIONS

a) SPIRE GLOBAL STRATEGY INC.

Effective March 2, 2018, the Company acquired a 100% interest in Spire, a private Canadian company. Spire is a provider of security and logistics services. Pursuant to the combination, the Company issued 7,692,308 common shares with a fair value of $0.65 per share for total consideration of $5,000,000 to the former shareholders of Spire and paid transaction fees of $30,000. The acquisition has been accounted for as a business combination using the acquisition method. The acquisition aligns with the Company's strategy to build a diversified business in the cannabis industry.

The purchase price allocation was as follows:

Net assets acquired:		
Cash	$	4,406
Receivables		43,435
Accounts payable		(64,707)
Net assets acquired		(16,866)
Goodwill (note 8)		5,044,866
Total	**$**	**5,028,000**

Goodwill arose from the combination because the consideration paid for the combination reflected the benefit of expected revenue, future market development, and the assembled work forces of Spire. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the combination is expected to be deductible for tax purposes. During the year ended July 31, 2019, the Company recognized an impairment charge of $5,044,866 in relation to the goodwill recorded on initial acquisition of Spire (note 8). The goodwill impairment charge arose due to Company discontinuing Spire operations during the year ended July 31, 2019 and as such, the carrying amount is not recoverable.

b) INFUSED MFG LLC

On April 1, 2019, the Company announced that it had signed a Membership Interest Purchase Agreement (the "NCI Buyout Agreement") with the holder (the "NCI Vendor") of nine percent (9%) of the issued and outstanding membership interest in Infused, whereby the Company prior to the NCI Buyout Agreement was the beneficial holder of ninety-one percent (91%) of the issued and outstanding membership interests of Infused. Pursuant to the NCI Buyout Agreement the Company owns 100% of Infused.

Pursuant to the terms of the NCI Buyout Agreement, the Company issued a promissory note of $1,248,000 (USD$940,000) with an interest rate of 6.0% per annum and a maturity date of December 1, 2019 (note 9); issued 7,000,000 common shares with a fair value of $0.55 per share (note 12); and issued 1,000,000 non-transferable common share purchase warrants with an exercise price of $0.53 per warrant and fair value of $297,722 as determined by the Black-Scholes valuation model (note 12) for total purchase consideration of $5,395,722.

The purchase price allocation was as follows:

Promissory note	$	1,248,000
Common shares issued		3,850,000
Common share purchase warrants issued		297,722
Non-controlling interest related to 9% interest		(166,499)
Deficit	**$**	**5,229,223**

The consideration paid for the 9% interest reflects the benefit of expected revenue and future market development. The difference between the fair value of consideration paid and the non-controlling interest at April 1, 2019 has been recognized directly into deficit.

(Expressed in Canadian dollars, except where noted)

5. INVENTORY

		July 31, 2019		July 31, 2018
Harvested cannabis and trim	**$**	**87,428**	$	1,072,871
Cannabis oil and equivalent		**883,497**		198,110
Finished goods		**1,071,514**		66,353
Raw materials		**469,844**		595,727
	$	**2,512,283**	$	1,933,061

6. BIOLOGICAL ASSETS

		July 31, 2019		July 31, 2018
Balance, beginning of year	**$**	**311,037**	$	56,578
Production costs capitalized		**969,901**		1,360,930
Change in fair value less costs to sell		**(1,883)**		743,224
Transferred to inventory upon harvest		**(1,114,521)**		(1,868,982)
Unrealized foreign exchange gain		**3,866**		19,287
Balance, end of year	**$**	**168,400**	$	311,037

The fair value was determined using an expected cash flow model which assumes the biological assets will grow to maturity, be harvested and converted into finished goods inventory, and be sold in the retail cannabis market. The significant assumptions used in determining the fair value of cannabis plants include:

Assumption		**July 31, 2019**		July 31, 2018
Estimated sales price per gram	**USD$**	**5.07**	USD$	4.13
Weighted average stage of growth		**10 weeks**		9 weeks
Expected yields by plant strain		**113 grams**		96 grams
Wastage		**1%**		5%
Post – harvest cost per gram	**USD$**	**0.29**	USD$	0.57

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at July 31, 2019 the carrying value of biological assets consisted entirely of live cannabis plants. The Company values cannabis plants at cost from the date of initial clipping from mother plants until the end of the sixth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the seventh week until harvest. On average, the grow cycle is approximately 15 weeks.

The fair value measurements for biological assets have been categorized as Level 3. These estimates are subject to volatility in market prices and several uncontrollable factors, which will be reflected in gain or loss on biological assets in future periods.

Increases in cost required up to the point of harvest, harvesting costs and selling costs will decrease the fair value of biological assets, while increases in sales price and expected yield for the cannabis plant will increase the fair value of biological assets.

(Expressed in Canadian dollars, except where noted)

7. PROPERTY AND EQUIPMENT

	Land	Construction in Progress	Leasehold Improvements	Production Equipment	Office Equipment	Right of Use	Total
Cost							
Balance, July 31, 2017	$ -	$ -	$ 389,511	$ 904,382	$ 97,749	$ -	$ 1,391,642
Additions	1,646,231	3,305,939	64,072	274,726	100,009	-	5,390,977
Foreign exchange gain	37,221	74,746	22,190	47,231	2,699	-	184,087
Balance, July 31, 2018	1,683,452	3,380,685	475,773	1,226,339	200,457	-	6,966,706
Additions	-	13,543,866	344,122	3,171,396	53,134	13,058,747	30,171,265
Disposals	(570,258)	(14,166,791)	(13,007)	(57,155)	(1,106)	-	(14,808,317)
Foreign exchange gain (loss)	15,767	(56,351)	2,220	(8,886)	3,190	(84,861)	(128,921)
Balance, July 31, 2019	**$ 1,128,961**	**$ 2,701,409**	**$ 809,108**	**$ 4,331,694**	**$ 255,675**	**$ 12,973,886**	**$ 22,200,733**
Accumulated depreciation							
Balance, July 31, 2017	$ -	$ -	$ 4,934	$ 7,892	$ 285	$ -	$ 13,111
Depreciation	-	-	70,476	195,255	12,876	-	278,607
Foreign exchange gain	-	-	3,329	5,203	422	-	8,954
Balance, July 31, 2018	-	-	78,739	208,350	13,583	-	300,672
Depreciation	-	-	68,416	340,742	131,513	108,295	648,966
Foreign exchange gain (loss)	-	-	(19,276)	(48,837)	(3,184)	1,599	(69,698)
Balance, July 31, 2019	**$ -**	**$ -**	**$ 127,879**	**$ 500,255**	**$ 141,912**	**$ 109,894**	**$ 879,940**
Carrying amount							
Balance, July 31, 2018	$ 1,683,452	$ 3,380,685	$ 397,034	$ 1,017,989	$ 186,874	$ -	$ 6,666,034
Balance, July 31, 2019	**$ 1,128,961**	**$ 2,701,409**	**$ 681,229**	**$ 3,831,439**	**$ 113,763**	**$ 12,863,992**	**$ 21,320,793**

On May 13, 2019, the Company completed the sale-lease back of land and facility under construction in Las Vegas, Nevada for $14,027,035 (USD$10,450,000) less various adjustments for title fees, commission, and transfer taxes for a net sale price to the Company of $12,949,443 (USD$9,862,700). The Company recorded a loss on disposal of $1,787,606 (USD$1,345,886). The purchaser held back $1,230,999 (USD$936,264) until certain performance conditions are met. This amount has been recorded in prepaids and deposits.

As a result of the sale-lease back, the Company entered into a 10-year lease which contains an option to extend two additional 5-year terms. The lease has been deemed a finance lease under IAS 17 and as such, the Company recorded a finance lease of $12,967,478 (USD$9,862,700) representing the right of use of the facility and a corresponding lease liability (note 10).

During the year ended July 31, 2019, the Company disposed of leasehold improvements, production equipment and office equipment with a net book value of $76,379 for proceeds of $13,148 (USD$10,000) resulting in a loss of disposal of $63,231.

As at July 31, 2019, the Company held $nil (July 31, 2018 - $4,425,602) in restricted cash for future construction costs.

(Expressed in Canadian dollars, except where noted)

8. GOODWILL

		July 31, 2019		July 31, 2018
Balance, beginning of year	$	21,274,604	$	15,546,958
Acquisition (note 4(a))		-		5,044,866
Impairment - Spire Global Strategy Inc. (note 4(a))		(5,044,866)		-
Unrealized foreign exchange gain		137,140		682,780
Balance, end of year	$	16,366,878	$	21,274,604

9. NOTES PAYABLE

		July 31, 2019		July 31, 2018
Balance, beginning of year	$	39,339	$	1,784,161
Issue of notes payable (note 4(b))		1,248,000		-
Repayment of notes payable		(1,287,707)		(1,744,822)
Unrealized foreign exchange loss		368		-
Balance, end of year	$	-	$	39,339

Certain shareholders of the Company's subsidiaries, AMA and Infused, advanced USD$240,000 to the Company by way of promissory notes. The amounts accrue interest at 6% per annum, are unsecured, and due on demand. As at July 31, 2019 the remaining balance is $nil.

On April 1, 2019, as part of the acquisition of the 9% interest in Infused, the Company issued a $1,248,000 (USD$940,000 promissory note payable to the seller. The note bears interest at a rate of 6.0% per annum and interest only payments are due on the first of each month until repaid. The maturity date of the note shall be accelerated in the event among other things the completion of a capital raise by the Company generating aggregate gross proceeds exceeding $10,000,000. The note shall be secured with 7% of issued and outstanding membership interest of Infused. The note was repaid during the year ended July 31, 2019.

10. LEASE LIABILITY

		July 31, 2019		July 31, 2018
Balance, beginning of year	$	-	$	-
Finance lease obligation		12,967,478		-
Repayment of lease obligation		111,438		-
Interest expense		212,844		-
Unrealized foreign exchange gain		(213,969)		-
Balance, end of year		13,077,791		-
Less: Non-current portion		13,032,126		-
Current portion of lease liability	$	45,665	$	-

Pursuant to the sale-leaseback agreement dated May 13, 2019, the Company recognized a lease liability of $12,967,478 (USD$9,862,700) representing future minimum lease payments discounted at a rate of 10%. The lease matures May 13, 2029 and the Company has two 5-year renewal options.

(Expressed in Canadian dollars, except where noted)

11. CONVERTIBLE DEBENTURES

		July 31, 2019		July 31, 2018
Balance, beginning of year	$	**1,965,031**	$	-
Convertible debentures issued (a)(b)(c)		**17,250,000**		6,500,000
Equity component		**(2,911,250)**		(710,863)
Transaction costs - non-cash		**(613,903)**		(270,802)
Transaction costs - cash		**(1,386,506)**		(433,613)
Interest expense		**1,332,210**		366,610
Accretion expense		**1,215,212**		364,542
Converted to common shares		**(5,743,226)**		(3,484,301)
Interest paid - cash		**(1,168,793)**		(110,405)
Interest paid - shares		**(59,650)**		(256,137)
Balance, end of year		**9,879,125**		1,965,031
Less: non-current portion		**9,879,125**		-
Current portion of convertible debentures	$	**-**	$	1,965,031

a) $5,500,000 convertible debenture units

On August 16, 2017 the Company closed a private placement of $5,500,000 aggregate principal amount of convertible debenture units at a price of $1,000 per convertible debenture unit. Each convertible debenture unit consists of a $1,000 principal amount 10% senior unsecured convertible debenture and 4,000 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company at an exercise price of $0.35 per share until August 16, 2019. Provided that if, at any time after December 17, 2017 and prior to the expiry date of the warrants, the volume weighted average trading price of the common shares of the Company equals or exceeds $0.70 for 10 consecutive trading days, the Company may, within 30 days of the occurrence of such event, deliver a notice to the holders of the warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.

The convertible debentures bear interest from the date of closing at 10.0% per annum, payable in common shares of the Company at a price of $0.25 semi-annually on June 30 and December 31 of each year and will expire on August 16, 2019. The convertible debentures are convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the maturity date; and (ii) the date fixed for redemption, at a conversion price of $0.25 per common share, subject to adjustment in certain events.

Additionally, beginning on December 17, 2017, the Company may force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price on 30 days prior written notice should the daily volume weighted average trading price of the common shares be greater than $0.45 for any 10 consecutive trading days.

The convertible debentures will be subject to redemption, in whole or in part, by the Company at any time after August 16, 2018 upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the convertible debentures plus all accrued and unpaid interest up to and including the redemption date.

The Company paid cash fees of $444,372 and issued 200 convertible debenture units (the "Agent's Units"), in payment of the Agent's commission, corporate finance fee and other expenses. In addition, the Agent received an option (the "August 2017 Agent's Option") to acquire 2,155,200 units of the Company at an exercise price of $0.25 per unit (2,127,300 of which were exercised as at July 31, 2018). Each Unit is comprised of one common share and one common share purchase warrant exercisable at a price of $0.35 per share subject to the same terms and conditions as the warrants. The fair value of the August 2017 Agent's Option was $304,054 and was recorded as a transaction cost.

The fair value of the Agent Options and 800,000 warrants issued as part of the Agent Units was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 2 years, volatility of 75%.

The equity component of the $5,500,000 convertible debenture was determined to be $519,648 net of transaction costs of $81,850. Convertible debentures with a principal balance of $1,550,000 were converted into 6,200,000 common shares of the Company (note 12) during the period. The principal balance outstanding at July 31, 2019 is $nil.

11. CONVERTIBLE DEBENTURES (continued)

b) $1,000,000 convertible debenture units

On October 4, 2017 the Company completed a private placement of $1,000,000 aggregate principal amount of convertible debenture units at a price of $1,000 per unit. Each convertible debenture unit consists of a $1,000 principal amount 10% senior unsecured convertible debenture and 4,000 common share purchase warrants of the Company.

Each warrant is exercisable to acquire one common share of the Company at an exercise price of $0.25 per warrant until October 4, 2019. Provided that if, at any time after February 5, 2018 and prior to the expiry date of the warrants, the volume weighted average trading price of the common shares of the Company equals or exceeds $0.50 for 10 consecutive trading days, the Company may, within 30 days of the occurrence of such event, deliver a notice to the holders of the warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.

The convertible debentures bear interest from the date of closing at 10.0% per annum (subject to withholdings for non-residents), semi-annually on June 30 and December 31 of each year and will expire on August 16, 2019 (the “Maturity Date”). The convertible debentures are convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the date fixed for redemption, at a conversion price of $0.25 per common share, subject to adjustment in certain events. Additionally, beginning on February 5, 2018, the Company may force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price on 30 days prior written notice should the daily volume weighted average trading price of the common shares be greater than $0.45 for any 10 consecutive trading days.

The convertible debentures will be subject to redemption, in whole or in part, by the Company at any time after October 4, 2018 upon giving holders not less than 30 and not more than 60 days’ prior written notice, at a price equal to the then outstanding principal amount of the convertible debentures plus all accrued and unpaid interest up to and including the redemption date.

The Company paid finder's fees of $42,534 and issued 24,000 warrants exercisable at a price of $0.25 to certain arm's-length parties in the connection with the offering.

The equity component of the $1,000,000 convertible debenture was determined to be $104,712 net of transaction costs of $4,652. Convertible debentures with a principal balance of $875,000 were converted into 3,500,000 common shares of the Company (note 12) during the period. The principal balance outstanding at July 31, 2019 is $nil.

c) $17,250,000 convertible debenture units

On September 14, 2018, the Company closed a short form prospectus offering of convertible debenture units raising gross proceeds of $17,250,000. Pursuant to the offering, the Company issued an aggregate of 17,250 debenture units at a price per debenture unit of $1,000. Each debenture unit consisted of: (i) one 10.0% unsecured convertible debenture of the Company in the principal amount of $1,000 convertible into common shares at a conversion price of $0.45 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on September 14, 2021; and (ii) 2,222 common share purchase warrants expiring September 14, 2021.

Each warrant will entitle the holder thereof to purchase one common share at an exercise price of $0.65 per share until September 14, 2021, subject to adjustment in certain events.

The Company paid cash fees of $1,668,014 in payment of the Agent's commission, corporate finance fees and other expenses of which $45,000 was paid prior to July 31, 2019 and recorded as a deferred financing cost. In addition, the Agent received options (the "September 2018 Agent's Options") to acquire 3,066,666 units of the Company at an exercise price of $0.45 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of $0.65 per share subject to the same terms and conditions as the warrants. The fair value of the September 2018 Agent’s Options was $738,547 and was recorded as a transaction cost. The fair value of the September 2018 Agent’s Options was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 3 years, volatility of 75%.

The Company may force the conversion of the principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 days’ notice should the daily volume weighted average trading price of the common shares be greater than $0.70 for any 10 consecutive trading days.

11. CONVERTIBLE DEBENTURES (continued)

The equity component of the $17,250,000 convertible debenture was determined to be $2,505,099 net of transaction costs of $406,151. Convertible debentures with a principal balance of $4,797,993 were converted into 10,642,206 common shares of the Company (note 12) during the period. The principal balance outstanding as at July 31, 2019 is $12,452,007.

12. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of July 31, 2019, there were 281,509,693 common shares outstanding (July 31, 2018 - 227,962,060).

b) Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2020. As at July 31, 2019, a total of 9,228,320 common shares were subject to these escrow restrictions.

c) Issued common shares

The Company had the following common share transactions during the year ended July 31, 2019:

- The Company issued 2,109,997 common shares pursuant to the exercise of 2,109,997 stock options at a price of $0.15 per common share for gross proceeds of $316,500. In relation to the exercise of stock options, $253,633 was reallocated from reserves to share capital.
- The Company issued 12,760,376 common shares pursuant to the exercise of 12,760,376 share purchase warrants at prices between of $0.25 to $0.65 per share for gross proceeds of $3,906,514. In relation to the exercise of the share purchase warrants, $30,034 was reallocated from reserves to share capital.
- The Company issued 896,454 common shares upon the exercise of Agent Options at a price of $0.25 to $0.45 per share for gross proceeds of $399,224. In relation to the exercise of Agent Options, $210,860 was reallocated from reserves to share capital.
- The Company issued 20,342,206 common shares pursuant to the conversion of $7,213,993 of convertible debentures. In relation to the conversion $768,606 was reallocated from reserves to share capital and $5,734,255 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- On December 31, 2018, in accordance with the debenture interest subscription agreement, the Company issued 238,600 common shares to settle interest payable representing an interest payment of $59,650.
- On March 15, 2019, pursuant to a non-brokered private placement, the Company issued 10,000,000 units at a price of $0.45 per unit for gross proceeds of $4,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.50 per share for 24 months. The Company may force acceleration of the warrants on less than 30 days' notice should the trading price of the company's shares on the Canadian Securities Exchange be greater than $0.75 for any 10 consecutive trading days.
- On March 29, 2019, pursuant to the terms of the Agreement with Infused MFG, issued 7,000,000 common shares with a fair value of $0.45 per share for total consideration of $3,150,000.
- On May 7, 2019, the Company issued 200,000 common shares with a fair value of $100,000 as share-based compensation to the CEO.

The Company had the following common share transactions during the year ended July 31, 2018:

- 6,041,671 common shares were issued upon exercise of stock options at prices between $0.15 and $0.50 per share for gross proceeds of $947,502. In relation to the exercise of stock options $551,833 was reallocated from reserves to share capital.
- 43,684,882 common shares were issued upon the exercise of warrants at prices between of $0.10 to $0.35 per share for gross proceeds of $12,654,851. In relation to the exercise of warrants $659,863 was reallocated from reserves to share capital.
- 2,127,300 common shares were issued upon the exercise of Agent Options at a price of $0.25 per share for gross proceeds of $531,815. In relation to the exercise of Agent Options, $218,899 was reallocated from reserves to share capital.

(Expressed in Canadian dollars, except where noted)

12. SHARE CAPITAL AND RESERVES (continued)

- 17,100,000 common shares were issued upon the conversion of $4,275,000 of convertible debentures. In relation to the conversion $552,534 was reallocated from reserves to share capital and $4,036,835 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- 7,692,308 common shares were issued at a fair value of $0.65 for the acquisition of Spire for total consideration of $5,000,000.
- 650,000 common shares were issued for compensation with a value of $483,500
- 1,024,550 common shares were issued for interest with a value of $0.25 per share representing interest of $256,138 in accordance with the debenture unit subscription agreements. The Company recognized a loss on the shares issued for interest of $565,502 which was recorded to share capital for total consideration paid of $821,640.

d) Reserves

The following is a summary of changes in reserves:

	Stock options	Convertible debentures	Warrants	Total
Balance, July 31, 2017	$ 940,307	$ -	$ 1,044,888	$ 1,985,195
Share-based payments	915,896	-	-	915,896
Agent options and warrants issued as finders' fee	-	-	304,054	304,054
Equity portion of convertible debenture	-	624,360	-	624,360
Reclassified on conversion of convertible debentures	-	(552,534)	-	(552,534)
Reclassified on exercise of agent option and warrants	-	-	(878,762)	(878,762)
Reclassified on exercise of stock options	(551,833)	-	-	(551,833)
Balance, July 31, 2018	1,304,370	71,826	470,180	1,846,376
Share-based payments	2,204,712	-	-	2,204,712
Agent options issued as finders' fee	-	-	738,547	738,547
Equity portion of convertible debenture	-	2,505,099	-	2,505,099
Warrants issued as part of 9% interest acquisition	-	-	297,722	297,722
Reclassified on conversion of convertible debentures	-	(768,606)	-	(768,606)
Reclassified on exercise of agent warrants	-	-	(30,034)	(30,034)
Reclassified on exercise of stock options and Agents options	(253,633)	-	(210,860)	(464,493)
Balance, July 31, 2019	**$ 3,255,449**	**$ 1,808,319**	**$ 1,265,555**	**$ 6,329,323**

(Expressed in Canadian dollars, except where noted)

12. SHARE CAPITAL AND RESERVES (continued)

e) Warrants

A summary of share purchase warrant activity is as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, July 31, 2017	32,010,880	$	0.26
Issued – finders' warrants	824,000		0.35
Issued – convertible debentures	26,000,000		0.33
Issued – exercise of Agent Options	2,127,300		0.35
Expired	(425,000)		0.10
Exercised	(43,684,883)		0.29
Balance, July 31, 2018	16,852,297	$	0.32
Issued – convertible debentures	38,329,500		0.65
Issued – exercise of Agent Options	896,454		0.64
Issued – private placement	10,000,000		0.50
Issued – 9% interest acquisition	1,000,000		0.53
Expired	(4,030,559)		0.35
Exercised	(12,760,376)		0.31
Balance, July 31, 2019	**50,287,316**	**$**	**0.62**

The following table summarizes share purchase warrants outstanding as at July 31, 2019:

Expiry date	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Years
04-Oct-19	66,750	$ 0.25	0.04
14-Mar-21	10,000,000	0.50	1.62
28-Mar-21	1,000,000	0.53	1.66
14-Sep-21	39,220,566	0.65	2.13
	50,287,316	**$ 0.62**	**2.01**

f) Stock options

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the stock options are determined by the Board of Directors.

The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the exercise price permitted by the CSE, and all stock options granted under the plan will have a maximum term of five years.

A summary of stock option activity is as follows:

	Number of Options		Weighted Average Exercise Price
Balance, July 31, 2017	15,235,000	$	0.16
Granted	1,300,000		0.65
Expired	(150,000)		0.15
Exercised	(6,041,670)		0.16
Balance, July 31, 2018	10,343,330		0.22
Granted	9,525,000		0.54
Exercised	(2,109,997)		0.15
Cancelled	(561,667)		0.34
Balance, July 31, 2019	**17,196,666**	**$**	**0.41**

(Expressed in Canadian dollars, except where noted)

12. SHARE CAPITAL AND RESERVES (continued)

The following table summarizes stock options outstanding and exercisable as at July 31, 2019:

Expiry date	Number of Options	Number of Exercisable Options		Weighted Average Exercise Price	Weighted Average Remaining Years
November 14, 2020	237,500	237,500	$	0.50	1.29
January 8, 2021	37,500	37,500		0.64	1.44
May 31, 2021	500,000	500,000		0.45	1.84
October 4, 2021	8,655,000	2,885,000		0.55	2.18
June 13, 2022	6,366,666	6,366,666		0.15	2.87
February 15, 2023	1,300,000	1,116,667		0.65	3.55
May 2, 2024	100,000	-		0.55	4.76
	17,196,666	11,143,333	$	0.41	2.53

Share-based compensation expense recognized during the year ended July 31, 2019 of $2,204,712 (2018 - $915,896) related to options granted and vested during the period. The Company granted 9,525,000 stock options during the year ended July 31, 2019 (2018 - nil). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2019	2018
Risk-free interest rate	**1.74%**	1.75%
Expected life of options	**3 years**	4 years
Annualized volatility	**75%**	75%
Dividend rate	**0%**	0%
Weighted average fair value per option	**$0.24**	$0.37

g) Agent Options

A summary of Agent Option activity is as follows:

	Number of Options		Weighted Average Exercise Price
Balance, July 31, 2017	-	$	-
Expired	2,155,200		0.25
Exercised	(2,127,300)		0.25
Balance, July 31, 2018	27,900		0.25
Granted	3,066,666		0.45
Exercised	(896,454)		0.45
Balance, July 31, 2019	**2,198,112**	**$**	**0.45**

The following table summarizes Agent Options outstanding and exercisable as at July 31, 2019:

Expiry date	Number of Options	Number of Exercisable Options		Weighted Average Exercise Price	Weighted Average Remaining Years
August 16, 2019[(1)]	7,000	7,000	$	0.25	0.04
September 14, 2021[(2)]	2,191,112	2,191,112		0.45	2.13
	2,198,112	2,198,112	$	0.45	2.12

(1) Each Agent Option entitles the holder to acquire one unit. Each unit is comprised of one common share and one share purchase warrant exercisable at $0.35 until August 16, 2019. Expired subsequent to July 31, 2019.

(2) Each Agent Option entitles the holder to acquire one unit. Each unit is comprised of one common share and one share purchase warrant exercisable at $0.65 until September 14, 2021.

(Expressed in Canadian dollars, except where noted)

13. NON-CONTROLLING INTEREST

The following table presents summarized financial information for the non-wholly owned subsidiaries as at July 31, 2019 and 2018:

		July 31, 2019		July 31, 2018
Assets				
Current	**$**	**4,615,148**	$	5,493,247
Non-current		**21,934,935**		3,695,514
		26,550,083		9,188,761
Liabilities				
Current		**13,642,796**		2,354,720
Net assets		**12,907,287**		6,834,041
Non-controlling interest	**$**	**(289,466)**	$	231,439
Revenues	**$**	**8,090,833**	$	12,550,683
Net (loss) income	**$**	**(4,428,578)**	$	526,969

14. FINANCIAL RISK MANAGEMENT

a) Fair value of financial assets and liabilities

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities,
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
Level 3: Inputs that are not based on observable market data.

The fair value of cash and restricted cash is measured using Level 1 inputs. The carrying values of receivables, accounts payable and accrued liabilities, notes payable, and due to related parties approximate their respective fair values due to the short-term nature of these instruments. The fair value of convertible debentures approximates fair value as it is discounted using a market rate of interest.

15. CAPITAL RISK MANAGEMENT

The Company defines capital as equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. The Company’s ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation and securing additional financing.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company’s approach to capital management during the years presented. The Company is not subject to externally imposed capital requirement.

(Expressed in Canadian dollars, except where noted)

16. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key management personnel compensation for the year ended July 31, 2019 and 2018, was as follows:

		2019		2018
Management and consulting fees	**$**	**1,242,565**	$	678,588
Interest expense - notes payable		**-**		66,823
Shares issued for compensation		**100,000**		311,500
Share-based payments		**734,704**		492,716
	$	**2,077,269**	$	1,549,627

Other related party transactions:

		2019		2018
Legal fees - expense	**$**	**55,898**	$	459,662
Legal fees - capitalized to convertible debenture		**-**		48,572
Legal fees - acquisition of Spire		**-**		30,000
Rent		**56,500**		-
Wages and benefits		**269,365**		-
	$	**381,763**	$	538,234

Due to related parties as at July 31, 2019 and 2018, was as follows:

		July 31, 2019		July 31, 2018
Notes payable	**$**	**-**	$	39,339
Accounts payable and accrued liabilities	**$**	**375,030**	$	-

Certain shareholders of the Company's subsidiaries, AMA and Infused, advanced USD$240,000 to the Company by way of promissory notes. The amounts accrued interest at 6% per annum, are unsecured, and due on demand. As at July 31, 2019, the remaining balance is $nil (July 31, 2018 - $39,339 (USD$30,200).

As at July 31, 2019, the Company's accounts payable and accrued liabilities included $375,030 owing Joseph Bleackley, former Chief Operating Officer (July 31, 2018 - $nil).

17. COMMITMENTS AND CONTINGENCIES

a) Lease commitment

Future required minimum lease payments on the facility are as follows:

Year		
2020	$	1,497,000
2021	$	1,544,000
2022	$	1,590,000
2023	$	1,509,000
Thereafter	$	8,807,000

b) Legal contingencies

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the year ended July 31, 2019 were as follows:

- The NCI Buyout Agreement resulted in a $5,229,223 charged to deficit. The charge resulted from the Company issuing consideration of $5,395,722 to acquire non-controlling interest with a book value of $166,499. Consideration was comprised of a promissory note of $1,248,000, the issuance of 7,000,000 common shares with fair value of $3,850,000 common shares and the issuance of 1,000,000 non-transferrable common share purchase warrants with a fair value of $297,722 as determined by the Black-Scholes valuation model.
- Convertible debentures of $4,797,993 were converted into 20,342,206 common shares of the Company. In relation to the conversion $768,606 was reallocated from reserves to share capital.
- The equity portion of convertible debentures was determined to be $2,505,099.
- Non-cash transaction costs related to agent options and warrants issued to agents in relation to the convertible debentures were valued at $738,547.
- Reallocated $253,633 from reserves to share capital upon exercise of stock options.
- Reallocated $30,034 from reserves to share capital upon the exercise of agent warrants.
- Reallocated $210,860 from reserves to share capital upon the exercise of agent unit options.
- The Company made cash interest payments of $1,255,701. No income taxes were paid.

The significant non-cash transactions for the year ended July 31, 2018 were as follows:

- Convertible debentures of $4,275,000 were converted into 17,100,000 common shares of the Company. In relation to the conversion $552,534 was reallocated from reserves to share capital.
- The equity portion of convertible debentures was determined to be $624,360.
- Non-cash transaction costs related to agent options and warrants issued to agents in relation to the convertible debentures were valued at $304,054.
- Issued 1,024,550 common shares for interest valued at $821,640.
- Reallocated $551,833 from reserves to share capital upon exercise of stock options.
- Reallocated $659,863 from reserves to share capital upon the exercise of agent warrants.
- Reallocated $218,899 from reserves to share capital upon the exercise of agent unit options.
- The Company made cash interest payments of $220,695. No income taxes were paid.

(Expressed in Canadian dollars, except where noted)

19. SEGMENTED INFORMATION

The Company operates in three segments, referred to as AMA, Infused MFG, and Corporate. AMA is focused on the cultivation and sale of medical and adult use cannabis products, and Infused MFG is focused on the manufacturing of Hemp derived CBD products. The corporate head office is located in Canada while the operations of AMA and Infused MFG are located in the United States. Segmented information for the year ended July 31, 2019 is as follows:

Year ended July 31, 2019	**AMA**	**Infused MFG**	**Corporate**	**Total**
Revenues	$ 8,090,833	$ 9,968,941	$ -	$ 18,059,774
Cost of sales	9,051,486	3,711,308	-	12,762,794
Gross margin (loss)	(960,653)	6,257,633	-	5,296,980
Expenses				
General and administration	1,645,095	2,180,284	2,784,289	6,609,668
Management and consulting fees	-	-	1,634,041	1,634,041
Wages and benefits	19,405	2,031,149	1,146,065	3,196,619
Professional fees	248,983	138,678	583,790	971,451
Share-based compensation	-	-	2,204,712	2,204,712
Interest expense	213,702	-	1,359,924	1,573,626
Accretion expense	-	-	1,215,212	1,215,212
Depreciation	309,147	77,579	262,240	648,966
Foreign exchange gain	-	-	(5,391)	(5,391)
	2,436,332	4,427,690	11,184,882	18,048,904
Loss on disposal of property and equipment	1,845,905	4,932	-	1,850,837
Impairment loss	-	-	5,044,866	5,044,866
Income (loss) from continuing operations before income tax	**$ (5,242,890)**	**$ 1,825,011**	**$ (16,229,748)**	**$ (19,647,627)**
As at July 31, 2019				
Property and equipment	$ 17,345,324	$ 886,758	$ 3,088,711	$ 21,320,793
Goodwill	4,589,611	11,777,267	-	16,366,878
Total assets	26,550,082	17,719,594	17,384,418	61,654,094
Total liabilities	$ 13,643,796	$ 345,580	$ 10,476,314	$ 24,465,690

(Expressed in Canadian dollars, except where noted)

19. SEGMENTED INFORMATION (continued)

Year ended July 31, 2018	AMA	Infused MFG	Spire (1)	Corporate	Total
Revenues	$ 8,214,915	$ 4,335,768	$ 99,243	$ -	$ **12,649,926**
Cost of sales	4,942,212	1,257,005	-	-	**6,199,217**
Gross margin	3,272,703	3,078,763	99,243	-	**6,450,709**
Expenses					
General and administration	1,535,409	984,045	123,591	830,699	**3,473,744**
Management and consulting fees	-	355,390	280,000	1,503,105	**2,138,495**
Wages and benefits	-	1,384,720	-	-	**1,384,720**
Professional fees	98,028	209,712	19,654	603,731	**931,125**
Bad debt expense	120,914	-	-	-	**120,914**
Share-based compensation	-	-	-	915,896	**915,896**
Interest expense	14,115	30,102	-	433,365	**477,582**
Accretion expense	-	-	-	364,542	**364,542**
Loss on shares issued for interest	-	-	-	565,502	**565,502**
Loss on disposal of discontinued operations	-	-	-	239,000	**239,000**
Depreciation	150,752	126,998	-	857	**278,607**
Foreign exchange loss	-	-	1,714	109,479	**111,193**
	1,919,218	3,090,967	424,959	5,566,176	**11,001,320**
Income (loss) from continuing operations before income tax	**$ 1,353,485**	**$ (12,204)**	**$ (325,716)**	**$ (5,566,176)**	**$ (4,550,611)**

As at July 31, 2018	AMA	Infused MFG	Spire (1)	Corporate	Total
Property and equipment	$ 5,770,360	$ 851,540	$ -	$ 44,134	$ **6,666,034**
Goodwill	4,547,024	11,682,714	5,044,866	-	**21,274,604**
Total assets	13,745,546	20,376,294	709,388	6,508,388	**41,339,616**
Total liabilities	$ 1,368,573	$ 996,529	$ 49,970	$ 1,941,047	$ **4,356,119**

(1) The operations of Spire have been presented as discontinued operations on the consolidated statements of loss for all years presented (note 21).

20. GENERAL AND ADMINISTRATION EXPENSE

	2019	2018
Advertising, promotion and selling costs	**$ 1,370,075**	$ 656,093
Investor relations	**1,281,758**	409,368
Office expenses and general administration	**2,238,117**	803,744
License fees, taxes, and insurance	**1,209,350**	1,232,657
Travel and entertainment	**510,368**	248,291
	$ 6,609,668	$ 3,350,153

(Expressed in Canadian dollars, except where noted)

21. DISCONTINUED OPERATIONS

The results of Spire have been presented as net loss and cash flows from discontinued operations for the years ended July 31, 2019 and 2018. The components of net loss from discontinued operation included in these consolidated financial statements for the years ended July 31, 2019 and 2018 relating to Spire as follow:

		2019		2018
Revenue	**$**	**134,584**	$	99,243
Professional fees		**(8,525)**		(19,654)
Management and consulting fees		**(591,795)**		(280,000)
General and administration		**(111,098)**		(123,591)
Foreign exchange loss		**-**		(1,714)
Net loss from discontinued operations	**$**	**(576,834)**	$	(325,716)

In addition, the Company recorded a loss of $nil during the year ended July 31, 2019 relating to the disposal of QuikFlo (2018 - loss of $239,000).

22. INCOME TAXES

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

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada/British Columbia. The U.S. federal income tax expense is due to the fact that Canadian and U.S. losses are not able to be consolidated for tax disclosure and reporting purposes.

		2019		2018
Loss from continuing operations before income tax	**$**	**(19,647,627)**	$	(3,985,895)
Expected income tax recovery		**(5,305,000)**		(960,000)
Change in statutory, foreign tax, foreign exchange rates and other		**937,000**		(355,559)
Permanent differences		**2,717,000**		1,013,000
Financing fees		**(450,000)**		210,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		**(915,470)**		(91,000)
Change in unrecognized deductible temporary differences		**1,904,000**		1,362,000
Total income tax (recovery) expense	**$**	**(1,112,470)**	$	1,178,441

The significant components of the Company's deferred tax assets and liabilities are as follows:

		July 31, 2019		July 31, 2018
Deferred tax assets (liabilities)				
Property and equipment	**$**	**(2,737,000)**	$	-
Lease liability		**2,499,000**		-
Debt with accretion		**(723,000)**		(339,000)
Non-capital losses		**836,000**		339,000
Net deferred tax liability	**$**	**(125,000)**	$	-

(Expressed in Canadian dollars, except where noted)

22. INCOME TAXES (continued)

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

		July 31, 2019		July 31, 2018
Deferred tax assets (liabilities)				
Property and equipment	**$**	**5,000**	$	122,000
Financing fees		**500,000**		261,000
Investments		**16,000**		46,000
Allowable capital losses		**702,000**		-
Non-capital losses available for future period		**3,343,000**		2,233,000
		4,566,000		2,662,000
Unrecognized deferred tax assets		**(4,566,000)**		(2,662,000)
Net deferred tax assets	**$**	**-**	$	-

Tax attributes are subject to review, and potential adjustment, by tax authorities.

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

		July 31, 2019	**Expiry Date Range**		July 31, 2018	Expiry Date Range
Temporary differences:						
Property and equipment	**$**	**19,000**	**No expiry date**	$	579,000	No expiry date
Financing fees		**1,851,000**	**2040 to 2043**		968,000	2039 to 2042
Investments		**119,000**	**No expiry date**		344,000	No expiry date
Allowable capital losses		**3,341,000**	**No expiry date**		-	No expiry date
Non-capital losses available for future period		**12,583,000**	**2035 to indefinite**		9,334,000	2035 to indefinite
Canada		**11,684,000**	**2035 to 2039**		8,768,000	2035 to 2038
USA	**$**	**899,000**	**Indefinite**	$	566,000	2037 to indefinite

Section 280E of the Tax Code prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in controlled substances which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from underpayment of taxes due to the application of Section 280E. Under a number of cases, the United States Supreme Court has held that income means gross income (not gross receipts). Under this reasoning, the cost of goods sold is permitted as a reduction in determining gross income, notwithstanding Section 280E. Although proper reductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the Company, to the extent of its "trafficking" activities (if applicable), and/or key contract counterparties directly engaged in trafficking in cannabis, may be subject to United States federal tax, without the benefit of certain deductions or credits.

23. EVENTS AFTER THE REPORTING PERIOD

The Company issued 80,000 common shares pursuant to the exercise of 80,000 stock options with an exercise price of $0.15 for gross proceeds of $12,000.

The Company issued 3,376,588 common shares pursuant to the exercise of 3,376,588 warrants with an exercise price of $0.35 for gross proceeds of $1,181,806.

The Company cancelled 1,575,000 stock options with a weighted average cost of $0.36.

On August 16, 2019, 7,000 unexercised Agent Options expired.

23. EVENTS AFTER THE REPORTING PERIOD (continued)

On August 16, 2019, the Company granted 6,800,000 incentive stock options to its directors, officers, consultants and employees pursuant to the Company's stock option plan. The options are exercisable for a period of three years at a price of $0.40 per share and will vest over a three-year period.

On September 4, 2019, the Company issued 44,444 common shares pursuant to the conversion of $20,000 of convertible debentures.

On September 19, 2019, the Company also announced that the Board of Directors approved bonus shares to Mr. Brayden Sutton, Chairman of the Board, and to Mr. Christopher Rebentisch, Chief Executive Officer, pursuant to their respective employment contracts. Mr. Sutton received 291,901 shares and Mr. Rebentisch received 175,913 shares, all of which were issued at a deemed price of $0.365 per share. The bonus shares will bear a four-month regulatory hold period from the date of issuance.

On September 19, 2019, pursuant to the amended terms of two consulting agreements, the Company issued 650,000 share purchase warrants in lieu of cash consideration. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.37 exercisable in whole or in part until June 13, 2022. The warrant will bear a four-month regulatory hold period from the date of issuance.

On October 4, 2019, 66,750 unexercised share purchase warrants expired.