1933 INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2020 and 2019

(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, 2020 and 2019 and the consolidated statements of loss and comprehensive loss (income), 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, 2020 and 2019, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $22,203,622 during the year ended July 31, 2020 and, as of that date, the Company had an accumulated deficit of $57,996,162. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information 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 Dylan Connelly.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

November 27, 2020

1933 INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note		July 31, 2020		July 31, 2019
ASSETS					
Current					
Cash and cash equivalents		**$**	**2,761,542**	$	17,613,900
Receivables			**988,009**		1,726,060
Inventory	4		**2,274,307**		2,512,283
Biological assets	5		**810,332**		168,400
Prepaid expenses and deposits	6		**954,730**		1,945,780
Total current assets			**7,788,920**		23,966,423
Property and equipment	7		**22,094,842**		21,320,793
Goodwill	8		**16,700,708**		16,366,878
Total assets		**$**	**46,584,470**	$	61,654,094
LIABILITIES AND EQUITY					
Current					
Accounts payable and accrued liabilities	15	**$**	**1,387,547**	$	1,383,774
Current portion of lease liability	9		**295,088**		45,665
Total current liabilities			**1,682,635**		1,429,439
Lease liability	9		**14,526,481**		13,032,126
Convertible debentures	10		**10,923,172**		9,879,125
Deferred income tax liability	23		**-**		125,000
Total liabilities			**27,132,288**		24,465,690
EQUITY					
Share capital	11(c)		**70,887,770**		67,467,929
Reserves	11(d)		**6,653,522**		6,329,323
Accumulated other comprehensive income (loss)			**817,190**		(8,444)
Deficit			**(57,996,162)**		(36,310,938)
Equity attributable to shareholders of the Company			**20,362,320**		37,477,870
Non-controlling interest	12		**(910,138)**		(289,466)
Total equity			**19,452,182**		37,188,404
Total liabilities and equity		**$**	**46,584,470**	$	61,654,094

Contingencies (note 16)
Events after the reporting period (note 24)

Approved on behalf of the Board of Directors and authorized for issuance on November 27, 2020:

"Signed"	"Signed"
Brian Farrell, Director	Terry Taouss, 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, 2020 and 2019
(Expressed in Canadian dollars, except share numbers)

	Note		2020		2019
Revenues		**$**	**11,962,525**	$	18,059,774
Inventory expensed to cost of sales			**9,365,413**		12,395,038
Gross margin, excluding fair value items			**2,597,112**		5,664,736
Fair value adjustment on sale of inventory			**(2,157)**		(365,873)
Fair value adjustment on biological assets	5		**(310,281)**		(1,883)
Gross margin			**2,284,674**		5,296,980
Expenses					
General and administration	19		**8,653,102**		6,609,668
Management and consulting fees	15		**947,546**		1,634,041
Wages and benefits	15		**4,222,756**		3,196,619
Professional fees	15		**1,125,603**		971,451
Share-based compensation	11(f),15		**1,782,803**		2,204,712
Interest expense	9,10		**2,630,871**		1,573,626
Accretion expense	10		**1,067,107**		1,215,212
Depreciation	7		**2,185,640**		648,966
Foreign exchange loss (gain)			**53**		(5,391)
			22,615,481		18,048,904
Loss on disposal of property and equipment	7		**-**		1,850,837
Gain on debt modification	10		**(185,327)**		-
Goodwill impairment	8		**-**		5,044,866
Loss from continuing operations before income tax			**(20,145,480)**		(19,647,627)
Current income tax recovery	23		**-**		(1,237,470)
Deferred income tax (recovery) expense	23		**(128,050)**		125,000
Total income tax recovery			**(128,050)**		(1,112,470)
Net loss from continuing operations			**(20,017,430)**		(18,535,157)
Net loss from discontinued operations	7,20		**(2,186,192)**		(576,834)
Net loss for the year		**$**	**(22,203,622)**	$	(19,111,991)
Net loss from continuing operations attributable to:					
Shareholders of the Company		**$**	**(19,355,653)**	$	(18,209,961)
Non-controlling interest		**$**	**(661,777)**	$	(325,196)
Net loss attributable to:					
Shareholders of the Company		**$**	**(21,541,845)**	$	(18,786,795)
Non-controlling interest		**$**	**(661,777)**	$	(325,196)
Net loss from continuing operations per share					
Basic and Diluted		**$**	**(0.07)**	$	(0.07)
Net loss per share					
Basic and Diluted		**$**	**(0.08)**	$	(0.08)
Weighted average number of shares outstanding					
Basic and Diluted			**286,374,573**		252,121,055

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, 2020 and 2019
(Expressed in Canadian Dollars)

		2020		2019
Net loss for the year	**$**	**(22,203,622)**	$	(19,111,991)
Other comprehensive income				
Foreign currency translation adjustment		**866,739**		100,427
Comprehensive loss for the year		**(21,336,883)**		(19,011,564)
Comprehensive loss attributable to:				
Shareholders of the Company		**(21,541,845)**		(18,786,795)
Non-controlling interest		**(661,777)**		(325,196)
Translation adjustment – Shareholders of the Company		**825,634**		129,637
Translation adjustment – Non-controlling interest		**41,105**		(29,210)
	$	**(21,336,883)**	$	(19,011,564)

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, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	2020	2019
Operating Activities			
Net loss from continuing operations		**$ (20,017,430)**	$ (18,535,157)
Adjustments to non-cash items:			
Fair value adjustment on biological assets	5	**310,281**	1,883
Share-based compensation	11(f)	**1,782,803**	2,204,712
Accretion expense	10	**1,067,107**	1,215,212
Depreciation	7	**2,185,640**	648,966
Accrued interest expense	10	**509,395**	103,767
Warrants issued for professional fees	11(e)	**46,847**	-
Shares issued for compensation	11(c)	**170,752**	100,000
Gain on debt modification	10	**(185,327)**	-
Goodwill impairment	8	**-**	5,044,866
Shares issued for interest expense	11(c)	**-**	59,650
Loss on disposal of property and equipment	7	**-**	1,850,837
Changes in non-cash working capital items:			
Inventory and biological assets		**(1,236,078)**	(420,472)
Receivables		**744,986**	(397,479)
Prepaid expenses and deposits		**1,228,497**	(1,641,470)
Deferred financing costs		**-**	45,000
Accounts payable and accrued liabilities		**7,475**	283,234
Income taxes payable		**(125,000)**	(1,147,942)
Cash used in operating activities of continuing operations		**(13,510,052)**	(10,584,393)
Cash used in operating activities of discontinued operations	20	**(1,468,569)**	(576,834)
Investing Activities			
Property and equipment, net	7	**(1,095,346)**	(17,098,585)
Restricted cash		**-**	4,425,602
Cash used in investing activities of continuing operations		**(1,095,346)**	(12,672,983)
Cash used in investing activities of discontinued operations	20	**(140,378)**	-
Financing Activities			
Common shares issued for cash – private placement	11(c)	**-**	4,500,000
Common shares issued for cash – exercise of stock options	11(c)	**12,000**	715,724
Common shares issued for cash – exercise of warrants and agent options	11(c)	**1,181,806**	3,906,514
Subscription receipts	11(c)	**10,000**	-
Lease principal repayment	9	**(152,127)**	-
Convertible debenture units, net	10	**-**	15,581,986
Sale of property and equipment, net	7	**-**	12,962,591
Repayment of notes payable	22	**-**	(1,287,707)
Cash provided by financing activities		**1,051,679**	36,379,108
Effect of exchange rate changes on cash		**310,308**	12,819
(Decrease) increase in cash		**(14,852,358)**	12,557,717
Cash, beginning of year		**17,613,900**	5,056,183
Cash, end of year		**$ 2,761,542**	$ 17,613,900

Supplemental disclosure with respect to cash flows (note 17)

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

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

	Note	Number	Issued capital	Reserves	Accumulated other comprehensive income (loss)	Deficit	Non-controlling interest	Total
Balance, July 31, 2018		227,962,060	$ 47,338,683	$ 1,846,376	$ (138,081)	$ (12,294,920)	$ 231,439	$ 36,983,497
Shares issued - exercise of options	11	2,109,997	570,133	(253,633)	-	-	-	316,500
Shares issued - exercise of warrants	11	12,760,376	3,936,548	(30,034)	-	-	-	3,906,514
Shares issued - exercise of agent options	11	896,454	610,084	(210,860)	-	-	-	399,224
Shares issued - private placement	11	10,000,000	4,500,000	-	-	-	-	4,500,000
Shares issued - conversion of convertible debentures $0.25	10,11	9,700,000	2,319,924	(71,826)	-	-	-	2,248,098
Shares issued - conversion of convertible debentures $0.45	10,11	10,642,206	4,182,907	(696,780)	-	-	-	3,486,127
Shares issued - compensation	11	200,000	100,000	-	-	-	-	100,000
Shares issued for acquisition of Infused	11	7,000,000	3,850,000	-	-	-	-	3,850,000
Warrants issued - Infused 9% equity acquisition	11	-	-	297,722	-	-	-	297,722
Shares issued for interest	10,11	238,600	59,650	-	-	-	-	59,650
Equity portion of convertible debenture	10,11	-	-	2,505,099	-	-	-	2,505,099
Share-based compensation	11	-	-	2,204,712	-	-	-	2,204,712
Agent options issued as finders' fees	11	-	-	738,547	-	-	-	738,547
Translation adjustment less Infused 9% equity acquisition		-	-	-	129,637	-	(29,210)	100,427
Infused 9% equity acquisition	21	-	-	-	-	(5,229,223)	(166,499)	(5,395,722)
Net loss for the year		-	-	-	-	(18,786,795)	(325,196)	(19,111,991)
Balance, July 31, 2019		**281,509,693**	**$ 67,467,929**	**$ 6,329,323**	**$ (8,444)**	**$ (36,310,938)**	**$ (289,466)**	**$ 37,188,404**

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

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

	Note	Number		Issued capital		Reserves		Accumulated other comprehensive income (loss)		Deficit		Non-controlling interest		Total
Balance, July 31, 2019		**281,509,693**	**$**	**67,467,929**	**$**	**6,329,323**	**$**	**(8,444)**	**$**	**(36,310,938)**	**$**	**(289,466)**	**$**	**37,188,404**
Adjustment on application of IFRS 16		-		-		-		-		(143,379)		-		(143,379)
Balance, August 1, 2019		**281,509,693**	**$**	**67,467,929**	**$**	**6,329,323**	**$**	**(8,444)**	**$**	**(36,454,317)**	**$**	**(289,466)**	**$**	**37,045,025**
Shares issued - exercise of options	11	80,000		21,616		(9,616)		-		-		-		12,000
Shares issued - exercise of warrants	11	3,376,588		1,181,806		-		-		-		-		1,181,806
Shares issued - conversion of convertible debentures $0.45	10,11	44,444		18,766		(2,904)		-		-		-		15,862
Shares issued - conversion of convertible debentures $0.10	10,11	20,169,007		2,016,901		(40,525)		-		-		-		1,976,376
Shares issued - bonus	11	467,814		170,752		-		-		-		-		170,752
Subscription receipt	11	-		10,000		-		-		-		-		10,000
Share-based compensation	11	-		-		1,782,803		-		-		-		1,782,803
Warrants issued - services	11	-		-		136,636		-		-		-		136,636
Modification of convertible debentures	10,11	-		-		(1,542,195)		-		-		-		(1,542,195)
Translation adjustment		-		-		-		825,634		-		41,105		866,739
Non-controlling interest		-		-		-		-		-		(661,777)		(661,777)
Net loss for the year		-		-		-		-		(21,541,845)		-		(21,541,845)
Balance, July 31, 2020		**305,647,546**	**$**	**70,887,770**	**$**	**6,653,522**	**$**	**817,190**	**$**	**(57,996,162)**	**$**	**(910,138)**	**$**	**19,452,182**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 300 – 1055 West Hastings Street, Vancouver, 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. On November 4, 2020, the Company acquired the remaining 9% interest in AMA Production LLC ("AMA Pro") from the holders to make the Company's share in AMA Pro 100% (note 22). 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%.

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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments may adversely affect workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

Going Concern

The Company has not yet achieved profitable operations and during the year ended July 31, 2020, the Company incurred a net loss of $22,203,622 (year ended July 31, 2019 - $19,111,991). In addition, the Company has accumulated deficit of $57,996,162 (July 31, 2019 - $36,310,938). The ability of the Company to ensure continuing operations is dependent on the Company's ability to raise sufficient funds to finance development activities and expand sales. These circumstances cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared using accounting principles applicable to a going concern and do not reflect adjustments, which could be material, to the carrying values of the assets and liabilities. See note 22 for events after the reporting period.

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, 2020.

2. BASIS OF PRESENTATION (continued)

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

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.

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
1933 Legacy Inc. (1)	Legacy	USA	100%	USD	Holding company
Infused Mfg LLC	Infused MFG	USA	100% (2)	USD	Hemp and CBD – Infused products
FN Pharmaceuticals LLC	FNP	USA	100%	USD	Holding company
Alternative Medicine Association LLC (3)	AMA	USA	91%	USD	Cannabis cultivation and production
AMA Production LLC	AMA Pro	USA	91%	USD	Holding Company
Spire Secure Logistics Inc.	Spire	Canada	100%	CAD	Inactive

(1) The Company incorporated 1933 Legacy Inc. on November 15, 2018.
(2) On April 1, 2019, the Company acquired the remaining 9% interest from the holder to make the Company's share in Infused Mfg LLC 100%.
(3) On November 4, 2020, the Company acquired the remaining 9% interest in AMA Pro from the holders to make the Company's share in AMA Pro 100% (note 24).

e) **Reclassification of prior year amounts**

The Company may have reclassified certain immaterial items to improve clarity.

3. SIGNIFICANT ACCOUNTING POLICIES

Effective August 1, 2019, the Company adopted the following accounting standards:

a) Leases

Effective August 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16") using the modified retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the right-of-use assets) in the statement of financial position. The Company recognized the after-tax cumulative effect of initially applying IFRS 16 as an adjustment to opening retained earnings at August 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4").

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company used the practical expedient not to reassess whether a contract is or contains a lease at August 1, 2019. Instead, the Company applied IFRS 16 only to contracts previously identified as leases under IAS 17 and IFRIC 4.

The Company also used the following practical expedients to account for leases at August 1, 2019:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Relied on the Company's assessment of whether leases are onerous immediately before August 1, 2019.
- Applied recognition exemptions for operating leases when the underlying asset was of low value or the lease term ends within 12 months. The payments associated with these leases are recognized as an expense in operating expenses.
- Excluded initial direct costs when measuring the right-of-use asset at August 1, 2019.
- Used hindsight to determine the lease term when the contract contained options to extend or terminate the lease.

These policies apply to contracts entered into or changed on or after August 1, 2019. A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration.

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted-average incremental borrowing rate, calculated in accordance with IFRS 16, at August 1, 2019, of 10%. Associated right-of-use assets for certain property leases, elected on a lease-by-lease basis, were measured retrospectively as though IFRS 16 had been applied since the commencement date. Other right-of-use assets were measured at the amount equal to the lease liabilities. The right-of-use asset was adjusted by the amount of any prepaid, accrued lease payments, or acquisition lease advantages or disadvantages relating to that lease and recognized in the statements of financial position as at July 31, 2019.

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liabilities as at August 1, 2019 can be reconciled to the operating lease commitments as of July 31, 2019 as follows:

Operating lease commitments as at July 31, 2019	$	14,575,000
Add:		
Lease payments during renewal periods (1)		16,516,126
Total operating lease commitments as at July 31, 2019		31,091,126
Weighted average incremental borrowing rate as at August 1, 2019		10%
Lease liability as at August 1, 2019 (2)	**$**	**1,539,523**

(1) Represents managements estimate of the lease payments during the renewal periods.
(2) Operating lease commitments include payments pursuant to the sale-leaseback agreement dated May 13, 2019 (note 9) and operating lease commitments affected by the adoption of IFRS 16.

As a result of the initial application of IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized right-of-use assets with a cost of $1,832,615 and accumulated depreciation of $436,471 and lease liabilities of $1,539,523 as at January 1, 2019. The difference of $143,379 was recorded as a direct charge to deficit.

b) Income taxes

Effective August 1, 2019, the Company adopted 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*. The adoption had no impact to the Company.

c) 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.

d) Critical judgements and estimates

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:

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 has identified the continued operating losses of AMA and Infused as an indicator of impairment.

As a result of these impairment indicators, the Company assessed the goodwill associated with the AMA CGU and the Infused CGU for impairment and concluded the recoverable value of the CGU was more than its carrying value and no impairment 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.

i. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. 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.

iii. 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.

iv. 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.

v. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi. Leases as a result of adopting IFRS 16

Identifying whether a contract includes a lease
IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

Estimate of lease term
When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term or the life of the mine. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

Incremental borrowing rate
When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

e) Foreign currencies

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.

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.

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.

f) Cash and cash equivalents

Cash consists of cash at banks and on hand. Cash equivalents consist short-term investments with an original maturity of three months or less.

g) 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,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

h) 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.

i) 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	5-20 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.

j) 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.

k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and

- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to the consolidated statement of loss and comprehensive loss.

l) Convertible debentures

The convertible debentures were determined to be compound instruments, comprising a financial liability (debt obligation) and an equity component (conversion option). The debt obligation is recognized at fair value by discounting the principal balance by the Company's incremental borrowing rate.

Using the residual method, the carrying amount of the conversion option represents the difference between the principal amount and the discounted debt obligation. The convertible debentures, net of the conversion option, is accreted to the principal balance using the effective interest rate method over the term of the convertible debentures, such that the carrying amount of the debt obligation will equal the principal balance at maturity.

Upon exercise of the convertible debentures, the conversion option and the carrying value of debt obligation is reclassified to share capital.

Transaction costs are allocated on a pro-rata basis between the debt obligation and the conversion option.

m) 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.

n) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Financial instruments

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)

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.

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

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.

p) Impairment of financial assets

The expected credit loss model ("ECL") applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI.

To assess credit losses, the Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk;
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low; or
3. financial instruments that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets, other than those at FVTPL and amortized cost, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

q) 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

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

r) 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.

s) 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.

t) 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.

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.

4. INVENTORY

		July 31, 2020		July 31, 2019
Harvested cannabis and trim	**$**	**612,432**	$	87,428
Cannabis oil and equivalent		**1,005,160**		883,497
Finished goods		**316,088**		1,071,514
Raw materials		**340,627**		469,844
	$	**2,274,307**	$	2,512,283

(Expressed in Canadian dollars, except where noted)

5. BIOLOGICAL ASSETS

		July 31, 2020		July 31, 2019
Balance, beginning of year	**$**	**168,400**	$	311,037
Production costs capitalized		**4,583,766**		969,901
Change in fair value less costs to sell		**(310,281)**		(1,883)
Transferred to inventory upon harvest		**(3,622,410)**		(1,114,521)
Unrealized foreign exchange (loss) gain		**(9,143)**		3,866
Balance, end of year	**$**	**810,332**	$	168,400

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 cannabis market. The significant assumptions used in determining the fair value of cannabis plants include:

Assumption		**July 31, 2020**		July 31, 2019
Estimated sales price per gram	**USD$**	**3.57**	USD$	5.07
Weighted average stage of growth		**9 weeks**		10 weeks
Expected yields by plant		**95 grams**		113 grams
Wastage		**5%**		1%
Post – harvest cost per gram	**USD$**	**0.57**	USD$	0.29

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at July 31, 2020 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 17 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.

6. PREPAID EXPENSES AND DEPOSITS

		July 31, 2020		July 31, 2019
Prepaid expenses	**$**	**508,618**	$	829,481
Holdback		**-**		986,100
Security deposit		**446,112**		130,199
	$	**954,730**	$	1,945,780

On May 13, 2019, the Company completed the sale-lease back of land and facility under construction in Las Vegas, Nevada (note 7). The purchaser held back $1,230,999 (USD$936,264) until certain performance conditions were met. During the year ended July 31, 2020, the remaining holdback of $986,100 (USD$750,000) was released.

(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, 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
Adoption of IFRS 16	-	-	-	-	-	1,832,615	1,832,615
Additions	-	465,074	79,208	800,494	20,877	-	1,365,653
Disposals	-	-	-	(140,378)	-	-	(140,378)
Foreign exchange gain	21,982	43,763	56,283	237	3,665	281,759	407,689
Balance, July 31, 2020	**$ 1,150,943**	**$ 3,210,246**	**$ 944,599**	**$ 4,992,047**	**$ 280,217**	**$ 15,088,260**	**$ 25,666,312**
Accumulated depreciation							
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
Adoption of IFRS 16	-	-	-	-	-	447,561	447,561
Depreciation	-	-	94,430	334,378	41,123	1,715,709	2,185,640
Disposals	-	-	-	(10,449)	-	-	(10,449)
Foreign exchange gain	-	-	1,123	13,893	380	53,382	68,778
Balance, July 31, 2020	**$ -**	**$ -**	**$ 223,432**	**$ 838,077**	**$ 183,415**	**$ 2,326,546**	**$ 3,571,470**
Carrying amount							
Balance, July 31, 2019	$ 1,128,961	$ 2,701,409	$ 681,229	$ 3,831,439	$ 113,763	$ 12,863,992	$ 21,320,793
Balance, July 31, 2020	**$ 1,150,943**	**$ 3,210,246**	**$ 721,167**	**$ 4,153,970**	**$ 96,802**	**$ 12,761,714**	**$ 22,094,842**

During the year ended July 31, 2020, the Company determined that it would no longer pursue the activities within Legacy and as a result disposed of production equipment with a net book value of $129,929 (USD$95,016) for $nil proceeds. The loss on disposal of property and equipment is included within discontinued operations of the consolidated statement of loss (note 20).

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 accounted for as a finance lease 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 9). The adoption of IFRS 16 had no impact on the finance lease asset or the lease liability.

(Expressed in Canadian dollars, except where noted)

7. PROPERTY AND EQUIPMENT (continued)

The right of use asset represents the present value of lease payments related to the Company's offices and production facility.

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.

8. GOODWILL

		July 31, 2020		July 31, 2019
Balance, beginning of year	**$**	**16,366,878**	$	21,274,604
Impairment - Spire Global Strategy Inc.		**-**		(5,044,866)
Unrealized foreign exchange gain		**333,830**		137,140
Balance, end of year	**$**	**16,700,708**	$	16,366,878

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. 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.

9. LEASE LIABILITY

		July 31, 2020		July 31, 2019
Balance, beginning of year	**$**	**13,077,791**	$	-
Finance lease obligation		**-**		12,967,478
Adoption of IFRS 16		**1,539,523**		-
Repayment of lease obligation		**(1,548,652)**		111,438
Interest expense		**1,396,525**		212,844
Unrealized foreign exchange loss (gain)		**356,382**		(213,969)
Balance, end of year		**14,821,569**		13,077,791
Less: Non-current portion		**14,526,481**		13,032,126
Current portion of lease liability	**$**	**295,088**	$	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.

Total expenses during the year ended July 31, 2020 relating to short-term leases and low-value leases totaled $167,064.

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

Year		
2021	$	1,551,919
2022	$	1,892,357
2023	$	1,795,282
2024	$	1,636,867
Thereafter	$	26,507,319
Total lease payments	**$**	**33,383,744**
Less: interest	$	18,562,175
Total lease liabilities	**$**	**14,821,569**

(Expressed in Canadian dollars, except where noted)

10. CONVERTIBLE DEBENTURES

		July 31, 2020		July 31, 2019
Balance, beginning of period	**$**	**9,879,125**	$	1,965,031
Convertible debentures issued		**-**		17,250,000
Equity component		**-**		(2,911,250)
Modification of convertible debenture		**1,356,868**		-
Transaction costs - non-cash		**-**		(613,903)
Transaction costs - cash		**-**		(1,386,506)
Interest expense		**1,234,346**		1,332,210
Accretion expense		**1,067,107**		1,215,212
Converted to common shares		**(1,889,323)**		(5,743,226)
Interest paid - cash		**(622,050)**		(1,168,793)
Interest paid - shares		**(102,901)**		(59,650)
Balance, end of year	**$**	**10,923,172**	$	9,879,125

a) $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.

On June 28, 2020, the Company amended the terms of the convertible debentures. The following were the significant amendments:

- the conversion price applicable to the debentures was amended from $0.45 per common share to $0.10 per common share;
- the price at which the Company may require a forced conversion of the debentures is amended from $0.70 per common share to $0.15 per common share, with any such conversion to be made at the amended conversion price of $0.10 per common share;
- the Company is authorized, at its discretion, to pay interest due on the debentures in cash or through the issuance of its common shares, at a price of $0.10 per common share; and
- payment of interest is amended from being payable semi-annually in arrears on the last day of June and December in each year to being payable at the maturity date of the debentures.

10. CONVERTIBLE DEBENTURES (continued)

The equity component of the $17,250,000 convertible debenture was initially determined to be $2,505,099 net of transaction costs of $406,151. At June 28, 2020, the remaining equity component of the original convertible debenture was $1,805,415. The Company determined that the June 28, 2020 modification was a substantial modification as defined by IFRS 9, *Financial Instruments*, and as a result derecognized the debt obligation and equity component (conversion option). The equity component of the remaining principal balance of the convertible debentures of $12,432,007 was determined to be $263,220. The Company did not incur any transaction costs associated with the amendment. As a result of the amendment, the Company recognized a gain on debt modification of $185,327 which is the result of the amendment to the equity component of $1,542,195 less the amendment to the debt obligation of $1,356,868.

During the year ended July 31, 2020, Convertible debentures with a principal balance of $1,934,000 and interest payable of $102,901 were converted into 20,213,451 common shares of the Company (note 11).

The principal and interest balance outstanding as at July 31, 2020 is $10,518,007 and $509,395, respectively. The balance per the statement of financial position at July 31, 2020 of $10,923,172 represents the principal balance, which has been discounted for the equity component. The balance will be increased each period through accretion expense to increase the balance to the principal and interest balance outstanding over the remaining term of the convertible debentures.

b) $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 during the year ended July 31, 2019. The principal balance outstanding at July 31, 2019 is $nil.

10. CONVERTIBLE DEBENTURES (continued)

c) $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 during the year ended July 31, 2019. The principal balance outstanding at July 31, 2019 was $nil.

11. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of July 31, 2020, there were 305,647,546 common shares outstanding (July 31, 2019 - 281,509,693).

b) Escrow shares

The Company does not have any shares subject to trading or escrow restrictions.

c) Issued common shares

The Company had the following common share transactions during the year ended July 31, 2020:

- On September 4, 2019, the Company issued 44,444 common shares pursuant to the conversion of $20,000 of convertible debentures. In relation to the conversion $2,904 was reallocated from reserves to share capital and $18,766 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- On September 19, 2019, the Company issued 291,901 common shares with a fair value of $106,544 as share-based compensation to the Chairman of the Board.
- On September 19, 2019, the Company issued 175,913 common shares with a fair value of $64,208 as share-based compensation to the CEO.

11. SHARE CAPITAL AND RESERVES (continued)

- The Company issued 20,169,007 common shares pursuant to the conversion of $1,914,000 of convertible debentures and interest payable of $102,901. In relation to the conversion $40,525 was reallocated from reserves to share capital and $2,016,901 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- The Company issued 80,000 common shares upon exercise of stock options at a price of $0.15 per share for gross proceeds of $12,000. In relation to the exercise of stock options $9,616 was reallocated from reserves to share capital.
- The Company issued 3,376,588 common shares upon the exercise of warrants at a price of $0.35 per share for gross proceeds of $1,181,806.
- The Company received $10,000 related to a share issuance during the year ended July 31, 2019. The amount has been allocated to share capital.

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.

(Expressed in Canadian dollars, except where noted)

11. SHARE CAPITAL AND RESERVES (continued)

d) Reserves

The following is a summary of changes in reserves:

		Stock options		Convertible debentures		Warrants		Total
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 warrants		-		-		(30,034)		(30,034)
Reclassified on exercise of stock options and Agent Options		(253,633)		-		(210,860)		(464,493)
Balance, July 31, 2019		**3,255,449**		**1,808,319**		**1,265,555**		**6,329,323**
Share-based payments		1,782,803		-		-		1,782,803
Warrants issued for services		-		-		136,636		136,636
Convertible debenture modification		-		(1,542,195)		-		(1,542,195)
Reclassified on conversion of convertible debentures		-		(43,429)		-		(43,429)
Reclassified on exercise of stock options and Agents options		(9,616)		-		-		(9,616)
Balance, July 31, 2020	**$**	**5,028,636**	**$**	**222,695**	**$**	**1,402,191**	**$**	**6,653,522**

e) Warrants

A summary of share purchase warrant activity is as follows:

	Number of Warrants		Weighted Average Exercise Price
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**
Issued – services	650,000		0.37
Expired	(16,750)		0.35
Exercised	(50,000)		0.35
Balance, July 31, 2020	**50,870,566**	**$**	**0.61**

On August 1, 2019, the Company issued 650,000 warrants to consultants for services rendered commencing August 1, 2019 through June 13, 2022. Each warrant entitles the consultants to purchase one common share at a price of $0.37 and expire on June 13, 2022. The fair value of the warrants of $136,636 was recorded as an increase in warrants reserves and was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.61%, expected life of 2.73 years, volatility of 100%.

For warrants issued for services during the year ended July 31, 2020, the Company recorded an expense to professional fees of $46,847 (year ended July 31, 2019 - $nil) on the consolidated statement of loss for services received. As at July 31, 2020, the Company recorded a prepaid expense of $89,789 (July 31, 2019 - $nil) with respect to prepaid services.

(Expressed in Canadian dollars, except where noted)

11. SHARE CAPITAL AND RESERVES (continued)

The following table summarizes share purchase warrants outstanding as at July 31, 2020:

Expiry date	Number of Warrants		Weighted Average Exercise Price	Weighted Average Remaining Years
March 14, 2021	10,000,000	$	0.50	0.62
March 28, 2021	1,000,000		0.53	0.66
September 14, 2021	39,220,566		0.65	1.12
June 13, 2022	650,000		0.37	1.87
	50,870,566	**$**	**0.61**	**1.02**

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 ten years.

A summary of stock option activity is as follows:

	Number of Options		Weighted Average Exercise Price
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**
Granted	8,050,000		0.35
Exercised	(80,000)		0.15
Cancelled	(7,996,666)		0.38
Balance, July 31, 2020	**17,170,000**	**$**	**0.40**

The following table summarizes stock options outstanding and exercisable as at July 31, 2020:

Expiry date	Number of Options	Number of Exercisable Options		Weighted Average Exercise Price	Weighted Average Remaining Years
14-Nov-20	50,000	50,000	$	0.50	0.29
31-May-21	500,000	500,000		0.50	0.83
05-Oct-21	4,880,000	3,253,333		0.55	1.18
13-Jun-22	2,600,000	2,600,000		0.15	1.87
14-Jun-22	790,000	790,000		0.15	1.87
15-Aug-22	5,700,000	1,900,000		0.35	2.04
19-Jan-23	250,000	83,333		0.35	2.47
15-Feb-23	1,300,000	1,300,000		0.65	2.55
26-Feb-23	1,000,000	333,333		0.35	2.57
02-May-24	100,000	100,000		0.55	3.76
	17,170,000	**10,910,000**	**$**	**0.40**	**1.81**

Share-based compensation expense recognized during the year ended July 31, 2020 of $1,782,803 (2019 - $2,204,712) related to options granted and vested during the period. The Company granted 8,050,000 stock options during the year ended July 31, 2020 (2019 - 9,525,000).

(Expressed in Canadian dollars, except where noted)

11. SHARE CAPITAL AND RESERVES (continued)

The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2020	2019
Risk-free interest rate	**1.38%**	1.74%
Expected life of options	**3 years**	3 years
Annualized volatility	**100%**	75%
Dividend rate	**0%**	0%
Weighted average fair value per option	**$0.21**	$0.24

g) Agent Options

A summary of Agent Option activity is as follows:

	Number of Options		**Weighted Average Exercise Price**
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**
Expired	(7,000)		0.25
Balance, July 31, 2020	**2,191,112**	**$**	**0.45**

The following table summarizes Agent Options outstanding and exercisable as at July 31, 2020:

Expiry date	**Number of Options**	**Number of Exercisable Options**		**Weighted Average Exercise Price**	**Weighted Average Remaining Years**
September 14, 2021(1)	2,191,112	2,191,112		0.45	1.12
	2,191,112	2,191,112	$	0.45	1.12

(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 $0.65 until September 14, 2021.

12. NON-CONTROLLING INTEREST

The following table presents summarized financial information for the non-wholly owned subsidiaries as at July 31, 2020 and 2019:

		July 31, 2020		July 31, 2019
Assets				
Current	**$**	**3,597,027**	$	4,615,148
Non-current		**21,110,905**		21,934,935
		24,707,932		26,550,083
Liabilities				
Current		**707,797**		656,335
Non-current		**13,801,919**		12,986,461
		14,509,716		13,642,796
Net assets		**10,198,216**		12,907,287
Non-controlling interest	**$**	**(910,138)**	$	(289,466)
Revenues	**$**	**6,225,206**	$	8,090,833
Net loss	**$**	**(6,266,100)**	$	(4,428,578)

13. 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.

b) Risk Management

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's exploration activities, and limited exposure to credit and market risks. There were no changes to the objectives or the process from the prior period.

The types of risk exposure and the way in which such exposures are managed are as follows:

i. Credit Risk

Credit risk primarily arises from the Company's cash and receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date.

Cash is held as cash deposits on hand and deposits with financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

Receivable primarily consists of trade receivables and goods and services tax (GST) credits. The objective of managing counterparty credit risk is to minimize potential losses in trade receivables. The Company assesses the quality of its customers, taking into account their credit worthiness and reputation, past performance and other factors. The counterparty for the GST credits is the government of Canada and therefore credit risk is low.

ii. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures there is sufficient capital to meet short term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows.

The Company's cash is deposited in major banks, which is available on demand to fund the Company's operating costs and other financial demands.

iii. Currency Risk

The Company has administration in Canada and operations in the U.S. and is exposed to foreign exchange risk due to fluctuations in the U.S. dollar and Canadian dollar. Foreign exchange risk arises from financial assets and liabilities denominated in currency other than the U.S. dollar. A change of 1% in the CAD/USD exchange rate would impact loss and comprehensive loss by $136,000. The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

13. FINANCIAL RISK MANAGEMENT (continued)

iv. Interest Rate Risk

(Expressed in Canadian dollars, except where noted)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its long-term debt instruments and convertible debentures are carried at a fixed interest rate throughout their term.

14. 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.

15. 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, 2020 and 2019, was as follows:

		2020		2019
Management and consulting fees	**$**	**763,716**	$	1,242,565
Directors fees		**179,349**		-
Shares issued for compensation		**170,752**		100,000
Share-based payments		**1,236,973**		734,704
	$	**2,350,790**	$	2,077,269

Other related party transactions for the year ended July 31, 2020 and 2019, were as follows:

		2020		2019
Professional fees	**$**	**13,784**	$	55,898
Rent		**47,921**		56,500
Wages and benefits		**1,285,993**		269,365
	$	**1,347,698**	$	381,763

Due to related parties as at July 31, 2020 and 2019, was as follows:

		July 31, 2020		July 31, 2019
Accounts payable and accrued liabilities	**$**	**-**	$	375,030

As at July 31, 2020, the Company's accounts payable and accrued liabilities included $nil owing to the former Chief Operating Officer (July 31, 2019 - $375,030).

16. 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.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the year ended July 31, 2020 were as follows:

- Convertible debentures with a face value of $20,000 and carrying value of $15,862 were converted into 44,444 common shares of the Company (notes 10 and 11(c)). In relation to the conversion $18,766 was recorded to share capital and $2,904 was reallocated from reserves to share capital.
- Convertible debentures with a face value of $1,914,000 and interest payable of $102,901 and combined carrying value of $1,976,376 were converted into 20,169,007 common shares of the Company (notes 10 and 11(c)). In relation to the conversion $2,016,901 was recorded to share capital and $40,525 was reallocated from reserves to share capital.
- Reallocated $9,616 from reserves to share capital upon exercise of stock options (notes 11(d) and 11(f)).
- Issuance of 650,000 share purchase warrants for professional services with a fair value of $136,636 (note 11(e)).
- Pursuant to the adoption of IFRS 16, the Company recorded right-of-use assets with a cost of $1,832,615 and accumulated depreciation of $436,471 and lease liabilities of $1,539,523. The difference of $143,379 was recorded as a direct charge to deficit.
- The Company made cash interest payments of $622,050 in relation to the convertible debentures and $1,396,525 in relation to the lease liability. No income taxes were paid.

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.

(Expressed in Canadian dollars, except where noted)

18. 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, 2020 is as follows:

Year ended July 31, 2020	**AMA**	**Infused MFG**	**Corporate**	**Total**
Revenues	$ 6,225,206	$ 5,737,319	$ -	**$ 11,962,525**
Cost of sales, including fair value adjustments	6,877,765	2,800,086	-	**9,677,851**
Gross margin	(652,559)	2,937,233	-	**2,284,674**
Expenses				
General and administration	2,126,193	2,746,502	3,780,407	**8,653,102**
Management and consulting fees	-	-	947,546	**947,546**
Wages and benefits	-	984,908	3,237,848	**4,222,756**
Professional fees	356,873	242,111	526,619	**1,125,603**
Share-based compensation	-	-	1,782,803	**1,782,803**
Interest expense	1,324,811	36,159	1,269,901	**2,630,871**
Accretion expense	-	-	1,067,107	**1,067,107**
Depreciation	1,805,338	175,446	204,856	**2,185,640**
Gain on debt modification	-	-	(185,327)	**(185,327)**
Foreign exchange loss (gain)	326	-	(273)	**53**
	5,613,541	**4,185,126**	**12,631,487**	**22,430,154**
Loss from continuing operations before income tax	**$ (6,266,100)**	**$ (1,247,893)**	**$ (12,631,487)**	**$ (20,145,480)**
As at July 31, 2020				
Property and equipment	$ 16,427,815	$ 2,413,779	$ 3,253,248	**$ 22,094,842**
Goodwill	$ 4,683,090	$ 12,017,618	$ -	**$ 16,700,708**
Total assets	$ 24,707,932	$ 17,266,676	$ 4,609,862	**$ 46,584,470**
Total liabilities	$ 14,509,716	$ 1,384,237	$ 11,238,335	**$ 27,132,288**

(Expressed in Canadian dollars, except where noted)

18. SEGMENTED INFORMATION (continued)

Year ended July 31, 2019	**AMA**	**Infused MFG**	**Corporate**	**Total**
Revenues	$ 8,090,833	$ 9,968,941	$ -	**$ 18,059,774**
Cost of sales, including fair value adjustments	9,051,486	3,711,308	-	**12,762,794**
Gross margin	(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**
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**

19. GENERAL AND ADMINISTRATION EXPENSE

General and administration expense information for the year ended July 31, 2020 and 2019 is as follows:

	2020	2019
Advertising, promotion and selling costs	**$ 2,036,251**	$ 1,370,075
Investor relations	**1,565,252**	1,281,758
Office expenses and general administration	**2,923,094**	2,238,117
License fees, taxes, and insurance	**1,854,273**	1,209,350
Travel and entertainment	**274,232**	510,368
	$ 8,653,102	$ 6,609,668

(Expressed in Canadian dollars, except where noted)

20. DISCONTINUED OPERATIONS

On August 15, 2019, the Company, through its wholly-owned subsidiary Legacy, signed a management services agreement to provide operational and accounting services, as well as general management and oversight to Green Spectrum LLC ("Green Spectrum"), a medicinal and recreational cannabis business licensee in the State of California in order to develop the Company's brands within the California market. The operation was discontinued during the year ended July 31, 2020 and as a result Legacy will have no continuing involvement with Green Spectrum LLC. The discontinued operations for the year ended July 31, 2020 relate to Legacy expenses, property and equipment and inventory paid for Green Spectrum.

Discontinued operations for the year ended July 31, 2019 relate to Spire operations.

The components of net loss from discontinued operations included in these consolidated financial statements for the years ended July 31, 2020 and 2019 relating to Legacy and Spire are as follows:

		2020		2019
Revenue	**$**	**-**	$	134,584
Inventory write-off		**(572,635)**		-
Professional fees		**-**		(8,525)
Management and consulting fees		**-**		(591,795)
General and administration		**(1,468,569)**		(111,098)
Depreciation		**(15,059)**		-
Loss on disposal of property and equipment		**(129,929)**		-
Net loss from discontinued operations	**$**	**(2,186,192)**	$	(576,834)

21. INFUSED

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 22); issued 7,000,000 common shares with a fair value of $0.55 per share; 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 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)

22. NOTES PAYABLE

		July 31, 2020		July 31, 2019
Balance, beginning of year	**$**	**-**	$	**39,339**
Issue of notes payable (note 21)		**-**		**1,248,000**
Repayment of notes payable		**-**		**(1,287,707)**
Unrealized foreign exchange loss		**-**		**368**
Balance, end of year	**$**	**-**	$	**-**

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 (note 21). 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.

23. 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.

		2020		2019
Loss from continuing operations before income tax	**$**	**(20,145,480)**	$	(19,647,627)
Expected income tax recovery		**(5,439,000)**		(5,305,000)
Change in statutory, foreign tax, foreign exchange rates and other		**47,000**		937,000
Permanent differences		**1,533,000**		2,717,000
Financing fees		**-**		(450,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		**(1,252,050)**		(915,470)
Change in unrecognized deductible temporary differences		**4,983,000**		1,904,000
Total income tax recovery	**$**	**(128,050)**	$	(1,112,470)

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

		July 31, 2020		July 31, 2019
Deferred tax assets (liabilities)				
Property and equipment	**$**	**(2,637,000)**	$	(2,737,000)
Lease liability		**2,308,000**		2,499,000
Debt with accretion		**-**		(723,000)
Non-capital losses		**329,000**		836,000
Net deferred tax liability	**$**	**-**	$	(125,000)

(Expressed in Canadian dollars, except where noted)

23. 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, 2020		July 31, 2019
Deferred tax assets (liabilities)				
Property and equipment	**$**	**6,000**	$	5,000
Lease liability		**546,000**		-
Financing fees		**352,000**		500,000
Investments		**16,000**		16,000
Debt with accretion		**109,000**		-
Allowable capital losses		**-**		702,000
Non-capital losses available for future period		**8,520,000**		3,343,000
		9,549,000		4,566,000
Unrecognized deferred tax assets		**(9,549,000)**		(4,566,000)
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, 2020	Expiry Date Range		July 31, 2019	Expiry Date Range
Temporary differences:						
Property and equipment	**$**	**20,000**	**No expiry date**	$	19,000	No expiry date
Lease liability		**2,596,000**	**No expiry date**		-	-
Financing fees		**1,305,000**	**2041 to 2044**		1,851,000	2040 to 2043
Investments		**119,000**	**No expiry date**		119,000	No expiry date
Debt with accretion		**405,000**	**No expiry date**		-	-
Allowable capital losses		**-**	**No expiry date**		3,341,000	No expiry date
Non-capital losses available for future period		**33,686,000**	**2035 to indefinite**		12,583,000	2035 to indefinite
Canada		**24,078,000**	**2035 to 2040**		11,684,000	2035 to 2039
USA	**$**	**9,608,000**	**Indefinite**	$	899,000	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.

24. EVENTS AFTER THE REPORTING PERIOD

On August 7, 2020, the Company issued 9,200,000 stock options to officers and employees of the Company. The stock options have an exercise price of $0.075 and expire on August 6, 2025. Vesting for 7,000,000 stock options occurs in tranches of one-third on June 15, 2021, June 15, 2022, and June 15, 2023. Vesting for 2,200,000 stock options occurs in trances of one-third on August 7, 2021, August 7, 2022, and August 7, 2023.

24. EVENTS AFTER THE REPORTING PERIOD (continued)

On September 4, 2020, pursuant to the closure of its private placement, the Company issued 10,510,040 Units at a price of $0.075 per Unit for gross proceeds of $788,253. Each Unit consists of one common share and one-half share purchase warrants. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.125 exercisable in whole or in part until September 4, 2022. The warrant is subject to an accelerated expiry if the closing price of the Company's common shares exceeds $0.25 per share for a period of 10 consecutive trading days. The Company issued 40,250 warrants and paid $6,037 as finder's fee in connection with the closing. All securities issued in connection with the private placement are subject to a regulatory hold period expiring on January 5, 2021.

On November 2, 2020, pursuant to the closure of its private placement, the Company issued 13,920,000 Units at a price of $0.066 (USD$0.05) per Unit for gross proceeds of $918,720 (USD$696,000). Each Unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.106 (USD$0.08) per Unit until November 2, 2023. All securities issued in connection with the private placement are subject to a regulatory hold period expiring on March 4, 2021.

On November 9, 2020, the Company issued 12,050,000 stock options to directors, officers, consultants and employees of the Company. The options are exercisable for a period of five years at a price of $0.10 per share and will vest over a three-year period.

On November 4, 2020, the Company signed a Membership Interest Purchase Definitive Agreement (the "Agreement") to purchase the remaining 9% interest in AMA Pro thereby resulting in the Company's 100% ownership of the subsidiary which contains the property located at 5035 Geist Ave., Las Vegas, Nevada. Subject to the terms of the Agreement, in consideration of the acquisition of the remaining 9%, the Company will issue, in the aggregate, 3,700,000 non-transferable share purchase warrants, exercisable at a price of $0.075 per share expiring on June 13, 2024. The warrants, and any shares exercised pursuant to the warrants, will be subject to a four month and one day hold period as required by applicable securities laws in Canada and such additional restrictions as may be applicable pursuant to U.S. securities laws. As part of the transaction, a total of 1,650,000 outstanding warrants and 2,050,000 options will be cancelled, and the operating agreement for AMA will be amended to concede complete managerial control of AMA to the Company.

On November 14, 2020, 50,000 stock options with an exercise price of $0.50 expired.

The Company issued 20,191,427 common shares pursuant to the conversion of $1,879,000 of convertible debentures and interest payable on the convertible debentures of $140,143.

The Company cancelled 5,040,000 stock options with an average exercise price of $0.40 related to former officers, directors, and employees of the Company.