INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nutritional High International Inc.

Opinion

We have audited the accompanying consolidated financial statements of Nutritional High International 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, cash flows, and shareholders' equity (deficiency) 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 working capital deficiency of $20,563,341, spent $2,016,255 of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $69,546,199, had shareholders' deficiency of $21,899,403 and expects to incur further losses in the development of its business. 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 Grant P. Block.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

February 1, 2021

Nutritional High International Inc.

Consolidated Financial Statements

July 31, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise noted)

Nutritional High International Inc.
Consolidated Statements of Financial Position
Years ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
ASSETS			
Current assets			
Cash		$ **243,860**	$ 1,492,233
Amounts receivable	5,16	**2,292,789**	4,328,102
Prepaid expenses		**58,163**	387,614
Deposits	6	**159,252**	201,588
Inventory	7	**301,383**	2,562,996
Investments	8	**45,844**	933,146
		3,101,291	9,905,679
Non-current assets			
Investment property	10	**1,311,536**	1,368,142
Capital assets	13	**2,268,829**	4,735,024
Intangible assets	12	**-**	1,894,404
Goodwill	12	**-**	1,573,638
		$ **6,681,656**	$ 19,476,887
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	12,14,16,17,21,25	$ **13,421,428**	$ 10,145,459
Income tax payable	30	**1,926,375**	915,902
Promissory note payable	15	**200,000**	525,920
Derivative liabilities	17	**285,572**	1,909,910
Convertible debentures	17,21	**6,279,820**	-
Lease liabilities	16	**1,482,352**	946,128
Deferred gain on sale and leaseback	16	**69,085**	67,766
Convertible debentures advances		**-**	462,000
Consideration payable	3,4	**-**	884,203
		23,664,632	15,857,288
Non-current liabilities			
Convertible debentures	17,21	**4,420,806**	7,547,996
Lease liabilities	16	**468,354**	1,323,170
Deferred gain on sale and leaseback	16	**27,267**	94,512
		28,581,059	24,822,966
Shareholders' deficiency			
Share capital	18	**38,421,113**	34,022,041
Shares to be issued	12,21	**85,001**	52,501
Reserve for share based payments	19,21	**4,591,263**	3,358,075
Reserve for warrants	20	**3,382,530**	4,101,867
Reserve for foreign currency translation		**408,177**	242,217
Equity component of convertible debenture	17	**773,462**	349,548
Deficit		**(69,546,199)**	(47,457,578)
		(21,884,653)	(5,331,329)
Non-controlling interest	22	**(14,750)**	(14,750)
		(21,899,403)	(5,346,079)
		$ **6,681,656**	$ 19,476,887

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 25)
Subsequent events (Note 31)

Approved by the Board:
"*Adam Szweras*" Director — "*Brian Presement*" Director

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

Nutritional High International Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
Sales		**$ 12,338,061**	$ 23,608,410
Cost of goods sold	7	**(9,550,928)**	(18,127,382)
Gross margin		**2,787,133**	5,481,028
Interest	5	**201,375**	68,237
Rental	9	**26,924**	50,709
		3,015,432	5,599,974
Operating expenses:			
Salaries, benefits and consulting fees	21	**5,268,496**	9,575,801
Professional fees	21	**803,485**	1,541,854
General and administrative	26	**3,022,992**	4,996,144
Acquisition and project evaluation costs	21	**151,636**	497,139
Share based payments	19,21	**1,293,188**	1,323,062
Sales, marketing and promotion	21	**1,663,502**	1,680,265
Loss and reserve on inventory	7,12	**179,113**	3,091,100
Depreciation and amortization	10,12,13	**2,421,925**	2,137,418
Allowance for amounts receivable	5	**265,636**	600,542
Allowance for amounts due from Palo Verde LLC	9	**(1,349)**	505,574
Total operating expenses		**15,068,624**	25,948,899
Other items:			
Foreign exchange loss (gain)		**(30,201)**	2,763
Finance costs	15,16,17	**4,099,423**	3,690,710
Gain on sale and leaseback	16	**(69,384)**	(41,287)
Other loss (income)	27	**1,065,611**	(173,600)
Unrealized gain on FVTPL investments	8	**(48,823)**	(706,594)
Gain on sale of interest in a joint venture	11	**-**	(3,706,003)
Gain on sale of property	13	**-**	(699,449)
Loss (gain) on sale of investments	8	**746,423**	(30,604)
Change in fair value of derivative liability	17	**(1,566,417)**	(810,695)
Gain on debt settlement	18	**(69,221)**	(143,387)
Gain on settlement of Pasa Verde consideration payable	3	**-**	(4,885,297)
Gain on extinguishment of debt	12	**(335,100)**	-
Impairment of goodwill	12	**1,611,220**	3,202,008
Impairment of capital assets	13	**2,061,292**	1,825,770
Impairment on net investment in sublease	16	**46,755**	-
Gain on modification of lease	13,16	**(104,676)**	-
Loss on sublease	2	**27,994**	-
Impairment of intangible assets	12	**1,537,987**	8,593,466
Loss from investments in associates and joint ventures	11	**-**	85,399
Total other items		**8,972,883**	6,203,200
Loss before income taxes		**(21,026,075)**	(26,552,125)
Income tax expense (recovery)			
Current	30	**1,062,546**	657,000
Deferred	30	**-**	487,000
		1,062,546	1,144,000

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

Nutritional High International Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Notes		2020		2019
Net loss			**(22,088,621)**		(27,696,125)
Other comprehensive loss					
Exchange differences on translating foreign operations			**165,960**		337,953
Net loss and comprehensive loss		**$**	**(21,922,661)**	$	(27,358,172)
Net loss attributable to:					
Non-controlling interest	22	**$**	**-**	$	-
Parent company			**(22,088,621)**		(27,696,125)
		$	**(22,088,621)**	$	(27,696,125)
Net loss and comprehensive loss attributable to:					
Non-controlling interest	22	**$**	**-**	$	-
Parent company			**(21,922,661)**		(27,358,172)
		$	**(21,922,661)**	$	(27,358,172)
Weighted average number of common shares outstanding					
Basic			**329,543,380**		310,366,789
Diluted			**329,543,380**		310,366,789
Net loss per share					
Basic		**$**	**(0.07)**	$	(0.09)
Diluted		**$**	**(0.07)**	$	(0.09)

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

Nutritional High International Inc.

Consolidated Statements of Cash Flows

Years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020	2019
Operating activities:		
Net loss	**$ (22,088,621)**	$ (27,696,125)
Items not affecting cash:		
Interest income	**(199,350)**	(64,407)
Amortization of capital assets and intangible assets	**2,421,925**	2,045,275
Impairment of capital assets	**2,061,292**	1,852,770
Shares issued for services	**23,447**	235,000
Foreign exchange	**(16,366)**	-
Bad debt expense (recovery)	**(8,888)**	-
Unrealized gain on FVTPL investments	**(48,823)**	(706,594)
Gain on sale of interest in joint venture	**-**	(3,706,003)
Impairment of net investment in sublease	**46,755**	-
Impairment of intangible assets	**1,537,987**	8,593,466
Impairment of goodwill	**1,611,220**	3,202,008
Other income	**-**	(173,600)
Change in fair value of derivative liabilities	**(1,566,417)**	(810,695)
Loss from investment in associates and joint ventures	**-**	85,399
Gain on debt settlement	**(69,221)**	(143,387)
Accretion and finance costs	**4,004,356**	3,536,370
Gain on settlement of Pasa Verde consideration payable	**-**	(4,885,297)
Gain on extinguishment of debt	**(335,100)**	-
Share based payments	**1,293,188**	1,323,062
Gain on sale of property	**-**	(699,449)
Gain on sale and leaseback	**(69,384)**	(41,287)
Gain on modification of lease	**(104,676)**	-
Loss on sublease lease	**27,994**	-
Loss (gain) on sale of investments	**746,423**	(35,942)
Allowance for amounts receivable	**265,636**	600,542
Allowance (recovery) for amounts due from Palo Verde LLC	**(1,349)**	505,574
Write-down of inventory	**179,113**	3,091,100
Net change in non-cash working capital:		
Amounts receivable	**1,312,844**	(1,014,439)
Prepaid expenses	**333,424**	169,804
Deposits	**26,060**	(144,469)
Inventory	**(1,440,000)**	(1,857,834)
Investments	**2,979**	-
Accounts payable and accrued liabilities	**7,044,657**	3,674,283
Income taxes payable	**992,640**	746,681
Deferred gain on sale and leaseback	**-**	203,565
Net cash used in operating activities	**(2,016,255)**	(12,114,629)

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

Nutritional High International Inc.

Consolidated Statements of Cash Flows

Years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020	2019
Investing activities:		
Amounts due from Palo Verde LLC	**-**	(505,574)
Redemption of short-term investments	**-**	2,010,360
Consideration paid pursuant to Calyx acquisition	**(228,218)**	(1,162,815)
Proceeds from sale of investments	**186,723**	362,895
Assets acquisition of Moses Garden LLC	**-**	(912,288)
Proceeds from sale of property	**-**	1,736,225
Purchase of intangible assets	**-**	(65,721)
Increase in promissory note receivable	**(121,158)**	(1,643,360)
Settlement of promissory note receivable	**437,520**	-
Purchase of capital assets	**(239,995)**	(1,718,324)
Proceeds on sale of interest in a joint venture	**-**	4,599,700
Cash paid for Pasa Verde (Westfall)	**-**	(945,969)
Additions to investment in associates	**-**	(98,000)
Net cash provided by investing activities	**34,872**	1,657,129
Financing activities:		
Issuance of convertible debentures units, net of issue costs	**1,868,743**	3,671,276
Proceeds on sale and leaseback	**-**	1,922,203
Issuance of promissory note	**200,000**	-
Interest paid on promissory note	**(19,599)**	(124,909)
Repayment of promissory note	**(131,480)**	(1,051,932)
Interest paid on convertible debenture	**-**	(807,698)
Lease payments	**(1,328,051)**	(781,574)
Proceeds from exercise of warrants	**-**	233,217
Proceeds from exercise of options	**-**	193,583
Convertible debt advances received	**-**	462,000
Proceeds from private placement	**-**	7,133,605
Net cash provided by financing activities	**589,613**	10,849,771
Net increase (decrease) in cash	**(1,391,770)**	392,271
Effect of foreign exchange on cash	**143,397**	314,964
Cash at beginning of year	**1,492,233**	784,998
Cash at end of year	**$ 243,860**	$ 1,492,233

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

Nutritional High International Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

Description	Share capital	Shares to be issued	Reserve for share-based payments	Reserve for warrants	Reserve for foreign currency translation	Equity component of convertible debentures	Accumulated deficit	Equity (deficiency) attributable to shareholders	Non-controlling interest	Total shareholders' equity (deficiency)
Balance as at July 31, 2018	**$ 22,204,166**	**$ 3,679,924**	**$ 2,093,669**	**$ 2,261,831**	**$ (95,736)**	**$ 359,462**	**$ (19,761,453)**	**$ 10,741,863**	**$ (14,750)**	**$ 10,727,113**
Share based payments	-	-	1,436,308	-	-	-	-	1,436,308	-	1,436,308
Shares issued on exercise of warrants	613,207	-	-	(379,990)	-	-	-	233,217	-	233,217
Shares issued on exercise of options	252,238	-	(58,656)	-	-	-	-	193,582	-	193,582
Forfeiture of stock options	-	-	(113,246)	-	-	-	-	(113,246)	-	(113,246)
Shares issued pursuant to Calyx acquisition	536,460	(536,460)	-	-	-	-	-	-	-	-
Shares issued pursuant to Pasa Verde acquisition	51,631	(2,690,963)	-	-	-	-	-	(2,639,332)	-	(2,639,332)
Shares issued for debt settlement	81,908	-	-	15,024	-	-	-	96,932	-	96,932
Shares issued for service	235,000	-	-	-	-	-	-	235,000	-	235,000
Conversion of debentures	262,059	-	-	-	-	(9,914)	-	252,145	-	252,145
Warrants issued pursuant to sales and leaseback	-	-	-	63,424	-	-	-	63,424	-	63,424
Shares issued for pursuant to Moses Garden Acquisitio	4,482,198	-	-	-	-	-	-	4,482,198	-	4,482,198
Shares issued for interest on convertible debentures	453,913	-	-	-	-	-	-	453,913	-	453,913
Shares purchased by a third party	538,866	-	-	-	-	-	-	538,866	-	538,866
Foreign exchange translations	-	-	-	-	337,953	-	-	337,953	-	337,953
Private placements (net of share issued costs)	4,310,395	-	-	2,141,578	-	-	-	6,451,973	-	6,451,973
Shares to be issued pursuant to Dab Stick IP	-	(400,000)	-	-	-	-	-	(400,000)	-	(400,000)
Net loss for the year	-	-	-	-	-	-	(27,696,125)	(27,696,125)	-	(27,696,125)
Balance as at July 31, 2019	**$ 34,022,041**	**$ 52,501**	**$ 3,358,075**	**$ 4,101,867**	**$ 242,217**	**$ 349,548**	**$ (47,457,578)**	**$ (5,331,329)**	**$ (14,750)**	**$ (5,346,079)**
Shares issued for cashless warrant exercise	-	-	-	-	-	-	-	-	-	-
Fair value reversal of cashless warrant exercise	1,282,711	-	-	(1,282,711)	-	-	-	-	-	-
Shares issued for exercise of RSU	60,000	-	(60,000)	-	-	-	-	-	-	-
Shares based payments	-	-	1,460,653	-	-	-	-	1,460,653	-	1,460,653
Forfeiture of stock options	-	-	(167,465)	-	-	-	-	(167,465)	-	(167,465)
Convertible debentures	-	-	-	563,374	-	438,025	-	1,001,399	-	1,001,399
Shares issued for debt settlement	247,065	-	-	-	-	-	-	247,065	-	247,065
Shares issued for service	23,447	-	-	-	-	-	-	23,447	-	23,447
Conversion of debentures	441,110	-	-	-	-	(14,111)	-	426,999	-	426,999
Shares issued for Moses Garden Acquisition	659,050	-	-	-	-	-	-	659,050	-	659,050
Shares issued for interest on convertible debentures	1,685,689	-	-	-	-	-	-	1,685,689	-	1,685,689
Shares issuable for TKO debt assignment	-	32,500	-	-	-	-	-	32,500	-	32,500
Foreign exchange translation	-	-	-	-	165,960	-	-	165,960	-	165,960
Net loss for the year	-	-	-	-	-	-	(22,088,621)	(22,088,621)	-	(22,088,621)
Balance as at July 31, 2020	**$ 38,421,113**	**$ 85,001**	**$ 4,591,263**	**$ 3,382,530**	**$ 408,177**	**$ 773,462**	**$ (69,546,199)**	**$ (21,884,653)**	**$ (14,750)**	**$ (21,899,403)**

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

1. Nature of operations and going concern

Nutritional High International Inc. ("Nutritional High" or "the Company" or "NHII") is a publicly traded company incorporated in Canada on July 19, 2004 under the Canada Business Corporations Act. The Company is listed on the Canadian Securities Exchange (CSE) under the symbol "EAT", quoted on the OTCQB Marketplace under the symbol "SPLIF" and on the Frankfurt Stock Exchange (FRANKFURT) under the symbol "2NU". The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1. The Company is focused on developing, manufacturing and distributing products and recognized brands in the marijuana and marijuana-infused products industries, including edibles and oil extractions for nutritional, medical and adult recreation use in the United States. The Company works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by US state law.

The consolidated financial statements for the year ended July 31, 2020 were approved by the Board of Directors on February 1, 2021.

The Company has been incurring operating losses and cash flow deficits since its inception, as it executes on its business plan to capitalize on the opportunity that is emerging in the United States in the cannabis sector, a sector that has been legalized by certain U.S. states but remains federally illegal and is subject to legislative uncertainty. The Company's operations are not yet self-sustaining. As such, the Company has been depleting its invested capital and is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs. There is no assurance that any prospective project in the medical cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

As at July 31, 2020, the Company had working capital deficiency of $20,563,341 (July 31, 2019 - $5,951,609), spent $2,016,255 (2019 - $12,114,629) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $69,546,199 (July 31, 2019 - $47,457,578), had shareholders' deficiency of $21,899,403 (July 31, 2019 - $5,346,079) and expects to incur further losses in the development of its business, all of which describe the material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on its ability to obtain further funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is a significant uncertainty as to whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial statements. These consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern, which could be material.

In March 2020, the World Health Organization declared a global pandemic resulted from the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19". This has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. This pandemic may also impact expected credit losses on amounts due from customers, staff shortages, reduced customer demand, and increased government regulations or interventions, all of which may negatively impact the business, financial condition or results of operations of the Company.

On December 9, 2020, Health Canada authorized the approval of a vaccine with conditions under an Interim Order. This is the first of a number of vaccines that Canada is expected to approve in the coming months. On December 11, 2020, the United States Food and Drug Administration approved for emergency use a vaccine to treat COVID-19. This is expected to be the first of a number of vaccines that will be approved in the fight to vaccinate the citizens of Canada and the United States.

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") in effect for the year ended July 31, 2020.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information, and on historical cost basis except for certain financial instruments and acquisition-related contingent consideration, which are measured at fair value. All figures are presented in Canadian dollars unless otherwise noted.

2.3 Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, 80% owned subsidiary, Calyx Brands Inc. and 51% owned subsidiary, Eglinton Medicinal Advisory Ltd. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

Intercompany balances and transactions and unrealized and realized gains or losses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Non-controlling interest is shown as a component of equity on the statement of financial position and the share of the profit or loss attributable to non-controlling interest is shown as a component of profit or loss for the period in the statement of loss and comprehensive loss.

The Company's subsidiaries and investments in associate and joint venture are listed below:

Subsidiary/Affiliate	Ownership Interest July 31, 2020	Ownership Interest July 31, 2019	Accounting method
NHII Holdings Ltd. ("NHHL")	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP")	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL")	100%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC")	100%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
NH Distribution California LLC ("NHDC") (2)	100%	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
NH Washington Inc.("NHWI")	100%	100%	Consolidation
Nutritional High Group, LLC ("NHG")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH")	100%	100%	Consolidation
Calyx Brands Inc. ("Calyx") (1,2)	80%	-	Consolidation

(1) On October 30, 2019, the Company amended its asset purchase agreement (Note 3) to recast it as a share purchase agreement. The Company held 80% of the issued and outstanding shares of Calyx, with the option to purchase the remaining 20% for nominal consideration which it purchased subsequent to year end on August 31, 2020.

(2) On November 5, 2020, the Company sold its 100% interest in NHDC and Calyx to a third party (Note 31).

2.4 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of the Company, NHHL, NHCIP, and EMAL is the Canadian dollar. The functional currency of the remaining subsidiaries is the US dollar.

2.5 Significant accounting policies

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed. Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

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

Revenue recognition

Revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, and allocating the transaction price to the individual performance obligations making up the contract. Revenue is then recognized when or as the associated performance obligations are delivered and based on the expected consideration to be received.

Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of the consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell.

On acquisition, raw materials are recorded at their replacement cost at the date of acquisition. The cost of finished goods is marked up such that the acquirer will only recognize the benefit of the selling effort of a product.

The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Investment property

Investment property earns lease income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses. Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Depreciation is provided at rates as follows:

Building	4% Declining balance
Leasehold improvements	Straight-line over the lease term

Interests in equity accounted investees and joint ventures

The Company's interest in equity accounted investees is comprised of its interest in associates and joint ventures.

In accordance with IFRS 10, Consolidated Financial Statements, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies. In accordance with IFRS 11 Joint Arrangements; a joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and joint ventures are accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company’s share of the profit or loss and other comprehensive income (“OCI”) of equity accounted investees until the date on which significant influence or joint control ceases.

Investments in equity instruments without significant influence are recorded at fair value.

Capital assets

Capital assets are carried at cost less any residual value, accumulated depreciation and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When capital assets include significant components with different useful lives, they are recorded and depreciated separately. Depreciation is computed based on the estimated useful life of the assets. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of capital assets have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Building	4% Declining balance
Leasehold improvements	Term of lease
Vehicles	5 years
Furniture and equipment	3 years
Manufacturing equipment	25%-40% Declining balance
Computer and software	25%-33% Declining balance

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

License and management agreement	Indefinite
Trade name	5 years
Proprietary data	5 years
Customer relationships	2 years

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit (“CGU”) or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the consolidated statement of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company's most recent goodwill impairment test during the second quarter did not result in the recognition of any impairment losses.

Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate there may be impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the goodwill, the impairment loss is first allocated to reduce the amount of goodwill and to the other assets of the unit on pro-rata basis, based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

Leases

At inception, the Company assesses whether a contract is, or contains, a lease. The assessment involves the exercise of judgment about whether the lease depends on a specified asset, whether the Company obtains substantially all the economic benefits for the use of that asset during the lease term, and whether the Company has the right to direct the use of the asset. If the lease contains an extension option that the Company considers reasonably certain to be exercised, the term of the lease becomes the base lease plus renewal option, including any associated costs. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of-use asset is initially measured at cost, which includes the initial amount of the liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator for impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company's estimation of the amount expected to be payable under a residual guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

When the Company subleases a right-of-use asset, the Company classifies the sublease as an operating lease if the head lease is a short-term lease. Otherwise, the sublease is classified as a finance lease. When the sublease is classified as a finance lease, the lessor derecognizes the right-of-use asset pertaining to the head lease that it transfers to the sublessee, at the sublease commencement date, but continues to account for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in the lease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within equity.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

Share-based payments

Equity-settled share-based payments to employees are measured at fair value of the equity instrument on grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are retained in share-based payment reserve. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Restricted Share Units ("RSUs")

RSUs are measured at fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and is recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. Total shares issuable from stock options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended July 31, 2020 and 2019.

Related party transactions

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. The Company has made the following classifications:

Financial Assets / Liabilities	Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Deposits	Amortized cost
Investments	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Promissory note payable	Other financial liabilities
Convertible debenture advances	Other financial liabilities
Convertible debentures	Other financial liabilities
Derivative liabilities	FVTPL
Lease liabilities	Other financial liabilities
Consideration payable	FVTPL

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of 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.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income (loss) and comprehensive income (loss).

(iv) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(v) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss.

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amount's receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at July 31, 2020.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Foreign currency translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date.

Nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in loss and comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period end;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange translation.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance, is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange assumptions.

2.6 Significant accounting estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant estimates

Useful life of long-lived assets

Depreciation of capital assets and amortization of intangible assets are dependent upon estimates of their useful lives. 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.

Share-based payments and brokers' warrants

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

Fair value of financial instruments

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

Recoverability of long-lived assets

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

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Convertible debentures

The accounting for convertible debentures involves discounted cash flow technique which includes both inputs that are not based on observable market data and inputs that are available from observable market data. Where available, the Company seeks comparable interest rates and, if unavailable, uses those considered appropriate based on management's assessment of the Company's risk profile.

Deferred tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

Significant judgments

Going concern

Each reporting period, management exercises judgment in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations.

Functional currency

The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

Leases

Significant judgments related to lessee and lessor accounting primarily include evaluation of the appropriate discount rate to use to discount lease liabilities and net investment in sublease, the determination of lease term, and assessing if the Company was reasonably certain that it would exercise any lease renewal option.

2.7 Adoption of new accounting standards

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaced IAS 17 - Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard was effective for annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach effective August 1, 2019.

As at August 1, 2019, the Company had entered into lease and sublease agreements with respect to various leased premises which commenced during the year ended July 31, 2017. In the context of IFRS 16, aggregate ROU assets of $2,390,826, net investment in sublease of $65,907, lease liabilities of $2,484,074, loss on sublease of $27,994 and foreign exchange gain of $653 were recognized as at August 1, 2019. The lease liabilities were measured at the present value of the lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 8% on August 1, 2019. The ROU assets were measured at the amounts equal to the corresponding initial lease liabilities, net of investment in sublease and loss on sublease recognized.

The adoption of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining the contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

IFRIC 23, Uncertainly over Income Tax Treatments ("IFRIC 23")

In June 2018, the IASB issued IFRIC 23 which clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. There was no impact to the Company's financial statements as a result of adopting this new standard.

3. Business acquisition

Calyx Brands Inc.

On March 15, 2018, the Company acquired all of the assets of Calyx Brands Inc. ("Calyx"), a California-based distributor of cannabis products for a large network of dispensaries (the "Acquisition"). The Company amended the Acquisition agreement (the "Amended Acquisition") to recast it as a share purchase agreement on October 30, 2019. Under the Amended Acquisition, the Company acquired 80% of issued and outstanding shares of Calyx for no additional consideration, with the option to purchase the remaining 20% for nominal consideration. The remaining 20% was acquired by the Company on August 31, 2020 (Note 31).

During the year ended July 31, 2020, the Company paid the final consideration of $228,218 (US$172,500) in cash pursuant to the Acquisition agreement. As at July 31, 2020, $Nil (July 31, 2019 - $226,803) was included in consideration payable.

On August 7, 2020, and as amended on November 5, 2020, the Company entered into a Stock Purchase and Sale Agreement with DB12, LLC to sell 100% of the Company's interest in Calyx for no consideration (Note 31).

Pasa Verde, LLC

On July 26, 2018, the Company, through its wholly-owned subsidiary, NHNC, acquired a 100% membership interest in Pasa Verde. Pasa Verde is a California limited liability company which operates a licensed cannabis extraction facility which provides toll manufacturing services and develops, acquires and designs products for brands in the cannabis infused edibles and oil extracts sectors of the medical and adult use cannabis markets in the State of California.

(Expressed in Canadian Dollars)

The following table summarizes the estimated fair values of the identifiable assets and liabilities acquired at the date of acquisition:

Total purchase price consideration	**$**
Cash – paid (i)	327,200
Deferred cash consideration (ii)	654,400
Settlement of pre-closing advances on working capital (iii)	96,851
Shares issued (iv)	1,083,096
Contingent consideration payable (v)	5,046,696
	7,208,243
Identified tangible assets and liabilities assumed	
Cash	146
Accounts receivable	35,701
Inventory	451,930
Deposits	23,035
Capital assets	1,462,814
Accounts payable and accrued liabilities	(214,062)
Finance lease liability	(1,021,992)
Identified intangible assets	
License	2,447,788
Trade name	466,744
Customer relationship	389,456
Goodwill	3,166,683
	7,208,243

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

(i) Total cash consideration paid on closing was $327,200 (US$250,000).
(ii) A total cash payment of $654,400 (US$500,000) (the “Permitting Payment”) was due upon Pasa Verde providing documentation of receipt of local authorization approval from the City of Sacramento, California which is subject to a working capital adjustment on closing.
(iii) The Company advanced working capital funds for a total of $96,851 (US$78,000) to Pasa Verde prior to the Closing date. These advances were effectively settled through the Closing date.
(iv) The Company issued 3,094,560 common shares on the date of acquisition. The fair value of the shares was determined based on the share price on the Closing date.
(v) The Company was committed to pay up to $6,899,010 (US$5,300,000) (“the Earn-out payment”) at certain intervals between 12 months to 24 months from the closing date, which will be payable contingent on Pasa Verde achieving adjusted gross revenue (“Gross Revenue”) targets, which will be settled 50% in cash and 50% in shares.

The fair value of the Earn-Out payment was recorded as contingent consideration payable and was calculated by assessing the amount expected to be paid out for each distinct Earn Out period, assessing the probability as to the likelihood of the payout occurring and using a 20% discount rate, equivalent to the market rate of interest expected to be incurred by the Company to finance the obligation in the case of early payment.

In connection with the acquisition, the Company incurred $36,776 of legal fees and issued 123,782 common shares valued at $43,324 as finders’ fee to FMI Capital Advisory Inc., a related party.

On May 24, 2019, the Company entered into a settlement agreement (the "Settlement Agreement") in connection with the acquisition of Pasa Verde. Pursuant to the terms of the Settlement Agreement, the Company paid an aggregate of US$650,000, US$55,000 for legal fees and issued 39,557 common shares at a fair value of $0.21 per common share, resulting in a gain on settlement of $4,885,297.

Shares previously held in escrow totaling 3,094,560 common shares were returned to the Company and sold to a third party for proceeds of $538,866 resulting in a gain of $Nil.

(Expressed in Canadian Dollars)

4. Asset acquisition

On January 3, 2019, the Company acquired certain assets of Moses Garden LLC, a Washington-based limited liability company ("Moses Garden").

Total purchase price consideration	**$**
Cash (i)	905,018
Issued shares (ii)	3,828,148
Consideration payable in shares (iii)	1,350,100
Transaction costs (iv)	7,270
	6,090,536
Identified tangible assets and liabilities assumed	
Equipment	904,393
Identified intangible assets	
Assignment of license and trademark (v)	5,186,143
	6,090,536

(i) Total cash consideration paid was $905,018 (US$675,000).
(ii) The Company issued 13,432,098 common shares valued at $3,828,148 on closing. The fair value of the common shares was determined based on the share price on the closing date.
(iii) The Company issued 3,400,260 shares valued at $654,050, being US$500,000 worth of common shares due six months after closing, on July 8, 2019. The final consideration of US$500,000 in shares due nine months after closing were issued on September 11, 2019.
(iv) The Company incurred $7,270 in expenditures related to this acquisition.
(v) Assignment of license and trademark is to license a number of well-known brands, including Marley Natural brand, for use in connection with inhalable cannabis products in Washington and Oregon.

On April 17, 2020, the Company terminated its Product and Licensing Agreement for the brands referred to in (v) above.

As at July 31, 2020, $Nil (July 31, 2019 - $657,400) was included in current consideration payable.

5. Amounts receivable

The breakdown of the amounts receivable balance is as follows:

	July 31, 2020	July 31, 2019
	$	$
Trade accounts receivable (ii)	**309,260**	1,889,211
Harmonized Sales Tax (HST) recoverable	**57,281**	241,848
Promissory note receivable (i)	**1,926,248**	2,135,217
Other receivable (iii)	**-**	61,826
Total	**2,292,789**	4,328,102

(i) Promissory note receivable is made up of:

- $1,926,248 (US$1,437,070) (July 31, 2019 - $1,576,427 (US$1,198,986)) relating to promissory notes receivable from Green Therapeutics, LLC ("GTL"). As of July 31, 2020, the Company had advanced a total of $1,662,096 (US$1,240,000) to GTL (July 31, 2019 - $1,512,020 (US$1,150,000)) (Note 25). The promissory notes bear interest of 12% per annum and are due, as amended in October and November 2020, on the earlier of March 31, 2021, the closing or termination of Membership Interest Purchase Agreement ("MIPA") or any mutually agreed upon term. The principal of and interest accrued from the promissory notes can also be applied against the purchase price of the MIPA. During the year ended July 31, 2020, the Company accrued interest of $199,350 (US$148,083) (2019 - $64,407 (US$48,986));

(Expressed in Canadian Dollars)

- $Nil (US$Nil) (July 31, 2019 - $427,310 (US$325,000)) due from TKO Products LLC ("TKO") pursuant to settlement agreement entered in October 2019. The Company had initially advanced a total of $771,780 (US$585,292) as per the terms of the letter of intent entered on November 14, 2017 and terminated in July 2018. Consequently, the Company recognized a total of $344,470 (US$260,292) in bad debt during the year ended July 31, 2019. On October 28, 2019, the promissory note totaling US$325,000 was assigned to a director and a company controlled by a director in common which was subsequently repaid. The assignees to the promissory note are also entitled to receive 270,833 common shares, which were valued at $32,500; and

- $Nil (US$Nil) (July 31, 2019 - $131,480 (US$100,000)) relating to a 10% per annum promissory note receivable from Good Vybes LLC ("Good Vybes") (Note 25). Management determined that the promissory note receivable was deemed uncollectable. Consequently, the Company recognized a total of $134,243 (US$100,000) in bad debt during the year ended July 31, 2020.

  Subsequent to year end, the Company entered into a Settlement and Release Agreement with respect to the repayment of the promissory note receivable from GTL (Note 31).

  Subsequent to year end, the Company entered into an agreement to sell promissory notes receivable from GTL in the amount of US$190,000 for proceeds of $320,533 (Note 31).

(ii) During the year ended July 31, 2020, the Company recorded a provision for trade accounts receivables of $72,160 (2019 - $196,897).

(iii) During the year ended July 31, 2020, the Company recorded a provision for other receivables of $59,233 (2019 - $Nil).

6. Deposits

Deposits consist of $159,252 (US$116,280) (July 31, 2019 - $176,025 (US $133,880)) of security deposits on leased facilities and $Nil (July 31, 2019 - $25,563 (US$19,442)) of refundable deposits.

7. Inventory

The breakdown of inventory is as follows:

	July 31, 2020	July 31, 2019
	$	$
Raw materials	**-**	174,935
Work-in-Progress	**-**	2,245
Finished goods	**301,383**	2,583,036
Provision	**-**	(197,220)
Total	**301,383**	2,562,996

Inventory recognized as cost of goods sold during the year ended July 31, 2020 was $9,550,928 (2019 - $18,127,382). For the year ended July 31, 2020, the Company recorded a loss and reserve on inventory of $179,113 (2019 - $3,091,100), which primarily consisted of $Nil (2019 - $1,755,588) of inventory loss adjustment, $64,768 (2019 - $1,138,292) relating to destruction of raw materials and expired products, and $114,345 (2019 - $197,220) for slow moving inventory.

(Expressed in Canadian Dollars)

8. Investments

The Company's investments are comprised of the following:

	July 31, 2020	July 31, 2019
FVTPL	**$**	$
Harborside Inc.		
Nil shares (July 31, 2019 - 26,639 shares)	**-**	82,581
Pharmadrug Inc.		
1,309,818 shares (July 31, 2019 - 8,953,115 shares)	**45,844**	850,565
200,000 warrants (July 31, 2019 - 200,000 warrants)	**-**	-
Balance	**45,844**	933,146

Harborside Inc. ("Harborside")

On September 5, 2018, the Company converted the full amount of its debenture receivable in Lineage into 500,000 Lineage shares valued at $100,000, and pursuant to the settlement of Royalty payment, the Company was issued 454,545 of Lineage shares valued at $75,000 on January 25, 2019.

On May 30, 2019, Lineage completed the Reverse Take-Over ("RTO") Transaction with FLRish. The Resulting Issuer changed its name to Harborside Inc. and consolidated its shares. The Company's total shares in Lineage were consolidated and as a result, the Company held 101,939 Harborside shares.

During the year ended July 31, 2020, the Company sold 26,639 (2019 – 75,300) shares in Harborside for gross proceeds of $15,189 (2019 – $362,895), resulting in a realized loss of $67,392 (2019 – gain of $35,942).

The fair value of Harborside shares held as of July 31, 2020 and 2019 was determined using the closing share price of Harborside as of July 31, 2020 and 2019, respectively. During the year ended July 31, 2020, the Company recorded an unrealized loss of $Nil (2019 - $119,706) with respect to the revaluation of Harborside shares.

During the year ended July 31, 2019, the Company has written down the warrants in Harborside to $Nil, resulting in an unrealized loss of $24,265.

Pharmadrug Inc. ("Pharmadrug")

On June 24, 2019, due to the loss of significant influence in Pharmadrug, the Company reclassified its investments in Pharmadrug to investments carried at FVTPL (Note 11). As at July 31, 2019, the Company held 8,953,115 Pharmadrug shares valued at $850,565 and 200,000 Pharmadrug warrants valued at $Nil. Each Pharmadrug warrant is exercisable at $0.75 per Pharmadrug share until August 9, 2020.

During the year ended July 31, 2020, the Company sold 7,643,297 shares in Pharmadrug (2019 – Nil) for gross proceeds of $171,534 (2019 - $Nil), resulting in a realized loss of $679,031 (2019 - $Nil).

As at July 31, 2020, the Company held 1,309,818 shares of Pharmadrug (July 31, 2019 - 8,953,115 shares), of which 1,309,818 shares (July 31, 2019 - 2,183,030 shares) were held in escrow and will be released as follows:

	Number of shares
August 16, 2020 (received subsequent to year end)	436,606
February 16, 2021 (received subsequent to year end)	436,606
August 16, 2021	436,606
Total	**1,309,818**

(Expressed in Canadian Dollars)

The fair value of Pharmadrug shares held as of July 31, 2020 and 2019 was determined using the closing share price of Pharmadrug as of July 31, 2020 and 2019, respectively. During the year ended July 31, 2020, the Company recorded an unrealized gain of $48,823 (2019 - $850,565) with respect to the revaluation of Pharmadrug shares.

Subsequent to year ended July 31, 2020, the Pharmadrug warrants expired unexercised.

9. Amounts due from Palo Verde LLC

	Proprietary packaging (i)	Promissory note (ii)	Total
	$	$	$
Balance at July 31, 2018	-	-	-
Additions	247,304	243,888	491,192
Effect of movement in exchange rates	7,241	7,141	14,382
Provision (iii)	(254,545)	(251,029)	(505,574)
Balance at July 31, 2019 and 2020	-	-	-

(i) Proprietary packaging materials purchased for Palo Verde LLC ("Palo Verde").

(ii) On June 1, 2018, the Company issued a one-year, 10% commercial promissory note to fund up to US$300,000. For the year ended July 31, 2020, the Company advanced a total of $Nil (2019 - $243,888).

(iii) An allowance was recorded due to uncertainties surrounding the Company's recoverability of the amount due from Palo Verde. For the year ended July 31, 2020, the Company recorded a provision on the amounts due from Palo Verde of $Nil (2019 - $505,574).

The Company also had a revolving loan agreement with Palo Verde which was unsecured and bore interest at 10% per annum effective June 1, 2018 (12% prior to June 1, 2018). The maturity date of the loan was June 1, 2023. On April 12, 2019, the Company entered into assignment and assumption agreements with High Pita Corporation to sell and assign the balances due on the revolving loan and promissory note of US$1,384,356 and US$300,000, respectively, for US$100 each.

The Company leased the Pueblo property and equipment in Colorado to Palo Verde (Notes 10 and 13). On April 18, 2017, the lease agreement was amended to extend the term to April 17, 2027 and defer payment ("deferred lease") until Palo Verde attains certain gross sales targets. The agreement was further amended on June 1, 2018 to modify monthly lease payments and 10% per interest per annum was applied on the deferred lease.

For the year ended July 31, 2020, the Company received $26,294 (US$20,000) (2019 - $50,709 (US$38,318)) of lease payments from Palo Verde, and as a result, the Company recognized $26,294 (2019 - $50,709) of rental income.

(Expressed in Canadian Dollars)

10. Investment property

Cost	Land	Building	Leasehold Improvements	Total
	$	$	$	$
Balance at July 31, 2018	**162,713**	**989,292**	**482,086**	**1,634,091**
Effect of movement in exchange rates	1,637	9,956	4,853	16,446
Balance at July 31, 2019	**164,350**	**999,248**	**486,939**	**1,650,537**
Effect of movement in exchange rates	3,200	19,456	9,481	32,137
Balance at July 31, 2020	**167,550**	**1,018,704**	**496,420**	**1,682,674**

Accumulated Depreciation	Land	Building	Leasehold Improvements	Total
	$	$	$	$
Balance at July 31, 2018	**-**	**138,014**	**59,284**	**197,298**
Depreciation	-	33,960	49,572	83,532
Effect of movement in exchange rates	-	1,199	366	1,565
Balance at July 31, 2019	**-**	**173,173**	**109,222**	**282,395**
Depreciation	-	33,219	50,386	83,605
Effect of movement in exchange rates	-	3,228	1,910	5,138
Balance at July 31, 2020	**-**	**209,620**	**161,518**	**371,138**

Net Book Value	Land	Building	Leasehold Improvements	Investment property
	$	$	$	$
Balance at July 31, 2018	**162,713**	**851,278**	**422,802**	**1,436,793**
Balance at July 31, 2019	**164,350**	**826,075**	**377,717**	**1,368,142**
Balance at July 31, 2020	**167,550**	**809,084**	**334,902**	**1,311,536**

The property is located in Pueblo West, Colorado ("Pueblo") and is leased to Palo Verde (Note 9). The fair value of the investment property as at July 31, 2020 and July 31, 2019 exceeded its carrying value.

11. Investments in associate and joint venture

Nutritional High Dispensaries LLC ("NHMD")

Pursuant to the restated joint venture letter agreement entered on April 4, 2016 between the Company and ILDISP, LLC ("ILDISP"), ILDISP acquired a 50% interest and equal control in NHMD, formerly wholly owned subsidiary of the Company, on September 17, 2016. The Company had accounted for its investment in the joint venture using the equity method. Since September 2016, NHMD operates The Clinic Effingham, a retail medical cannabis dispensary, in Effingham, Illinois. The Company sold its 50% membership interest in NHMD to ILDISP in October 2018 for gross proceeds of $4,599,700 (US$3,500,000) and as a result, the Company recognized a gain on the sale of $3,706,003. During the year ended July 31, 2019, the Company recognized its share of NHMD's income up to the date of sale of $163,661.

Pharmadrug Inc.

Pharmadrug is engaged in the building of an international network of vertically integrated cannabis assets and is targeting a downstream business in the legalized medical marijuana sector in the European and Israeli markets.

On November 14, 2016, Pharmadrug issued a promissory note of US$120,000 to the Company, bearing interest at 12% per annum and maturing 24 months from the date of issue ("Maturity date"). At the option of the Company, on or after November 14, 2017, and prior to Maturity date, the promissory note, together with accrued and unpaid interest, were convertible into Pharmadrug units at the conversion price of $0.05, with each full warrant exercisable, until the earlier of 5 years from the date of issuance or 2 years from the date of listing of Pharmadrug's shares on the CSE, into one Pharmadrug common share at the exercise price of $0.075 per common share. As consideration for the promissory note, Pharmadrug issued 4,000,000 shares to the Company.

On August 9, 2018, the Company invested $98,000 for 200,000 units of Pharmadrug. Each unit comprises one common share and one warrant, with each warrant exercisable at $0.75 per share for a period of 24 months from closing.

On December 3, 2018, the Company converted US$120,000 of the promissory note and the interest accrued into 4,028,272 Pharmadrug units which were comprised of 4,028,272 Pharmadrug common shares and 2,014,136 Pharmadrug warrants. Following the conversion, the Company exercised 2,014,136 Pharmadrug warrants.

On June 24, 2019, as a result of loss of significant influence in Pharmadrug, the Company discontinued the use of the equity method and reclassified its investment as FVTPL investments (Note 8).

12. Intangible assets and goodwill

Purple Haze

On June 5, 2015, the Company entered into an agreement with Purple Haze Properties LLC ("PHP") for the exclusive right to manufacture and distribute cannabis and hemp oil-infused products, and non-exclusive rights to manufacture and distribute certain apparel and accessories in the United States and Canada ("Licensing Agreement").

The agreement provides for annual exclusivity fees and royalties ("annual fees") of no less than US$1,000,000 over five years (US$200,000 for license and US$50,000 for royalty per year) with an additional renewal option for an additional five years.

The Company was informed by PHP that a complaint was filed with the United States District Court, Southern District of New York ("Complaint") alleging that PHP and parties related to PHP attempted to improperly exploit the intellectual property rights contained in the Licensing Agreement and are seeking equitable relief and damages. Due to the uncertainties of the outcome of the Complaint, the Company had written the license and prepaid royalty down to $1 in 2017. On January 25, 2018, the parties entered into a license agreement addendum ("Addendum") whereby, the third (2017) and fourth (2018) annual fees are to be satisfied through the payment of $340,869 (US$265,000) (paid) in cash and issuance of 750,000 common shares (issued), respectively. The payments were expensed and recorded in the consolidated statement of loss and comprehensive loss.

As per the terms of the Addendum, one-half (50%) of all common share issuances and 100% of monetary royalties shall be placed in a litigation escrow account ("Escrow account") for contingencies until the sum of $2,680,800 (US$2,000,000) is reached. The Addendum also includes two one-year options to extend the Licensing Agreement at the Company's sole discretion.

As at July 31, 2019, the Company has included the fifth and final license and royalty fee of $328,700 (US$250,000) in accounts payable and accrued liabilities. During the year ended July 31, 2020, the Company terminated the Licensing Agreement as PHP has filed for bankruptcy and recognized a gain on extinguishment of debt amounting to $335,100 (US$250,000).

Dab Stick

On January 30, 2017, the Company entered into an Intellectual Property ("IP") assignment and option agreement to acquire a dispenser for viscous liquid substances (the "Dab Stick") and the technology and the intellectual property and rights for the purpose of allowing the Company to make, have made, use, sell and market products using such technology and intellectual property rights. As a consideration, the Company shall issue common shares to the vendors as follows:

(i) Upon confirmation, to the Company's satisfaction, that the Dab Stick product satisfactorily functions for its intended purpose, an aggregate of 416,667 common shares (issued at a fair value of $43,751);

(ii) Upon the commercial sale at fair market value of the first 100 Dab Stick products, an aggregate of $100,000 worth of common shares;
(iii) Upon the commercial sale at fair market value of the next 500 Dab Stick products, an aggregate of $100,000 worth of common shares; and
(iv) Upon the grant of a patent by the United States Patent and Trademark Office ("USPTO") for a provisional patent application filed in October 2016, an aggregate of $200,000 worth of common shares. Should the vendors fail to advance the application which results in application going abandoned, the $200,000 worth of common shares shall become due on the date of abandonment.

In July 2018, the Company recognized the remaining $400,000 obligation as noted in (ii) to (iv) as shares to be issued, due to the Company's assessment of their likelihood of occurrence in the near future. In April 2019, the Company became aware of possible defects in the Dab Stick which may bring viability into question. Due to the delay and uncertainty as to the timing of the commercialization of Dab Stick, the Company de-recognized the $400,000 obligation to the vendors and the corresponding intangible assets during the year ended July 31, 2019. In addition, the Company recognized impairment losses of trademark and IP of $212,123 and inventory related to Dab Stick of $384,951 during the year ended July 31, 2019.

Pasa Verde

In February 2019, the City of Sacramento, California Department of Cannabis Policy & Enforcement rescinded local authorization for cannabis manufacturing for Pasa Verde. Without the local authorization in place, the California Department of Public Health was required to revoke Pasa Verde's state temporary manufacturing license and all production and commercial activity have since been suspended. As a result, the Company recognized impairment losses of intangible assets (license, trade name and customer relationship) and goodwill of $3,195,200 and $3,202,008, respectively, during the year ended July 31, 2019.

Moses Garden and Marley License Trademark

Management assessed that, due to the changes to the market and increasing competitive pressures in Oregon and Washington, the marketability of the licensed Marley products was in question. As at July 31, 2019, due to the negative outlook for the Marley license and trademark and likelihood of termination of the Licensing Agreement, the Company wrote off the associated assignment of license and trademark of $5,186,143 during the year ended July 31, 2019.

Calyx

Management assessed the carrying values of the intangible assets and the goodwill, and as a result of the decision to sell Calyx, the Company wrote off the carrying values of the intangible assets and goodwill amounting to $1,509,642 and $1,611,220, respectively, during the year ended July 31, 2020.

Mile High FLI Club Rewards Program

Effective August 1, 2020, the Mile High FLI Club Rewards Program was discontinued. Therefore, the carrying value of the intangible asset amounting to $28,345 was written off during the year ended July 31, 2020.

(Expressed in Canadian Dollars)

Cost	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2018	**4,257,494**	**867,631**	**78,435**	**1,295,502**	**6,499,062**	**4,702,416**	**11,201,478**
Additions	5,251,864	-	-	-	5,251,864	-	5,251,864
Reversal	(400,000)	-	-	-	(400,000)	-	(400,000)
Impairment	(7,873,361)	(471,951)	-	(393,800)	(8,739,112)	(3,202,008)	(11,941,120)
Effect of movement in exchange rate	51,345	3,556	(7,422)	7,334	54,813	73,230	128,043
Balance at July 31, 2019	**1,287,342**	**399,236**	**71,013**	**909,036**	**2,666,627**	**1,573,638**	**4,240,265**
Impairment	(1,301,953)	(413,313)	(80,450)	(933,363)	(2,729,079)	(1,611,220)	(4,340,299)
Effect of movement in exchange rate	14,611	14,077	9,437	24,327	62,452	37,582	100,034
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Accumulated Amortization	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2018	**2,577**	**31,278**	**6,088**	**70,634**	**110,577**	-	**110,577**
Additions	10,307	126,680	15,822	553,596	706,405	-	706,405
Impairment	-	(47,196)	-	(98,450)	(145,646)	-	(145,646)
Effect of movement in exchange rate	-	33,940	(49)	66,996	100,887	-	100,887
Balance at July 31, 2019	**12,884**	**144,702**	**21,861**	**592,776**	**772,223**	-	**772,223**
Additions	10,308	82,663	15,837	291,928	400,736	-	400,736
Impairment	(23,192)	(196,325)	(38,214)	(933,361)	(1,191,092)	-	(1,191,092)
Effect of movement in exchange rate	-	(31,040)	516	48,657	18,133	-	18,133
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Net Book Value	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2018	**4,254,917**	**836,353**	**72,347**	**1,224,868**	**6,388,485**	**4,702,416**	**11,090,901**
Balance at July 31, 2019	**1,274,458**	**254,534**	**49,152**	**316,260**	**1,894,404**	**1,573,638**	**3,468,042**
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(Expressed in Canadian Dollars)

13. Capital assets

Cost	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2018	**211,746**	**1,342,777**	**895,558**	**3,997,330**	-	**136,468**	**13,228**	**6,597,107**
Additions	-	2,600	716,874	1,271,441	-	196,345	10,462	2,197,722
Additions - sale and leaseback	-	-	-	2,082,817	-	-	-	2,082,817
Dispositions - sale and leaseback	-	-	-	(2,153,760)	-	-	-	(2,153,760)
Dispositions - sale of property	-	(1,036,776)	-	-	-	-	-	(1,036,776)
Impairment	-	-	-	(2,089,722)	-	-	-	(2,089,722)
Effect of movement in exchange rates	2,131	25,925	(4,648)	58,602	-	(1,177)	15	80,848
Balance at July 31, 2019	**213,877**	**334,526**	**1,607,784**	**3,166,708**	**-**	**331,636**	**23,705**	**5,678,236**
Reclassification of equipment under sales and leaseback	-	-	-	(1,888,773)	1,888,773	-	-	-
Adoption of IFRS 16	-	-	-	-	2,390,826	-	-	2,390,826
Additions	-	-	104,062	16,297	-	122,026	-	242,385
Impairment	-	-	(1,065,794)	(817,416)	(1,760,760)	(224,194)	(19,224)	(3,887,388)
Modification of lease	-	-	-	-	(1,601,410)	-	-	(1,601,410)
Disposals	-	-	-	-	-	-	-	-
Effect of movement in exchange rates	4,164	6,513	35,509	38,485	93,873	8,972	(4,481)	183,035
Balance at July 31, 2020	**218,041**	**341,039**	**681,561**	**515,301**	**1,011,302**	**238,440**	**-**	**3,005,684**

Accumulated Depreciation	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2018	-	-	-	**192,307**	-	**5,610**	**2,075**	**199,992**
Additions	-	11,076	350,333	849,617	-	39,764	4,492	1,255,282
Dispositions - sale and leaseback	-	-	-	(209,643)	-	-	-	(209,643)
Impairment	-	-	-	(263,952)	-	-	-	(263,952)
Effect of movement in exchange rates	-	(91)	(3,023)	(35,335)	-	(132)	114 -	38,467
Balance, July 31, 2019	**-**	**10,985**	**347,310**	**532,994**	**-**	**45,242**	**6,681**	**943,212**
Reclassification of equipment under sales and leaseback	-	-	-	(339,032)	339,032	-	-	-
Additions	-	13,009	473,709	155,090	1,198,433	90,665	6,678	1,937,584
Impairment	-	-	(718,608)	(203,997)	(752,978)	(136,987)	(13,526)	(1,826,096)
Modification of lease	-	-	-	-	(335,084)	-	-	(335,084)
Effect of movement in exchange rates	-	159	7,873	3,655	4,305	1,080	167	17,239
Balance at July 31, 2020	**-**	**24,153**	**110,284**	**148,710**	**453,708**	**-**	**-**	**736,855**

Net Book Value	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Office Furniture	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2018	**211,746**	**1,342,777**	**895,558**	**3,805,023**	**-**	**130,858**	**11,153**	**6,397,115**
Balance, July 31, 2019	**213,877**	**323,541**	**1,260,474**	**2,633,714**	**-**	**286,394**	**17,024**	**4,735,024**
Balance, at July 31, 2020	**218,041**	**316,886**	**571,277**	**366,591**	**557,594**	**238,440**	**-**	**2,268,829**

As at July 31, 2020, ROU assets totaling $557,594 (July 31, 2019 - $Nil) were comprised of leased equipment of $557,594 (July 31, 2019 - $Nil).

(Expressed in Canadian Dollars)

14. Accounts payable and accrued liabilities

The breakdown of the accounts payable is as follows:

	July 31, 2020	July 31, 2019
	$	$
Trade accounts payable	**3,828,355**	3,757,010
Payroll tax payable	**355,811**	825,819
Excise tax payable	**3,162,359**	2,778,900
Other payable and accrued liabilities	**6,074,903**	2,783,730
Total	**13,421,428**	10,145,459

15. Promissory note payable

Pueblo, Colorado

On April 18, 2018, the Company amended the refinancing arrangement of its Pueblo, Colorado property in the amount of US$800,000 entered initially in April 2016, and amended in April 2017, to extend for an additional twelve months to April 18, 2019. As consideration for the extension, the Company paid the lender a renewal fee of $20,182 (US$16,000), issued 750,000 warrants at an exercise price of $0.70 per share, expiring on October 18, 2019, valued at $167,942 and extended the expiry of the previously issued 3,333,334 warrants and 1,000,000 warrants to October 18, 2019.

On April 18, 2019, the Company amended the terms of the loan to extend US$400,000 of the loan, for an additional 6 months to October 18, 2019 for an extension fee of $16,108 (US$12,000), bearing interest at 16% per annum payable monthly and to extend the remaining US$400,000 of the loan, for 30 days along with a fee of US$40,000.

During the year ended July 31, 2020, the Company recorded accretion expense of $Nil (2019 - $118,851) which was included within finance costs.

During the year ended July 31, 2020, the Company repaid the principal balance of US$100,000 in principal along with interest of US$14,400 and penalties of US$14,433. The remaining principal balance of US$300,000 was sold by the lender to Adam Szweras, director of the Company ("Adam Szweras"), and was applied towards his subscription of convertible debentures (Note 17).

Psychedelic Sciences Corp.

On July 20, 2020, the Company received a $200,000 loan from Psychedelic Sciences Corp. (“PSC”). The loan was advanced in anticipation of the acquisition of PSC which took place on August 14, 2020 (Note 31). The loan bears interest at 8% per annum, is unsecured and due on demand.

.The breakdown of promissory note payable is as follows:

	July 31, 2020	July 31, 2019
	$	**$**
Opening balance	**525,920**	1,421,816
Repayment of principal	**(131,480)**	(1,051,932)
Exchanged for convertible debenture (Adam Szweras)	**(394,920)**	-
Issuance of new promissory note	**200,000**	-
Deferred financing costs	-	23,440
Finance costs	**38,367**	243,760
Interest paid	**(19,599)**	(124,909)
Penalties paid	**(18,768)**	-
Effect of movement in exchange rates	**480**	13,745
Ending balance	**200,000**	525,920

16. Lease liabilities

Equipment lease

On July 26, 2018, pursuant to the acquisition of Pasa Verde (Note 3), the Company entered into a lease agreement for extraction equipment for US$26,573 per month until June 29, 2021.

As at July 31, 2020, outstanding lease payments amounting to $284,951 (US$212,586) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)).

Sale and leaseback arrangement

On August 1, 2018, the Company entered into an equipment sale leaseback line of credit agreement (the "sale and leaseback agreement") with a lender for up to US$2,000,000 for a three-year term with fixed monthly lease rental payments. The Company may extend the lease term for a minimum of twelve months. At the end of the lease term, the Company has the option to purchase all equipment for the then fair market value which shall not exceed 20% of the cost.

At the inception of the respective leases under the sale and leaseback arrangement, the Company sold equipment with a total carrying value of US$1,395,482 and drew down a total of US$1,550,104 from the equipment line of credit, resulting in a deferred gain on sale and leaseback of US$154,622. The deferred gain is amortized over the term of the respective leases. As at July 31, 2020, the deferred gain on sale leaseback amount to $96,352 (US$71,883) (July 31, 2019 - $162,278 (US$123,424)).

As at July 31, 2020, the Company has drawn down a total of $2,077,759 (US$1,550,104) from the equipment sale leaseback line of credit. Since the inception of the sales leaseback agreement, the Company issued a total of 553,609 common share purchase warrants to the lender. Each warrant entitles the lender to purchase one common share at a price of $0.70 per share for a period of 24 months from the date of issuance.

As at July 31, 2020, outstanding lease payments amounting to $245,237 (US$182,958) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)).

During the year ended July 31, 2020, the Company has paid $50,345 (US$36,100) in interest expense associated with delinquent lease payments (2019 - $Nil (US$Nil)).

Facility lease

Sacramento, California

On May 8, 2017, the Company entered into an agreement to lease the facility in Sacramento, California for US$17,600 per month for the period from June 1, 2017 to May 31, 2020. Pursuant to the agreement, the monthly lease payment was to increase by 3% each year.

On February 22, 2018, the Company exercised its option to extend the lease for additional five years to May 31, 2025, whereby the monthly lease payment would increase by 3% each year.

On May 13, 2020, the Company entered into an amended agreement with the lessor, whereby the Company would lease the premise on a month-to-month basis effective June 1, 2020. Pursuant to the amended agreement, the Company would pay US$5,000 (paid) and US$13,672 by September 1, 2020, and the security deposit of US$176,000 would be applied against the May 2020 lease obligation. As a result of the amended agreement, the Company derecognized the remaining lease liability of $1,350,876 (US$1,003,474) and ROU asset of $1,247,058 (US$926,354), resulting in a gain on modification of lease of $103,818 (US$77,120).

As at July 31, 2020, outstanding lease payments amounting to $18,326 (US$13,672) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)).

Roland Way, Oakland, California

On September 15, 2017, the Company entered into an agreement to lease the facility in Roland Way, Oakland, California for US$4,760 per month for the period from October 9, 2017 to October 31, 2020. Lease payments were to increase 3% each year during the term of the lease.

On June 18, 2020, the Company has terminated the lease agreement and entered into a Debt Conversion Agreement to settle all outstanding lease payments through payment of US$5,000 (paid subsequent to year end) and issuance of 1,405,800 units (issued subsequent to year end) (Note 31). Each unit is comprised of one common share and one warrant, with each warrant exercisable to purchase one common share at $0.05 per common share until December 31, 2020. As a result of the termination of lease agreement, the Company derecognized the remaining lease liability of $20,126 (US$14,950) and ROU asset of $19,268 (US$14,313), resulting in a gain of modification of lease of $858 (US$637).

As at July 31, 2020, outstanding lease payments amounting to $40,613 (US$30,299) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)).

Pendleton Way, Oakland, California

On September 7, 2018, the Company entered into an agreement to lease the facility located in Pendleton Way, Oakland, California for the period from September 15, 2018 to September 14, 2021. Pursuant to the agreement, monthly lease payment amount to US$11,874 and will increase to $12,468 effective September 15, 2021. The Company has an option to renew the lease agreement for additional two years for an increase in lease payments of 5% each year. As at July 31, 2020, the Company has not exercised this option.

Chatsworth, California

On July 12, 2019, the Company entered into an agreement to lease the facility located in Chatsworth, California ("Chatsworth facility") for the period from July 1, 2019 to June 30, 2022. Pursuant to the agreement, monthly lease payments were US$11,650 commencing July 1, 2019, US$13,250 commencing October 1, 2019 and 3% increase in lease payments commencing in each of July 1, 2020 and July 1, 2021.

On July 12, 2019, the Company entered into an agreement with Hannah Ashby ("Ashby") to sublease a portion of the Chatsworth facility for US$1,571 per month until June 30, 2022. During the year ended July 31, 2020, the sublease receivable from Ashby was estimated to be uncollectible, and the net investment in sublease of $46,755 (US$34,731) was written off to profit and loss.

As at July 31, 2020, outstanding lease payments amounting to $71,041 (US$53,000) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)).

The adoption of IFRS 16 on August 1, 2019 has resulted in the recognition of lease liabilities, ROU assets and net investment in sublease associated with the facility leases above. The lease liabilities were measured at the present value of the lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 8%.

(Expressed in Canadian Dollars)

The breakdown of lease liabilities is as follows:

	$
Balance, July 31, 2019	**2,269,298**
Adoption of IFRS 16	**2,484,074**
Lease payments	**(1,351,736)**
Lease payments in accounts payable	**(660,168)**
Accretion	**478,695**
Gain on modification of lease	**(1,371,002)**
Effect of movement in exchange rates	**101,545**
Balance, July 31, 2020	**1,950,706**
Less: Current portion	**1,482,352**
Non-current portion	**468,354**

Future minimum lease payments payable are as follows:

	July 31, 2020	July 31, 2019
	$	$
Less than 1 year	**1,657,724**	1,249,196
1-5 years	**486,068**	1,471,358
More than 5 years	**-**	-
Total future minimum lease payments	**2,143,792**	2,720,554
Less: Amount representing interest	**193,086**	451,256
Present value of minimum lease payments	**1,950,706**	2,269,298
Less: current portion	**1,482,352**	946,128
Non-current portion	**468,354**	1,323,170

The breakdown of net investment in sublease is as follows:

	$
Balance, July 31, 2019	**-**
Adoption of IFRS 16	**65,907**
Sublease income in accounts receivable	**(25,376)**
Interest income	**4,649**
Impairment	**(46,755)**
Effect of movement in exchange rates	**1,575**
Balance, July 31, 2020	**-**

The breakdown of deferred gain on sale and leaseback is as follows:

	$
Balance, July 31, 2019	**162,278**
Amortization	**(69,384)**
Effect of movement in exchange rates	**3,458**
Balance, July 31, 2020	**96,352**
Less: Current portion	**69,085**
Non-current portion	**27,267**

17. Convertible debentures

March 2018 convertible debentures

On March 15, 2018, the Company issued 8,000 Convertible Debentures Units (the "CD Units") for gross proceeds of $8,000,000. Each CD Unit consists of $1,000 principal amount of 10% senior unsecured convertible debentures payable semi-annually and 1,667 common share purchase warrants of the Company. The convertible debentures mature on March 15, 2021.

The debentures are convertible into common shares of the Company at a conversion price of $0.60 per share. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of $0.70 per share.

Beginning July 16, 2018, the Company may force the conversion of all the principal amount of the then outstanding 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 $1.20 for any 20 consecutive trading days.

The Company paid cash fees of $947,956 and issued an additional 190 Units. In addition, the Agents received 1,066,666 warrant units ("Agents' Units"). Each Agents' Unit is exercisable into one Agents' Unit at a price of $0.60 per Agents' Unit. Each Agents' Unit consists of one common share and one warrant. Each warrant is exercisable for a period of 2 years following Closing at an exercise price of $0.70 per share.

The convertible debentures are considered compound financial instruments. On initial recognition, the residual value method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as $6,406,521 using a discount rate of 20%. The residual proceeds of $1,783,479 were allocated between warrants and conversion option on a pro-rata basis relative to their fair values. Total transaction costs of $1,866,327 have been allocated proportionately to the equity and liability components.

Certain terms of the convertible debentures were amended on December 30, 2019 as follows:

1. A reduction in the conversion price from $0.60 to $0.15 until maturity of the debentures; and
2. The Company is authorized to pay the interest due on the debentures in cash at the existing rate of 10% per annum, or through the issuance of its common shares at a rate of 14% per annum, at the sole discretion of the Company. Such issuance of common shares will be set at a price which is equal to the weighted average closing price for the common shares during the twenty (20) trading day period ending on the last complete trading day, five (5) days prior to the date upon which interest is due on the debentures.

As a result of the amendment, the Company recognized a gain on modification of convertible debentures during the year ended July 31, 2020 in the amount of $307,529.

During the year ended July 31, 2020, the convertible debentures holders converted a combined total of $310,000 (2019 - $197,000) principal amount of convertible debentures resulting in the issuance of 1,941,665 (2019 – 328,332) common shares. On conversions, the Company reduced the present value of the liability by $248,815 and the related equity component by $14,111.

During the year ended July 31, 2020, the Company recorded accretion expense on the convertible debentures of $1,713,391 (2019 - $888,070) and interest expense of $394,358 (2019 - $766,982) which were included within finance costs. As at July 31, 2020, $87,256 (2019 - $67,036) of the interest expense was recorded in accounts payable and accrued liabilities (Note 14). The Company issued shares for the December 2019 and June 2020 interest payments of $555,287 and $526,447, respectively (Note 18).

August 2018 convertible debentures

On August 3, 2018, the Company issued 4,200 Convertible Debentures Units (the "Units") for aggregate proceeds of $4,200,000. Each Unit consists of $1,000 principal amount of 10% senior secured convertible debentures and 1,429 common share purchase warrants of the Company payable semi-annually. The convertible debentures mature on August 7, 2021.

The debentures are convertible into common shares at a conversion price of $0.70 per share. Each warrant is exercisable to acquire one common share for a period of 36 months following closing at an exercise price of $0.80 per share.

The interest is payable in cash or by issuing common shares against the amount due at the sole option of the Company. If the Company elects to issue the common shares as interest payment, the price per common share shall equal the 20-day volume-weighted average price (VWAP), and the effective interest rate shall be increased to 12% from 10%.

The convertible debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations. The Company paid finder's a cash commission of $336,000, of which $42,000 was paid to FMI Capital Advisory Inc., a related party (Note 21). Additionally, the Company issued 480,000 finder's options, valued at $162,696, to acquire finder units exercisable at a price of $0.70 per Finder Unit for a term of 24 months following the closing date. Each Finder Unit will be comprised of one common share and one Finder Warrant, with each Finder Unit Warrant entitling the holder to acquire one additional common share at $0.80 per common share.

If the Company undertakes an equity financing or financing convertible or exchangeable into equity at a price per common share of less than $0.45 per common share while the convertible debentures are outstanding, the conversion price of the convertible debentures will be reduced to the new financing price and the warrant exercise price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable securities laws and stock exchange rules.

Further, if the common shares trade at a VWAP under $0.25 for a period of 50 consecutive trading days while the convertible debentures are outstanding, the conversion price shall be reduced to $0.30. In accordance with IFRS, the conversion feature of the convertible debenture and warrants meet the definition of a derivative liability as certain events will result in adjustment to the conversion price. As of July 31, 2020, the conversion price of the convertible debentures and warrants exercise price were limited by CSE regulations to $0.05 (July 31, 2019 - $0.20) and $0.06 (July 31, 2019 - $0.24), respectively.

Consequently, on issuance, the convertible debentures were split amongst the financial liability, the conversion feature and warrants. The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature and warrants from the principal of the debentures. The fair value of the equity conversion feature and warrants were calculated using the Black-Scholes pricing model and are re-measured each reporting period with changes between periods recognized in the consolidated statements of loss and comprehensive loss. Expected volatility used is based on the Company's share price volatility over the relevant period to expiry. The financial liability portion is measured at amortized cost and accreted such that the carrying amount of the convertible debentures will equal the face value of the convertible debenture at maturity.

On initial recognition, the fair value of the derivative liability components was valued first at $2,600,979 and the residual of $1,599,021 was allocated to the non-derivative host debenture. Total transaction costs of $691,420 have been allocated proportionately to the derivative liability and debenture components. Transaction costs allocated to the derivative liability of $428,183 was immediately expensed in the statement of loss and comprehensive loss. Changes in the fair value of the derivative liability are recognized at fair value through profit and loss. For the year ended July 31, 2020, the Company recognized an unrealized gain on the change in fair value of the derivative liabilities of $1,566,417 (2019 - $810,695).

During the year ended July 31, 2020, the convertible debenture holders have converted a combined total of $240,000 (2019 - $178,470) principal amount of convertible debentures resulting in the issuance of 4,359,482 (2019 – 661,000) common shares. On conversions, the Company reduced the present value of the liability by $120,264 and derecognized $57,920 of the corresponding derivative liability.

During the year ended July 31, 2020, the Company recorded accretion expense on the convertible debentures of $1,516,054 (2019 - $563,551) and interest expense of $473,768 (2019 - $813,252) which were included within finance costs. As at July 31, 2020, $49,369 (2019 - $40,987) of the interest expense was recorded in accounts payable and accrued liabilities (Note 14). The Company issued shares for the December 2019 and June 2020 interest payments of $240,358 and $225,027, respectively (Note 18).

August 2019 convertible debentures

On August 23, 2019, the Company issued 1,807 secured convertible debenture units for aggregate proceeds of $1,807,000, of which $462,000 was received and recorded as a liability in the prior year.

Each convertible debenture unit is comprised of a $1,000 principal amount and 5,000 common share purchase warrants. Each common share purchase warrant is exercisable into a common share of the Company at a price of $0.24 per common share for 36 months from the date of issuance. At the Company's election, interest on the convertible debentures can be paid in either cash or common shares of the Company at a rate of 9%, payable semi-annually. The convertible debentures units are convertible into common shares at a price of $0.20 per common share at any time prior to maturity date.

The convertible debentures are secured by a security agreement. The Company paid a finder a cash fee of $80,700 and issued 403,500 finder compensation options (each, a "Finder Option"). Each Finder Option entitles the holder to purchase one finder unit (each, a "Finder Unit") consisting of one common share and one warrant of the Company with exercise of $0.20 per Finder Unit for a period of 24 months from the date of issuance. Each warrant is exercisable into a common share of the Company at a price of $0.24 for 36 months from the date of issuance. The fair value of $83,534 was assigned to the finder warrants using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield of 0%, volatility of 123.07%, risk-free rate of 1.32% and maturity of 3 years.

For accounting purposes, the convertible debentures are considered compound financial instruments and the proceeds are required to be separated into their liability and equity components. The Company first valued the debt component of the debentures by calculating the present value of the principal, discounted at a rate of 10%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. On recognition, the fair value of the liability was calculated as $1,357,626.

Of the residual proceeds of $449,374, $204,055 was allocated to the equity component and the remainder to the warrant component on a pro-rata basis relative to their fair values. Total transaction costs of $199,672 have been allocated proportionately to the equity and liability components.

During the year ended July 31, 2020, the Company recorded accretion expense on the convertible debentures of $163,009 and interest expense of $152,828 which were included within finance costs. As at July 31, 2020, $14,258 of the interest expense was recorded in accounts payable and accrued liabilities (Note 14). The Company issued common shares for the December 2019 and June 2020 interest payments of $57,923 and $80,647, respectively (Note 18). Subsequent to year end, the Company issued 7,261,622 common shares for the December 2020 interest payment of $81,983.

2020 secured convertible debentures

On March 23, 2020, the Company closed the first tranche of the convertible debenture by issuing a total of 853 secured convertible debenture units for gross proceeds of $852,678, of which $64,577 relates to convertible debentures issued for debt settlement and $398,220 (US$300,000) relates to settlement of the promissory note on the Pueblo, Colorado property assigned to Adam Szweras (Note 15).

On May 29, 2020, the Company closed the second tranche of the convertible debenture by issuing a total of 272 secured convertible debenture units for gross proceeds of $272,000, of which $22,000 relates to convertible debentures issued for debt settlement.

Each convertible debenture consists of a $1,000 principal amount. At the Company's election, interest on the convertible debentures can be paid in either cash or common shares of the Company at a rate of 12% payable semi-annually. At the option of the lenders, the convertible debentures are convertible into common shares at a price of $0.05 per common share at any time prior to maturity.

For accounting purposes, the convertible debentures are considered compound financial instruments and the proceeds are required to be separated into their liability and equity components. On initial recognition, the Company valued the debt component of the debentures by calculating the present value of the principal, discounted at a rate of 12%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The residual value was allocated to the equity component.

(Expressed in Canadian Dollars)

The fair value of each liability component was calculated as $456,373 for the first tranche and $150,159 for the second tranche. The residual values allocated to the equity components were $184,798 and $49,172 for the first and second tranches, respectively.

In connection with the closing of the convertible debentures, the Company issued 20,000 warrants for every $1,000 convertible debenture ("Bonus Warrants"). These warrants were accounted for as transaction costs, with its value allocated proportionately to the equity and liability components. Each warrant is exercisable into a common share of the Company at a price of $0.05 per common share for 36 months from the date of issuance.

A total of 17,053,560 and 5,440,000 Bonus Warrants were issued for each of the first and second tranches, respectively (Note 20). Fair values of $211,507 and $72,669 were assigned to each issuance using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield of 0%, volatility of 132.02%-141.76%, risk-free rate of 0.48%-0.26% and maturity of 3 years.

During the year ended July 31, 2020, the Company recorded accretion expense on the convertible debentures of $46,418 and interest expense of $42,092, which were included within finance costs. As at July 31, 2020, $42,092 interest payable was outstanding in accounts payable and accrued liabilities (Note 14). Subsequent to year end, the Company issued 8,539,203 common shares for the December 2020 interest payment of $89,306.

The convertible debentures are secured by a senior lien on the Company's property located in Pueblo, Colorado ("Pueblo Property"). The Company has the option to increase the mortgage amount and grant pari-passu position to the Note, provided that the loan to value ratio on the Pueblo Property does not exceed a certain threshold. The Company also has the option to assume additional debts ("Subordinate Debts") secured by the assets that underlie the Secured Note, as long as such obligations are subordinate to the Secured Note.

The following is a summary of the convertible debenture liability:

	July 31, 2020	July 31, 2019
	$	$
Balance, July 31, 2019	**7,547,996**	5,136,061
Issuance of convertible debentures	**2,931,678**	4,200,000
Conversion of principal debenture	**(550,000)**	(375,470)
Unamortized present value discount and transaction costs	**(1,117,537)**	(263,237)
Estimated fair value of derivative liability on date of issuance	**-**	(2,600,979)
Discount amortized	**2,196,018**	1,451,621
Gain on modification of debt	**(307,529)**	**-**
Balance, July 31, 2020	**10,700,626**	7,547,996
Less: Current portion	**6,279,820**	-
Non-current portion	**4,420,806**	7,547,996

The changes to the embedded derivative liabilities are as follows:

	$
Balance, July 31, 2019	**1,909,910**
Derecognition of derivative liabilities on conversion	**(57,921)**
Estimated fair value changes of derivative liabilities during the year	**(1,566,417)**
Balance, July 31, 2020	**285,572**

(Expressed in Canadian Dollars)

The Company used the Black-Scholes valuation model to estimate the fair value of the derivative liabilities upon the initial measurement and as at July 31, 2020 and 2019 using the following assumptions:

	July 31, 2020	July 31, 2019
Risk-free interest rate	**1.55%-1.85%**	1.57%-2.34%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**117-154%**	94-135%
Expected life of debentures	**0.5-1.5 years**	1-3 years
Forfeiture rate	**0%**	0%

18. Share capital

The Company is authorized to issue an unlimited number of common shares without par value.

	Number of Shares	Amount
Balance, July 31, 2018	**291,072,738**	**$22,204,166**
Issued on cashless exercise of warrants	1,689,476	613,207
Issued on exercise of options	1,898,711	252,238
Issued pursuant to Calyx acquisition (vii)	1,968,945	536,460
Issued pursuant to Pasa Verde acquisition (vi) (ix)	163,339	51,631
Shares for debt settlement (viii)	364,035	81,908
Issued for services (ix)	883,334	235,000
Issued on conversion of debentures (x)	989,332	262,059
Shares issued pursuant to Moses Garden acquisition (xi)	16,832,358	4,482,198
Shares issued as interest payment on convertible debentures (xii)	2,362,046	453,913
Shares purchased by a third party (xiv)	3,094,560	538,866
Private placements (ix) (xv)	33,882,650	4,310,395
Balance, July 31, 2019	**355,201,524**	**$34,022,041**
Issued on cashless exercise of warrants (iv)	2,000,000	1,282,711
Shares issued pursuant to Moses Garden acquisition (i)	4,331,711	659,050
Shares for debt settlements (ii)(iii)	1,864,235	247,065
Issued for services (x)	401,777	23,447
Shares issued as interest payment on convertible debentures (vi)(vii)	45,146,030	1,685,689
Shares issued on conversion of debentures (viii)(ix)	6,301,147	441,110
Issued on exercise of RSUs (xi)	2,000,000	60,000
Balance, July 31, 2020	**417,246,424**	**$38,421,113**

Year ended July 31, 2020

(i) On September 11, 2019, the Company issued 4,331,711 common shares to Moses Garden LLC (Note 4), valued at $659,050 representing the final consideration of assets acquisition completed on January 3, 2019. The common shares were valued using the Company's share price on the date of issuance.

(ii) On September 16, 2019, the Company issued 921,377 common shares to settle outstanding debt owing to vendors in the amount of $184,275. A gain of $64,496 was recognized on the settlement of this debt. The 921,377 common shares were valued at $119,779 based on the share price on the date of issuance.

(iii) On October 16, 2019, the Company issued 942,858 common shares to a third party pursuant to a settlement agreement entered on September 4, 2019. A gain of $4,726 was recognized on the settlement of $132,012 (US$100,000). The 942,858 common shares were valued at $127,286 based on the share price on the date of issuance.

(iv) On September 19, 2019 the Company issued 2,000,000 common shares through the cashless exercise of warrants. As a result of the cashless exercise of warrants, the fair value of the warrants of $1,282,712 was reclassified from reserves to share capital.

(v) On October 16, 2019, the Company issued 1,050,000 common shares to Golden Triangle Health Company Ltd. ("Golden Triangle") as consideration of entering into a five-year binding framework agreement to manufacture and distribute branded products in North America with Golden Triangle. The agreement was subsequently cancelled, and the common shares were returned and cancelled.

(vi) The Company issued a total of 20,003,365 common shares valued at $853,568 to the holders of the March 2018, August 2018 and August 2019 convertible debentures in December 2019, representing the December 2019 interest payment.

(vii) The Company issued a total of 25,142,674 common shares valued at $832,121 to the holders of the March 2018, August 2018 and August 2019 convertible debentures in July 2019, representing the June 2020 interest payment.

(viii) During the year ended July 31, 2020, the March 2018 convertible debentures of $310,000 (Note 17) were converted to 1,941,665 common shares.

(ix) During the year ended July 31, 2020, August 2018 convertible debentures of $240,000 (Note 17) were converted to 4,359,482 common shares.

(x) On April 21, 2020 the Company issued 401,777 common shares valued at $23,447 to KW Partners as consideration for services provided.

(xi) On July 20, 2020 the Company issued 2,000,000 common shares valued at $60,000 on the exercise of RSU agreement with Robert Wilson, CFO (Note 19).

Year ended July 31, 2019

(xii) On August 10, 2018, the Company issued 123,782 common shares to FMI Capital Advisory Inc., a related party, valued at $43,324 as a finders' fee pursuant to the acquisition of Pasa Verde.

(xiii) On September 28, 2018, the Company issued 486,500 common shares to shareholders of Calyx (Note 3), valued at $145,960 based on the share price on the date of issuance. On April 22, 2019, 1,482,445 common shares valued at $390,510 (US$300,000) were issued to Calyx's shareholders.

(xiv) On November 21, 2018, the Company issued 364,035 units valued at $96,932 to settle outstanding debt owing to a vendor in the amount of $216,319 (US$163,816). Each unit is comprised of one common share and one-half warrant. Each whole warrant is exercisable into one common share at an exercise price of $0.80 per share for a period of 24 months from issuance. A gain of $119,387 was recognized on the settlement of this debt. The 364,035 common shares were valued at $81,908 based on the share price on the date of issuance. The 182,018 warrants were issued on December 6, 2018, and valued at $15,024 using the Black-Scholes Model with the following assumptions: share price of $0.225, expected dividend yield of 0%, expected volatility of 123%, risk-free interest rate of 2.24%, and an expected life of 2 years;

(xv) During the year ended July 31, 2019, the Company issued the following common shares as compensation for services received:

- On December 12, 2018, 50,000 common shares valued at $10,000;
- On February 28, 2019, 133,334 common shares valued at $36,000; and
- On March 14, 2019, 700,000 common shares valued at $189,000.

The common shares were valued using the Company's share price on the date of issuance.

(Expressed in Canadian Dollars)

(xvi) During the year ended July 31, 2019, March 2018 convertible debentures of $197,000 (Note 17) were converted to 4,401,148 common shares at a price of $0.60 per common share.

During the year ended July 31, 2019, August 2018 convertible debentures of $178,470 (Note 17) were converted to 661,000 common shares at a price of $0.27 per common share.

(xvii) On January 4, 2019, the Company issued 13,432,098 common shares to Moses Garden LLC (Note 4), valued at $3,828,148. Additionally, on July 9, 2019, the Company issued an additional 3,400,260 common shares to Moses Garden, valued at $650,050 representing the purchase payment due six months after closing date. the common shares were valued using the Company's share price on the date of issuance.

(xviii) The Company issued a total of 2,362,046 common shares to the holders of the August 2018 convertible debentures (Note 17) in January and July 2019, representing the 12% interest payment from August 3, 2018 to June 30, 2019.

(xix) On March 14, 2019, the Company issued 5,000,000 common shares at $0.27 per share for gross proceeds of $1,350,000 through a non-brokered private placement. A referral fee of $27,000 and 100,000 common shares, valued at $27,000, was paid to a third party in connection with the completion of the private placement.

(xx) On May 21, 2019, the Company issued 3,134,117 common shares pursuant to the settlement agreement in connection with acquisition of Pasa Verde, in exchange for the return of 3,094,560 common shares previously issued and held in escrow. The net additional shares of 39,557 issued were valued at $8,307 based on the share price on the date of issuance. A third party purchased the returned 3,094,560 common shares for gross proceeds of $538,866.

(xxi) On May 29, 2019, the Company closed a brokered private placement pursuant to which the Company issued 18,117,000 units of the Company at a price of $0.20 per Unit, for gross proceeds of $3,623,400 (the "Brokered Offering"). Concurrently with the Brokered Offering, the Company closed the first tranche of non-brokered private placement of 7,670,000 Units at a price of $0.20 per unit, for gross proceeds of $1,534,000.

On July 24, 2019, the Company closed the second tranche of the non-brokered private placement of 2,995,650 units of the Company at a price of $0.20 per Unit, for gross proceeds of $599,130.

Each Unit consists of one common share of the Company, and one Warrant. Each Warrant entitles the holder thereof to purchase one Unit, at a price per of $0.30 per Unit, for a period of 36 months after May 29, 2019 (the "Closing Date"). In connection with the Brokered Offering, the Agents received (i) an aggregate cash commission of $289,872, (ii) compensation options to purchase up to 1,449,360 Units, at a price of $0.20 per Unit, for a period of 36 months following the Closing Date and (iii) 145,000 advisory warrants to purchase up to 145,000 Units at a price of $0.20 per Unit, for a period of 36 months following the Closing Date. The Company paid a finder a cash fee of $100,300 and issued a finder's warrant to purchase up to 501,500 Units at a price of $0.20 per Unit, for a period of 36 months following the Closing Date.

19. Reserve for share based payments

	Amount
Balance, July 31, 2018	**$2,093,669**
Options granted	1,436,308
Options exercised	(58,656)
Options forfeited	(113,246)
Balance, July 31, 2019	**$3,358,075**
Options granted	990,283
Options forfeited	(167,465)
RSUs granted	470,370
RSUs exercised	(60,000)
Balance, July 31, 2020	**$4,591,263**

(Expressed in Canadian Dollars)

Options

The Company has an incentive stock option plan ("the Option Plan") whereby non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The Option Plan provides the issuance of up to 10% of the total issued and outstanding common shares less the number of common shares reserved for issuance of RSUs.

The following is a summary of outstanding stock options for the years ended July 31, 2020 and 2019:

	Number of Options
Balance, July 31, 2018	**19,946,228**
Options granted (iii)(iv)(v)(vi)(vii)(viii)(ix)(x)	3,930,000
Options exercised	(1,898,711)
Options forfeited	(1,958,333)
Options expired	(1,631,667)
Balance, July 31, 2019	**18,387,517**
Options granted (i)(ii)	10,200,000
Options forfeited	(12,607,517)
Options expired	(1,400,000)
Balance, July 31, 2020	**14,580,000**

Year ended July 31, 2020

(i) On August 12, 2019, 9,700,000 options valued at $853,734 were granted to directors, officers, employees and consultants of the Company. The options are exercisable into common shares of the Company at a price of $0.20 per common share for a period of 5 years from the date of issuance. The options vest one-third every six months from the date of issuance.

(ii) On October 12, 2019, 500,000 options valued at $35,166 were granted to an employee of the Company. The options are exercisable into common shares of the Company at a price of $0.20 per common share for a period of 5 years, vesting every four months over 18 months until fully vested.

Year ended July 31, 2019

(iii) On August 14, 2018, 730,000 options valued at $57,695 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.35 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(iv) On August 14, 2018, 100,000 options valued at $25,085 were granted to a consultant of the Company. The options are exercisable at a price of $0.35 per common share, for a period of 5 years from issuance. The options vest 50% every six months from the date of issuance.

(v) On December 6, 2018, 750,000 options valued at $94,763 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(vi) On December 6, 2018, 650,000 options valued at $51,224 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.

(vii) On January 7, 2019, 300,000 options were issued to a former officer of the Company to replace 300,000 options granted on February 21, 2019 and an additional value of $6,997 was recognized on issuance. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance and vest immediately.

(viii) On January 30, 2019, 500,000 options valued at $89,339 were granted to an employee and a consultant of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.

(Expressed in Canadian Dollars)

(ix) On March 14, 2019, 650,000 options valued at $146,520 were granted to employees and consultants of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.

(x) On April 12, 2019, 250,000 options valued at $33,142 were granted to a consultant of the Company. The options are exercisable at a price of $0.30 per common share, for a period of 1.5 years from issuance. The options vest immediately upon granting.

In connection to the options granted to employees, directors and consultants during the years ended July 31, 2020 and 2019, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of common shares of the Company as a reference on grant date.

The estimated fair value of options granted during the years ended July 31, 2020 and 2019 were determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2020	**July 31, 2019**
Risk-free interest rate	**1.20%-1.53%**	1.63%-2.23%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**126%-128%**	122%-144%
Expected life of options	**5 years**	1.5-5 years
Forefeiture rate	**0%**	0%

Option pricing models require the input of highly subjective assumptions and changes in the input assumptions can materially affect the fair value estimated. Expected volatility is based on the historical volatility of the Company where sufficient historical data exists or that of other companies that the Company considers comparable. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon government of Canada bonds with a remaining term equal to the expected life of the options.

As at July 31, 2020, the following stock options were outstanding:

Expiry Date	**Exercise Price**	**Number of Outstanding**	**Number of Exercisable**
December 6, 2020	$0.30	650,000	650,000
December 21, 2020	$0.075	350,000	350,000
January 30, 2021	$0.30	450,000	450,000
October 17, 2021	$0.135	1,300,000	1,300,000
April 17, 2022	$0.15	2,400,000	2,400,000
April 17, 2022	$0.15	1,600,000	1,600,000
March 15, 2023	$0.51	150,000	150,000
May 8, 2023	$0.36	2,400,000	2,400,000
August 14, 2023	$0.35	80,000	80,000
August 12, 2024	$0.20	4,700,000	1,566,667
October 12, 2024	$0.20	500,000	200,000
		14,580,000	**11,146,667**

As at July 31, 2020, the weighted average exercise price of options exercisable was $0.22 (2019 - $0.19), the weighted average exercise price of options outstanding was $0.22 (2019 - $0.22) and the weighted average remaining contractual life of stock options was 2.56 years (2019 - 2.65 years). For the year ended July 31, 2020 the weighted average exercise price of stock options exercised was $Nil (2019 - $0.10).

Subsequent to year end, the stock options granted on December 6, 2020, December 21, 2020 and January 30, 2021 expired unexercised.

(Expressed in Canadian Dollars)

Restricted Share Units

On July 11, 2018, the Board resolved the Restricted Share Unit Plan (the "RSU Plan"), whereby RSUs may be granted to directors, officers, employees or consultants at the discretion of the Board of Directors. An RSU is a unit representing the right to one common share of the Company upon vesting and redeemable in common share or cash equal to the vesting date value, at the option of the Company. The maximum number of RSUs granted must not exceed 5% of the total issued and outstanding common shares.

The fair value of the RSUs awarded shall be calculated at the closing market price on the CSE of the common shares on the date of the grant. The fair value is expensed over the vesting period, as established from time to time by the Board of Directors.

The following is a summary of the RSUs outstanding for the years ended July 31, 2020 and 2019:

	Number of RSUs	Weighted Average Fair Value
Balance, July 31, 2018 and 2019	**$ -**	**$ -**
RSUs granted	16,969,742	0.08
RSUs exercised	(2,000,000)	0.03
RSUs cancelled	(2,283,098)	0.16
Balance, July 31, 2020	**$ 12,686,644**	**$ 0.08**

20. Reserve for warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2018	**22,123,226**	**$2,261,831**
Warrants pursuant to convertible debenture (Note 17)	6,481,800	-
Warrants pursuant to sale and leaseback (Note 16)	553,609	63,424
Warrants pursuant to debt settlement (Note 18)	182,018	15,024
Warrants issued pursuant to private placements (Note 18)	30,878,510	2,141,578
Warrants issued	511,180	-
Warrants exercised	(2,602,519)	(379,990)
Warrants expired	(229,157)	-
Balance, July 31, 2019	**57,898,667**	**$4,101,867**
Warrants issued pursuant to convertible debenture (Note 17)	31,798,560	563,374
Warrants exercised	(3,333,334)	(1,282,711)
Warrants expired	(16,469,396)	-
Balance, July 31, 2020	**69,894,497**	**$3,382,530**

(Expressed in Canadian Dollars)

The estimated fair value of warrants issued during the years ended July 31, 2020 and 2019 was determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2020	**July 31, 2019**
Risk-free interest rate	**0.68%**	1.41%-2.35%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**131%**	123-135%
Expected life of warrants	**3 years**	2 – 3 years

As at July 31, 2020, the following warrants were outstanding:

Expiry Date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
August 3, 2020	$0.32	480,000
November 6, 2020	$0.70	264,689
November 12, 2020	$0.70	156,574
December 6, 2020	$0.80	182,018
August 3, 2021	$0.32	6,001,800
January 24, 2022	$0.70	132,346
May 29, 2022	$0.30	25,787,000
May 29, 2022	$0.20	2,033,860
May 29, 2022	$0.30	2,995,650
July 24, 2022	$0.20	62,000
August 22, 2022	$0.24	9,305,000
March 31, 2023	$0.05	17,053,560
May 8, 2023	$0.05	5,440,000
		69,894,497

As at July 31, 2020, the weighted average exercise price of the warrants was $0.22 (2019 - $0.37) and the weighted average remaining contractual life of the warrants was 2.04 years (2019 - 1.93 years). During the year ended July 31, 2020 the weighted average exercise price of the warrants exercised was $0.06 (2019 - $0.17).

Subsequent to year end, the warrants issued on August 3, 2020, November 7, 2020, November 12, 2020 and December 6, 2020 expired unexercised.

21. Related parties and key management

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The following is a summary of the related party transactions, including the key management compensation for the years ended July 31, 2020 and 2019:

a. Incurred professional fees of $104,164 (2019 - $156,919) from Branson Corporate Services ("BCS"). BCS is a company whereby Adam Szweras and his spouse collectively have 39% ownership interest. As at July 31, 2020, $140,306 (July 31, 2019 - $22,600) was due to BCS.

b. Incurred consulting fees of $125,090 (2019 - $302,580) from FMI Capital Advisory Inc. ("FMICA"). FMICA is an entity in which Adam Szweras is a director. As at July 31, 2020, $288,869 (July 31, 2019 - $144,640) was due to FMICA.

c. Incurred marketing expenses of $172,424 (2019 - $365,369) from Plexus Cybermedia Ltd. ("Plexus"), a company in which a director, Brian Presement, has a 33% ownership interest and is a director. As at July 31, 2020, $176,983 (July 31, 2019 - $90,124) was due to Plexus.

d. Incurred expenses of $6,992 (2019 - $nil) from Unite Communications Ltd. ("Unite"), a company in which a director, Brian Presement, has a 100% ownership interest. As at July 31, 2020, $7,902 (July 31, 2019 - $491) was due to Unite.

e. Incurred professional fees of $220,650 (2019 - $314,807) from Fogler, Rubinoff, LLP ("Fogler"), a law firm in which a director, Adam Szweras, was a former partner and is presently counsel. As at July 31, 2020, $346,427 (July 31, 2019 - $260,877) was due to Fogler.

f. Included in professional fees and acquisition and project evaluation costs is a total of $163,483 (2019 - $346,556) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("JRG"), a law firm in which a director, Aaron Johnson, is a partner. As at July 31, 2020, $355,015 (July 31, 2019 - $238,192) was due to JRG.

g. Compensation to key management is comprised of $590,617 (2019 - $776,470) in cash and $545,355 (2019 - $773,642) in share-based payments. As at July 31, 2020, $540,817 (July 31, 2019 - $81,619) was owed to key management. Included in shares to be issued was $51,517 (July 31, 2019 - $52,500) relating to a director of the Company.

h. Included in accounts payable and accrued liabilities as at July 31, 2020 was a total of $174,429 (July 31, 2019 - $40,554) due to Adam Szweras.

i. Included in accounts payable and accrued liabilities as at July 31, 2020 was a total of $3,971 (July 31, 2019 - $nil) due to Brian Presement.

j. Included in March 2018 convertible debentures are $16,000 and $20,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively.

k. Included in August 2019 convertible debentures are $250,000 and $100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively.

l. During the year ended July 31, 2020, the Company issued 11,036,644 RSU's to key management as follows:

   a. Aaron Johnson received 953,806 RSU's valued at $61,598;
   b. Brian Presement received 953,806 RSU's valued at $61,598;
   c. Adam Szweras received 2,129,032 RSU's valued at $164,963;
   d. John Durfy, CEO, received 5,000,000 RSU's valued at $24,749; and
   e. Rob Wilson, CFO, received 2,000,000 RSU's valued at 60,000.

m. Included in 2020 convertible debentures were:

   i. $670,678 received from Adam Szweras;
   ii. $50,000 received from Unite;
   iii. $89,000 received from John Durfy;
   iv. $89,000 received from FMICA;
   v. $3,000 conversion of amount payable to John Durfy; and
   vi. $10,000 conversion of amount payable to Robert Wilson.

22. Non-controlling interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's consolidated financial statements. The 49% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' deficiency on the consolidated statements of financial position. For the year ended July 31, 2020, the Company recorded $Nil (2019 - $Nil) of the net loss and comprehensive loss related to EMAL.

23. Management of capital

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended July 31, 2020. The Company is not subject to externally imposed capital requirements.

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements, initial public offering, issuance of convertible debentures, debt and sale leaseback transactions. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

24. Financial instruments

Fair value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of the fair value hierarchy are:

- 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 or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The carrying values of the Company's amounts receivable, deposits, accounts payable and accrued liabilities, promissory note payable and convertible debenture advances approximate their fair values due to their short-term nature. The Company designated its cash and investments as fair value through profit and loss, which are measured at fair value and are classified as Level 1. The Company designated derivative liabilities and consideration payable as fair value through profit and loss, which are measured at fair value and classified as Level 2.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to amounts receivable. The Company has no other significant concentration of credit risk arising from operations. Cash are held with a reputable credit union which is closely monitored by management. Amounts receivable consists of trade amounts receivable, harmonized sales tax due from the Canadian government, promissory note receivable and other receivable from third parties.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The ability of the Company to continue as a going concern is dependent on its ability to obtain funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is significant uncertainty as to whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

In the short term, the continued operations of the Company may be dependent upon its ability to obtain additional financing. Without this additional financing, the Company may be unable to meet its obligations as they come due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost.

As at July 31, 2020, the Company had working capital deficiency of $20,563,341 (July 31, 2019 -$5,951,609), current assets of $3,101,291 (July 31, 2019 - $9,905,679) and current liabilities of $23,664,632 (July 31, 2019 - $15,857,288).

Foreign currency exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by approximately $1,060,000 (July 31, 2019 - $620,000) as a result of the Company's exposure to currency exchange rate fluctuations.

Concentration risk

During the year ended July 31, 2020, line of products produced by one supplier, being Plus Products Inc. ("Plus"), represented approximately 66% (2019 - 80%) of total sales. During the year ended July 31, 2020, the Company ceased to undertake Plus-branded products pursuant to settlement agreement dated December 9, 2019 (Note 25).

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company does not have any variable interest-bearing financial liabilities.

25. Commitments and contingencies

Abba Medix Corp.

On October 11, 2017, the Company entered into an Agreement ("the Abba Agreement") with Canada House Wellness Group Inc.'s wholly-owned subsidiary, Abba Medix Corp. ("Abba") to create a joint venture ("Joint Venture") to manufacture cannabis oil extracts and cannabis-infused products in Canada under the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). On November 9, 2017, the parties amended the Abba Agreement as binding. The Joint Venture will focus on two main product lines: (i) a line of products offered exclusively to existing Abba patients; and (ii) a line of FLI-branded products that will be offered to eligible patients across Canada and to the adult-use market, when permitted by regulation. There has been no change in the progress to the Joint Venture since the date of the agreement and the Company is reconsidering its strategy in Canada.

Green Therapeutics, LLC

On September 30, 2018, and amended on May 21, 2019, the Company entered into a membership interest purchase agreement ("MIPA") to acquire 75% of Green Therapeutics, LLC ("GTL"), a Nevada limited liability company, with its founding members ("the sellers"), for US$9 million, to be paid as follows:

(i) US$3,000,000 due and payable on or before 18 months after closing to GTL;
(ii) US$4,000,000 in shares to be issued to the sellers at a price which was the lesser of (i) US$0.27 per share or (ii) the 20-day volume VWAP due upon closing; and
(iii) US$2,000,000 in promissory note to the sellers with US$1,000,000 of which to mature 12 months from closing, and US$1,000,000 of which to mature 24 months from closing.

At any time after the date the secured notes had been satisfied and paid in full and then upon fifteen days prior written notice ("Option Notice") to GTL, the Company had an option to acquire the remaining 25% of GTL at any time after the payment or conversion of the Note for (i) US$7,500,000 if the Option Notice was sent on or before the second anniversary of the Closing; or thereafter (ii) the greater of (a) US$7,500,000 or (b) the trailing 12-month EBITDA multiplied by seven (7), multiplied by 25%. The purchase price would be paid in cash, or at the election of the sellers, 50% in common shares.

GTL had a put option to require the Company to buy their 25% remaining interest in GTL at any time after the second anniversary after the Closing at a price equal to the trailing 12-month EBITDA multiplied by seven (7), multiplied by 25%. If the put option was exercised, the purchase price would be paid half in cash and common shares.

As at July 31, 2020, the Company had advanced a total of US$1,240,000 (July 31, 2019 - US$1,150,000) to GTL, which is due along with accrued interest of US$197,070 (July 31, 2019 - US$48,986), on the earlier of March 31, 2021, the closing or termination of the MIPA or any mutually agreed upon term (Note 5).

Subsequent to year end, the Company entered into a Settlement and Release Agreement for the termination of MIPA and repayment of the promissory note receivable from GTL as part of the sale of GTL to a publicly listed company (Note 31).

Washington lease

In February 2019, the Company, together with the chairman Adam Szweras, entered into a guarantee of a lease agreement between MAKH Properties LLC (the "Lessor") and JBM Enterprises LLC (the "Lessee"). As at July 31, 2020, the Lessee was in default under its lease agreement and on November 30, 2020 a legal action was filed against the Company and Adam Szweras in the superior court of Washington State by the Lessor. The action is for outstanding rent of US$122,217.

The Company is currently in discussions with the Lessor to settle the outstanding amount due under the lease agreement.

Good Vybes, LLC

On May 23, 2019, the Company entered into a non-binding letter of intent ("LOI") with Good Vybes, LLC ("GV") and Ashby to provide a Southern California base of operations for Calyx. Ashby holds a temporary distribution license issued by the Bureau of Cannabis Control to operate a cannabis distribution business at a property located in Chatsworth, California ("Chatsworth Licensed Premises") leased by GV.

The Company has funded a portion of the completion of the build-out of the Chatsworth Licensed Premises under the LOI. The LOI had also provided for the parties to enter into services and other ancillary agreements. The terms of the LOI were not fulfilled by GV and Ashby and the Definitive Agreements were not completed.

Settlement of legal action

On September 4, 2019, the Company settled the lawsuit filed brought forward by a third party with respect to employment matters. Pursuant to the settlement, the Company paid US$40,000 and issued 942,858 common shares (Note 18).

Settlement with Plus

On December 9, 2019, Calyx entered into a settlement agreement with Carberry, LLC, Plus Products Holdings Inc., and Plus Products Inc. (collectively referred herein as "Plus") to settle certain disputes relating to the service agreement entered between Calyx and Plus on February 1, 2018. Pursuant to the settlement agreement, Plus assumed responsibility for Plus-branded inventory held by Calyx and certain trade receivables and cash balance associated with sales of Plus-branded products. As part of this settlement agreement, Calyx ceased to undertake new sales of Plus-branded products and Plus had agreed to forbear repayment of amount owing to Plus for a period of 180 days.

As at July 31, 2020, after adjusting for the transfer of Plus-branded inventory, cash, and trade receivable to Plus, the net outstanding balance due to Plus was $2,345,705 (US$1,750,000), which was recorded in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

26. General and administrative

	2020	2019
	$	**$**
Bad debts, uncollectible accounts and other	**231,817**	445,868
Bank charges	**175,931**	79,527
Dues and subscriptions	**40,478**	31,407
Insurance	**706,460**	453,377
Listing and investor relations	**215,222**	284,519
Office and administrative	**282,343**	1,170,785
Permit and licenses	**250,971**	123,358
Rent and property taxes	**291,729**	694,956
Repairs and maintenance	**14,459**	102,771
Security	**249,749**	556,152
Supplies, maintenance and utilities	**26,604**	21,565
Transportation	**142,947**	482,586
Travel	**394,282**	549,273
Total	**3,022,992**	4,996,144

27. Other income (loss)

The breakdown of other income (loss) is as follows:

Year ended July 31, 2020

(i) On September 22, 2020, the Company entered into a settlement agreement with California Department of Tax and Fee Administration with respect to excise taxes. Penalties and interest relating to excise taxes outstanding totaling $1,629,790 (US$1,210,659) were recorded as other loss during the year ended July 31, 2020.

(ii) Pursuant to the sale of Calyx (Note 31), DB12, LLC has advanced a total of $403,537 (US$300,000) to support the working capital of Calyx. As the advances were not repayable to DB12, LLC, the Company recognized the advances as other income during the year ended July 31, 2020.

(iii) During the year ended July 31, 2020, the Company entered into a sublease agreement with a third party for the period from October 16, 2019 to March 20, 2020 with respect to sublease of equipment in Colorado. Income from sublease of equipment amounted to $94,655 (US$70,000) during the year ended July 31, 2020.

(iv) The Company recorded an income of $65,987 (US$49,017) with respect to the sublease of office premise in Sacramento, California. The sublease agreement was terminated in March 2020.

Year ended July 31, 2019

(v) On February 22, 2017, as amended on June 30, 2017 and February 1, 2018, the Company entered into a letter of intent (the "LOI") to assist Lineage Grow Company Ltd. ("Lineage") into a strategic partnership with Mt. Baker Greeneries LLC in the State of Washington. Pursuant to the LOI, the Company entered into a put option agreement with KW Capital Partners Ltd. ("KW") in which the Company would be obligated, at the election of KW, to purchase certain convertible debentures of Lineage ("Lineage Debentures") at a price equal to the amount of all principal and accrued interest outstanding thereon. During the year ended July 31, 2019, all of the Lineage Debentures had been converted. As a result of the conversion, the full amount of put option guarantee liability amounting to $173,600 was derecognized during the year ended July 31, 2019.

(Expressed in Canadian Dollars)

28. Segmented information

The Company manufactures and processes cannabis-based vaping, concentrate and infused edible products and manages a distributor of cannabis products. Pasa Verde did not have any commercial activity since February 1, 2019 due to the City of Sacramento rescinding local authorization for cannabis manufacturing for Pasa Verde.

	Calyx (California)	Pasa Verde (California)	Oregon	Colorado	Nevada	Washington	Total
2020							
Total sales	$12,327,009	$ -	$ 11,052	$ -	$ -	$ -	$12,338,061
Cost of goods sold	(9,537,113)	(2,556)	(11,259)	-	-	-	(9,550,928)
Gross profit (loss)	$ 2,789,896	$ (2,556)	$ (207)	$ -	$ -	$ -	$ 2,787,133
2019							
Total sales	$23,408,630	$ 169,564	$ 30,216	$ -	$ -	$ -	$23,608,410
Cost of goods sold	(17,872,915)	(196,947)	(57,520)	-	-	-	(18,127,382)
Gross profit (loss)	$ 5,535,715	$ (27,383)	$ (27,304)	$ -	$ -	$ -	$ 5,481,028

	Calyx (California)	Pasa Verde (California)	Oregon	Colorado	Nevada	Washington	Total
As at July 31, 2020							
Capital assets	$ 238,442	-	$1,422,395	$ 526,531	$ 81,461	$ -	$ 2,268,829
Investment property	-	-	-	$1,311,536	-	-	$ 1,311,536
Intangible assets	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-
As at July 31, 2019							
Capital assets	$ 748,525	$1,329,701	$1,610,421	$ 672,526	$ 102,871	$ 270,980	$ 4,735,024
Investment property	-	-	-	$1,368,142	-	-	$ 1,368,142
Intangible assets	$ 1,855,752	-	-	-	$ 38,652	-	$ 1,894,404
Goodwill	$ 1,573,638	-	-	-	-	-	$ 1,573,638

For the year ended July 31, 2020, the Company recognized sales of $12,338,061 (2019 - $23,608,410) of which approximately 99% (2019 – 99%) were derived from the Company's distribution operation, Calyx, in California. Sales from Oregon were related to manufacturing of cannabis products.

29. Supplemental information for consolidated statements of cash flows

	2020	2019
	$	$
Shares issued for Moses Garden acquisition	**659,050**	4,482,198
Shares issued fo settlement of debt	-	81,908
Cashless exercise of warrants	**1,282,711**	**-**
Conversion of Pharmadrug debenture	-	100,000
Shares received for settlement of put option	-	173,600
Shares issued pursuant to Calyx acquisition	-	536,460
Convertible debenture subscriptions as settlement of debt	**484,797**	-
Shares issued for convertible debenture interest	**1,685,689**	453,913

(Expressed in Canadian Dollars)

30. Income tax

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

		2020		2019
	$	**(21,026,075)**	$	(26,552,125)
Expected income tax (recovery)		**(5,572,000)**		(7,036,000)
Charge in statutory, foreign tax foreign exchange rates and other		**1,070,000**		642,000
Permanent differences		**3,829,000**		3,811,000
Share issue costs		**-**		(181,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		**(1,171,000)**		535,000
Change in unrecognized deductible temporty differences		**2,906,000**		3,373,000
	$	**1,062,000**	$	1,144,000
Current income tax	**$**	**1,557,000**	$	657,000
Deferred tax expense (receovery)	**$**	**(495,000)**	$	487,000

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of the product for US tax purposes. Although proper deductions 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 not guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the operations of the Company's US subsidiaries may be subject United Sates federal tax, without the benefit of certain deductions or credits.

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

		2020		2019
Deferred tax assets (liabilities)	**$**		$	
Marketable securities		**-**		(43,000)
Intangible assets		**-**		(487,000)
Debt with accretion		**(955,000)**		(1,165,000)
Non-capital losses		**955,000**		1,208,000
Net deferred tax liability	**$**	**-**	$	(487,000)

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

		2020		2019
Deferred tax assets (liabilities)				
Property and equipment	**$**	**1,326,000**	$	609,000
Share issue costs		**382,000**		424,000
Marketable securities		**3,000**		-
Intangible assets		**1,479,000**		1,442,000
Allowable capital losses		**47,000**		-
Derivative liability		**76,000**		506,000
Non-capital losses available for future periods		**6,152,000**		3,578,000
		9,465,000		6,559,000
Unrecognized deferred tax assets		**(9,465,000)**		(6,559,000)
Net deferred tax assets	**$**	**-**	$	-

(Expressed in Canadian Dollars)

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

		2020	**Expiry Date Range**		2019	Expiry Date Range
Temporary Differences						
Property and equipment	**$**	**5,379,000**	**No expiry date**	$	2,594,000	No expiry date
Share issue costs		**1,442,000**	**2041 to 2044**		1,601,000	2040 to 2043
Marketable securities		**20,000**	**No expiry date**		-	No expiry date
Intangible assets		**6,955,000**	**No expiry date**		6,789,000	No expiry date
Allowable capital losses		**177,000**	**No expiry date**		-	No expiry date
Derivative liability		**286,000**	**No expiry date**		1,910,000	No expiry date
Non-capital losses available for future periods		**24,032,000**	**2036 onwards**		13,473,000	2036 onwards
Canada		**16,633,000**	**2036 to 2040**		11,600,000	2036 to 2039
USA		**7,399,000**	**2037 onwards**		1,873,000	2037 onwards

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

31. Subsequent events

Settlement of payables by issuance of common shares

The Company entered into settlement agreements with trade creditors and related parties representing $1,106,340 to convert such amounts owed into 44,253,581 units at a deemed price of $0.025 per unit. Each unit is comprised of one common share and one warrant, with each warrant entitling the holder to acquire one common share of the Company at any time on or before December 31, 2020 at a price of $0.05 per common share. These units were issued on August 5, 2020 and all the attached warrants expired unexercised.

Acquisition of Psychedelic Science Corp.

On August 14, 2020, the Company acquired all of the outstanding common shares of Psychedelic Science Corp. ("PSC"), a related party by virtue of common directors, in exchange for common shares of the Company on a one-for-one basis (the "Transaction"). Shareholders of PSC were issued an aggregate of 137,522,968 common shares of the Company. Pursuant to the Transaction, outstanding warrants and stock options of PSC were exchanged on a one-for-one basis for the warrants and stock options of the Company, resulting in the issuance of 137,522,968 warrants and 3,001,837 stock options. Each warrant is exercisable for one common share at the price and expiry date noted in the chart below and is subject to acceleration of exercise if the share price is at least $0.15 for 10 consecutive trading days. Each stock option is exercisable for one common share and one warrant ("Compensation Warrant") at a price and expiry date noted in the chart below.

(Expressed in Canadian Dollars)

Warrants issued	Exercise Price	Expiry Date
100,000,000	$0.05	June 3, 2022
13,033,334	$0.05	July 16, 2022
21,489,634	$0.05	July 17, 2022
3,000,000	$0.05	July 23, 2022
137,522,968		

Options issued	Exercise Price	Expiry date
1,042,667	$0.03	July 16, 2022
1,719,170	$0.03	July 17, 2022
240,000	$0.03	July 23, 2022
3,001,837		

March 2018 convertible debenture amendment and conversions

On October 8, 2020, the Company amended the terms of the March 2018 convertible debentures to include the following:

i. The conversion price to decrease from $0.15 to $0.02;
ii. The Company may force conversion of the convertible debentures subject to providing 15 days' notice; and
iii. 50% of the common shares issued upon forced conversion will be placed in a 6-month hold.

Subsequent to July 31, 2020 and prior to October 28, 2020 (the date which the March 2018 convertible debentures were forced to convert), holders of the March 2018 convertible debentures converted a combined total of $1,910,000 in principal, resulting in the issuance of 95,500,000 common shares. In connection with the conversion, the Company issued 4,357,512 shares for $87,912 of interest. These shares are subject to a 4-month hold.

On October 28, 2020, the Company exercised its force conversion right with respect to the conversion of the remaining $5,673,000 convertible debentures into 283,650,000 common shares, of which 141,825,000 common shares were issued immediately and the remaining 141,825,000 common shares were subject to a 6-month hold. Of the 141,825,000 common shares subject to restriction, 121,225,000 common shares remain issuable and will be issued prior to the expiry of the 6-month hold. In connection with the conversions, 13,056,651 common shares for $261,113 of interest were issued, the shares issued for interest are subject to a 4-month hold.

August 2018 convertible debenture amendment

On November 18, 2020 the Company amended the terms of the August 2018 convertible debentures to include the following:

i. The term of the convertible debentures will be extended by one year to August 3, 2022.
ii. All interest owing up to the original maturity date will be added to the principal amount of the convertible debentures. No further interest will be accrued thereafter; and
iii. Any conversion to common shares will not be permitted to the extent that such conversion would result in a holder of the convertible debentures becoming a shareholder holding more than 9.99% of the issued and outstanding common shares in the capital of the Company.

Sale of NHDC and Calyx

On August 31, 2020, the Company purchased the remaining 20% interest in Calyx for nominal value.

On August 7, 2020, and as amended on November 5, 2020, the Company entered into a Stock Purchase and Sale Agreement with DB12, LLC ("DB12") to sell 100% of the Company's interest in NHDC and Calyx for no consideration ("Sale Agreement"). Pursuant to the Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("Lease Settlement"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company shall reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 will be settled by cash payment and the remaining US$25,000 will be settled by issuance of common shares.

Litigation

On August 28, 2020, a legal action was filed against Calyx in the superior court of California by a third-party vendor for overdue trade payable amounting to US$64,678.

On November 30, 2020, a legal action was filed against the Company and Adam Szweras in the superior court of Washington State with respect to the outstanding lease payments of US$122,217 in which the Company and Adam Szweras are guarantors under the lease agreement.

On December 10, 2020, a legal action was filed against the Company and Calyx in the superior court of the California by a third-party vendor for overdue trade payable amount to US$367,353.

Green Therapeutics, LLC

On January 5, 2021, the Company entered into a Settlement and Release Agreement for the termination of MIPA (Note 25) and repayment of the promissory note receivable from GTL (Note 5) as part of the sale of GTL to a publicly listed company.

In January 2021, the Company entered into agreements to sell promissory notes receivables from GTL with aggregate principal of US$190,000 for proceeds of $320,533. The purchasers of the promissory notes shall be entitled to all the rights under the Settlement and Release Agreement with respect to the promissory notes acquired.