



**EXPERION HOLDINGS LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED AUGUST 31, 2019 AND 2018**

**(UNAUDITED)**

**(IN CANADIAN DOLLARS)**

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EXPERION HOLDINGS LTD.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Unaudited, presented in Canadian Dollars)

	Note	August 31, 2019 (Unaudited)	November 30, 2018 (Audited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	4	\$ 7,435,044	\$ 1,607,950
Amounts receivable	5, 11	1,005,981	224,211
Inventory	6	555,522	281,240
Biological assets	6	221,278	137,128
Prepaid expenses and deposits		288,311	68,560
		<u>9,506,136</u>	<u>2,319,089</u>
<b>Non-current</b>			
Property, plant and equipment	7	6,798,296	3,630,370
Intangible assets	8	83,149	-
Goodwill	9	11,244,004	-
		<u>\$ 27,631,585</u>	<u>\$ 5,949,459</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	11, 13, 14	\$ 1,241,209	\$ 588,522
		<u>1,241,209</u>	<u>588,522</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	36,910,387	11,178,616
Reserves	10	3,623,962	2,684,930
Deficit		(14,143,973)	(8,502,609)
		<u>26,390,376</u>	<u>5,360,937</u>
		<u>\$ 27,631,585</u>	<u>\$ 5,949,459</u>

Nature of operations (Note 1)  
Contingencies and commitments (Note 13)  
Subsequent events (Note 17)

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on October 22, 2019.

**On behalf of the Board of Directors:**

Director "Michael Black"

Director "Jay Garnett"

See accompanying notes to the condensed interim consolidated financial statements

EXPERION HOLDINGS LTD.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
NINE MONTHS ENDED AUGUST 31, 2019 AND 2018  
(Unaudited, presented in Canadian Dollars)

	Note	For the three months ended August 31,		For the nine months ended August 31,	
		2019	2018	2019	2018
Revenue					
Production sales		\$ 172,877	\$ -	\$ 935,311	\$ -
Excise taxes		(12,888)	-	(51,465)	-
Net revenue		159,989	-	883,846	-
Production cost of sales		(200,025)	-	(1,006,254)	(60,176)
Gross loss before fair value adjustments		(40,036)	-	(122,408)	(60,176)
Fair value adjustment on sale of inventory		(12,465)	-	(77,331)	-
Unrealized gain on change of fair value of biological assets	6	105,730	57,625	34,818	121,063
Gross profit (loss)		53,229	57,625	(164,921)	60,887
Expenses					
General and administrative		241,576	163,089	1,014,496	799,199
Salaries and wages		559,047	45,915	1,656,643	179,892
Professional fees		513,927	99,543	773,800	341,869
Sales and marketing		116,622	128,825	334,583	170,809
Depreciation and amortization		7,478	1,063	21,750	2,050
Facility costs		12,810	(61,035)	44,215	36,892
Acquisition fees	9	146,096	-	1,902,637	-
Restructuring fees		169,220	-	169,220	-
Share-based compensation		69,316	1,078,562	451,132	1,872,352
		1,836,092	1,455,962	6,368,476	3,403,063
Loss from operations before other income		(1,782,863)	(1,398,337)	(6,533,397)	(3,342,176)
Interest income		78,179	-	127,773	-
Loss on sale of asset		(3,433)	-	(3,433)	-
		74,746	-	124,340	-
Net loss before tax		(1,708,117)	(1,398,337)	(6,409,057)	(3,342,176)
Income tax recovery		767,693	-	767,693	-
Comprehensive loss for the period		\$ (940,424)	\$ (1,398,337)	\$ (5,641,364)	\$ (3,342,176)
Basic and diluted loss per share		\$ (0.01)	\$ (0.03)	\$ (0.07)	\$ (0.07)
Weighted average number of common shares outstanding		98,808,156	48,701,778	85,607,123	47,045,331

See accompanying notes to the condensed interim consolidated financial statements

EXPERION HOLDINGS LTD.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
NINE MONTHS ENDED AUGUST 31, 2019 AND 2018  
(Unaudited, presented in Canadian Dollars)

	Note	Number of shares	Share capital	Reserves			Total Reserves	Deficit	Total shareholders' equity
				Warrants	Agent's Options	Share-based compensation <sup>(1)</sup>			
<b>Balance as at November 30, 2017</b>	<b>(Audited)</b>	45,580,369	\$ 7,857,909	\$ 801,125	\$ 79,107	\$ 606,422	\$ 1,486,654	\$ (3,696,731)	\$ 5,647,832
Warrants and agent's options exercised		2,581,850	2,552,840	(479,412)	(78,745)	-	(558,157)	-	1,994,683
Shares issued in lieu of settlement fee		44,118	37,500	-	-	-	-	-	37,500
Share-based compensation		1,048,125	675,386	-	-	1,196,966	1,196,966	-	1,872,352
Net loss and comprehensive loss		-	-	-	-	-	-	(3,342,176)	(3,342,176)
<b>Balance as at August 31, 2018</b>	<b>(Unaudited)</b>	49,254,462	11,123,635	321,713	362	1,803,388	2,125,463	(7,038,907)	6,210,191
Share-based compensation		65,913	54,981	-	-	559,467	559,467	-	614,448
Net loss and comprehensive loss		-	-	-	-	-	-	(1,463,702)	(1,463,702)
<b>Balance as at November 30, 2018</b>	<b>(Audited)</b>	49,320,375	11,178,616	321,713	362	2,362,855	2,684,930	(8,502,609)	5,360,937
Amalgamation of EFX	9	49,412,781	25,694,646	-	-	404,784	404,784	-	26,099,430
Share-based compensation		75,000	37,125	-	-	534,248	534,248	-	571,373
Net loss and comprehensive loss		-	-	-	-	-	-	(5,641,364)	(5,641,364)
<b>Balance as at August 31, 2019</b>	<b>(Unaudited)</b>	98,808,156	\$ 36,910,387	\$ 321,713	\$ 362	\$ 3,301,887	\$ 3,623,962	\$ (14,143,973)	\$ 26,390,376

(1) Share-based compensation includes employee and director options and RSU's.

See accompanying notes to the condensed interim consolidated financial statements

EXPERION HOLDINGS LTD.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED AUGUST 31, 2019 AND 2018  
(Unaudited, presented in Canadian Dollars)

<b>Cash provided by (used in):</b>	<b>Note</b>	<b>For the nine months ended</b>	
		<b>August 31,</b>	
		<b>2019</b>	<b>2018</b>
<b>Operating activities</b>			
Comprehensive loss for the period		(5,641,364)	\$ (3,342,176)
Items not involving cash:			
Depreciation and amortization		21,750	2,050
Share-based compensation		451,132	1,872,352
Share-based compensation included in cost of sales		120,241	-
Fair value adjustment on sale of inventory		77,331	-
Unrealized (gain) on change of fair value of biological assets		(34,818)	(121,063)
Settlement fee paid in common shares		-	37,500
Changes in non-cash working capital items:			
Amounts receivable		(689,921)	69,273
Inventory		(206,498)	(441,551)
Biological assets		(32,994)	(33,983)
Prepaid expenses and deposits		(212,217)	(30,311)
Accounts payable and accrued liabilities		191,979	36,208
Cash used in operating activities		<u>(5,955,378)</u>	<u>(1,951,701)</u>
<b>Investing activities</b>			
Cash acquired from the business combination	9	13,769,006	-
Purchase of property, plant and equipment	7	(1,903,385)	(615,725)
Capitalized intangible assets		(83,149)	-
Cash provided by (used in) investing activities		<u>11,782,472</u>	<u>(615,725)</u>
<b>Financing activities</b>			
Issuance of common shares	9,10	-	1,994,683
Cash provided by financing activities		<u>-</u>	<u>1,994,683</u>
<b>Net increase (decrease) in cash and cash equivalents'</b>		5,827,094	(572,743)
<b>Cash and cash equivalents - beginning of the period</b>		1,607,950	2,597,108
<b>Cash and cash equivalents - end of the period</b>		<u>\$ 7,435,044</u>	<u>\$ 2,024,365</u>
<b>Components of cash and cash equivalents'</b>			
Cash	4	\$ 7,435,044	\$ 2,024,365
		<u>\$ 7,435,044</u>	<u>\$ 2,024,365</u>

See Note 12 for supplemental disclosure of cash flows.

See accompanying notes to the condensed interim consolidated financial statements

## 1. NATURE OF OPERATIONS

Experion Holdings Ltd. (the “Company” or “Experion”) is a publicly traded corporation, incorporated in Canada, with its head office located at 12556 Stave Lake Road, Mission, British Columbia. The Company’s shares are listed on the TSX Venture Exchange as a Tier 1 issuer (the “TSX-V”) under the trading symbol “EXP”; the OTCQB under the symbol “EXPFF” and on the Frankfurt Stock Exchange under the symbol “MB31”.

Previously, the Company was named Viridium Pacific Group Ltd. The name change to Experion Holdings Ltd. was effective June 10, 2019.

The Company’s principal business is the production, distribution and sale of cannabis and related products for both the adult-use and medical cannabis markets in Canada pursuant to the Cannabis Act. Through its recent acquisition (Note 9), the Company expanded its business to include research and development, and the production of medical two-piece capsules.

Experion does not engage in any federally illegal U.S. cannabis-related activities.

## 2. BASIS OF PRESENTATION

### (a) Basis of preparation

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

As the condensed interim consolidated financial statements do not include all of the information required for full annual financial statements, they should be read in conjunction with the Company’s latest annual audited consolidated financial statements. The accounting policies and critical estimates used in preparing these condensed interim consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements as at and for the year ended November 30, 2018, except for new accounting policies and the adoption of new accounting standards described in Note 3(a) and (b).

The Company has reclassified certain immaterial items on the comparative condensed interim consolidated statement of financial position and the condensed interim consolidated statement of comprehensive loss to conform with current period’s presentation.

### (b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets which are measured at fair value and on a going concern basis.

### (c) Basis of consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

## 2. BASIS OF PRESENTATION (Continued)

### (c) Basis of consolidation (continued)

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all the following:

- (a) Power over the investee
- (b) Exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns

The table below lists the Company's subsidiaries and investments in affiliates and the ownership interests in each:

Subsidiary	% Ownership	Accounting Method
Experion Biotechnologies Inc.	100%	Consolidation
EFX Laboratories Inc.	100%	Consolidation
Fish Trap Ventures Ltd.	100%	Consolidation
Stave Lake Services Ltd.	100%	Consolidation
Kanabe Goods Corp.	100%	Consolidation

All companies are incorporated in Canada.

Intercompany balances and transactions are eliminated in preparing the condensed interim consolidated financial statements.

### (d) Functional and presentation currency

The condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted; which is the functional currency of the Company as this is the currency of the primary economic environment in which the company operates.

The subsidiary interests disclosed in Note 2(c) have the fiscal year-end as the Company and the accounting policies have been applied consistently.

## 3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

### (a) New accounting policies adopted during the interim period

- (i) Business combinations and asset acquisitions

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding



### 3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (Continued)

#### (a) New accounting policies adopted during the interim period (continued)

##### (i) Business combinations and asset acquisitions (continued)

gain or loss being recognized in profit or loss. Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net asset acquired, is recorded as goodwill. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

##### (ii) Intangible assets and goodwill

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. As of August 31, 2019, the Company does not have any definite life intangible assets.

Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as research and development expenses on the consolidated statement of comprehensive income (loss) as incurred. Capitalized deferred development costs are internally generated intangible assets.

### **3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (Continued)**

#### **(a) New accounting policies adopted in the interim period (continued)**

##### **(ii) Impairment of intangible assets and goodwill (continued)**

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

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested when there is an indication of impairment.

The Company has selected November as our annual test date. For the purpose of impairment testing, goodwill and indefinite life intangible assets have been allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs of disposal and 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 impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an impairment loss for a CGU is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amount of those assets. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior period. Impairment losses on goodwill are not subsequently reversed.

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgement. CGUs are determined based on the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. Management has exercised judgment in this assessment and determined the Company currently has two CGUs: the production and sale of adult-use cannabis; and the production and sale of medical cannabis.

#### **(b) New accounting standards and interpretations adopted in the interim period**

The Company has adopted the following new or amended IFRS standards for the period beginning December 1, 2018.

##### **(i) IFRS 9 Financial instruments**

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Company adopted IFRS 9 using the retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of December 1, 2018 and comparatives will not be restated.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (Continued)

#### (b) New accounting standards and interpretations adopted in the interim period (continued)

##### (i) IFRS 9 Financial instruments (continued)

assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss.

- Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

- Fair value through other comprehensive income ("FVTOCI")

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

- Fair value through profit or loss ("FVTPL")

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

	IAS 39 Classification	IFRS 9
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable (excluding GST receivable)	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

### 3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (Continued)

#### (b) New accounting standards and interpretations adopted in the interim period (continued)

##### (i) IFRS 9 Financial instruments (continued)

Impairment under IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs. The new impairment model is applied at each balance sheet date, to financial assets measured at amortized cost or to those measured at fair value through other comprehensive income. The Company adopted the practical expedient to determine ECL on account receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

The adoption of IFRS 9 did not have a material impact on the Company's classification and measurement of financial assets and liabilities.

##### (ii) IFRS 15 Revenue from contracts with customers

The IASB replaced IAS 18 Revenue, in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of December 1, 2018 and comparatives will not be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenue from the sale of cannabis are generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due on standard commercial terms and is recognized into revenue upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy under IAS 18.

Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its condensed interim consolidated financial statements.

#### (c) Recent accounting pronouncements

The following IFRS standard has been recently issued by the IASB. Pronouncements that are not applicable, or where it has been determined do not have a significant impact to the Company, have been excluded herein.

### 3. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (Continued)

#### (c) Recent accounting pronouncements (continued)

##### (i) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace 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 asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 on December 1, 2019 and is currently assessing the impact of this new standard on its condensed interim consolidated financial statements.

#### (d) Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. 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.

Estimates and underlying assumptions are reviewed on an ongoing basis for reasonableness and relevancy. Where revisions are required, they are recognized in the period in which the estimate is revised as well as future periods that are affected.

With the exception of the new accounting policies adopted in the interim period and described in Note 3(a) (i) Business combinations and asset acquisitions, and (ii) Intangible assets and goodwill, there have been no other changes in the Company's critical accounting estimates, significant judgments and assumptions during the nine months ended August 31, 2019.

### 4. CASH

As of August 31, 2019, the Company held \$7,435,044 in cash of which \$42,000 is restricted on deposit as security for the Company credit cards.

### 5. AMOUNTS RECEIVABLE

The Company's amounts receivable consists of trade accounts receivable, income tax receivable, accrued interest receivable, and goods and services tax ("GST") receivable. The Company believes these amounts to be collectable and has not experienced historical defaults from customers. The breakdown of the amounts receivable balance was as follows:

	<b>August 31, November 30,</b>	
	<b>2019</b>	<b>2018</b>
GST receivable	\$ 217,024	\$ 3,299
Income tax receivable	585,871	-
Interest receivable	56,902	-
Accounts receivable	146,184	220,912
	<u>\$ 1,005,981</u>	<u>\$ 224,211</u>

## 6. BIOLOGICAL ASSETS AND INVENTORY

The Company's biological assets consist of 1,460 cannabis plants as at August 31, 2019. The continuity of biological assets is as follows:

	<b>August 31, 2019</b>	<b>November 30, 2018</b>
Opening balance	\$ 137,128	\$ -
Add:		
Purchases of genetic material	32,994	51,948
Pre harvest production cost capitalized	666,123	612,288
Fair value less cost to sell due to biological asset transformation	34,818	142,620
Less:		
Harvested amounts transferred out to inventory	(649,785)	(669,728)
	<u>\$ 221,278</u>	<u>\$ 137,128</u>

All biological assets are considered current. The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The significant assumptions used in determining the fair value of the cannabis are as follows:

- i. Stage of completion;
- ii. Yield by strain (actual yields used for these financial statements);
- iii. Estimated selling prices and costs of harvest and completion; and
- iv. Cost to complete the cannabis post-harvest and cost to sell.

The Company's estimates are, by nature subject to change. Changes in the underlying assumptions will be reflected in future changes in the gain/loss of biological assets.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs and assumptions	Range of inputs	Sensitivity	Effect on fair value	
			August 31, 2019	November 30, 2018
Selling price per gram	\$4.50 - \$5.55 <sup>(1)</sup>	Change by \$1.00 per gram	\$ 55,115	\$ 39,923
Average yield per plant	54 grams to 125 grams	Change by 5 grams per plant	\$ 16,105	\$ 4,806

<sup>(1)</sup> The selling price is based on the average sales price for the period.

## 6. BIOLOGICAL ASSETS AND INVENTORY (Continued)

As of August 31, 2019, the weighted average fair value less cost to complete and cost to sell was \$2.90 per gram (November 30, 2018 – \$2.70 per gram); and the biological assets were on average 44% complete (November 30, 2018 – 59% complete). During the nine months ended August 31, 2019, the Company's biological assets produced 306,566 grams of dried cannabis (November 30, 2018 – 248,039 grams). As at August 31, 2019, it was expected that the Company's biological assets would yield approximately 109,000 grams (November 30, 2018 – 68,500 grams) of cannabis when harvested.

As at August 31, 2019, included in the carrying amount of inventory is 160,395 grams of dry cannabis (November 30, 2018 – 66,253 grams) valued at \$509,793 (November 30, 2018 - \$264,283) that has been quality assured and is awaiting release for sale.

Inventory comprised of the following items:

	<b>August 31, 2019</b>	<b>November 30, 2018</b>
Harvested cannabis	\$ 509,793	\$ 264,283
Supplies and consumables	45,730	16,957
Carrying amount	<u>\$ 555,523</u>	<u>\$ 281,240</u>

## 7. PROPERTY, PLANT AND EQUIPMENT

A continuity of property, plant and equipment for the periods ended August 31, 2019, and November 30, 2018, is as follows:

	<b>Land</b>	<b>Building</b>	<b>Production equipment</b>	<b>Computer hardware</b>	<b>Computer software</b>	<b>Office equipment</b>	<b>Total</b>
<b>Cost</b>							
As at November 30, 2017	\$ 1,018,900	\$ 1,791,959	\$ 96,864	\$ 47,153	\$ 12,082	\$ 17,828	\$ 2,984,786
Additions during the year	-	610,370	177,422	19,382	-	10,430	817,604
As at November 30, 2018	1,018,900	2,402,329	274,286	66,535	12,082	28,258	3,802,390
Additions during the period <sup>(1)</sup>	-	1,163,436	549,409	177,892	-	12,648	1,903,385
Additions from the acquisition of EFX <sup>(2)</sup>	-	-	1,438,539	9,205	-	-	1,447,744
As at August 31, 2019	<u>\$ 1,018,900</u>	<u>\$ 3,565,765</u>	<u>\$ 2,262,234</u>	<u>\$ 253,632</u>	<u>\$ 12,082</u>	<u>\$ 40,906</u>	<u>\$ 7,153,519</u>
<b>Accumulated depreciation</b>							
As at November 30, 2017	\$ -	\$ -	\$ -	\$ 7,073	\$ -	\$ 1,783	\$ 8,856
Depreciation for the year	-	95,452	40,127	18,949	4,027	4,609	163,164
As at November 30, 2018	-	95,452	40,127	26,022	4,027	6,392	172,020
Depreciation for the period	-	80,637	72,466	22,245	3,021	4,834	183,203
As at August 31, 2019	<u>\$ -</u>	<u>\$ 176,089</u>	<u>\$ 112,593</u>	<u>\$ 48,267</u>	<u>\$ 7,048</u>	<u>\$ 11,226</u>	<u>\$ 355,223</u>
<b>Net book value</b>							
As at November 30, 2018	\$ 1,018,900	\$ 2,306,877	\$ 234,159	\$ 40,513	\$ 8,055	\$ 21,866	\$ 3,630,370
As at August 31, 2019	<u>\$ 1,018,900</u>	<u>\$ 3,389,676</u>	<u>\$ 2,149,641</u>	<u>\$ 205,365</u>	<u>\$ 5,034</u>	<u>\$ 29,680</u>	<u>\$ 6,798,296</u>

(1) \$161,776 of the computer hardware acquired during the period relates to security systems infrastructure, the \$16,116 balance of net additions relate to production and office computers

(2) See note 9 Business Combinations for further information on the amalgamation with EFX.

## 7. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company began utilizing the building, production equipment and computer software for commercial purposes on January 1, 2018. A total of \$904,292 phase 2 site improvements, \$1,435,687 extraction equipment, and \$124,390 of computer hardware is included with property, plant and equipment but will not be depreciated until the asset is put in use.

## 8. INTANGIBLE ASSETS

Intangible assets consist of internally capitalized expenditures in the amount of \$83,149 (November 30, 2018 - \$nil) related to the implementation of the Company's e-commerce website. The completion of this asset is in progress and no amortization has been taken.

## 9. BUSINESS COMBINATIONS

On February 11, 2019, the Company entered into an amalgamation agreement with EFX Laboratories Inc. ("EFX") for the acquisition by Experion of all the issued and outstanding Class A voting shares in the capital of EFX by way of an amalgamation of EFX and 2163903 Alberta Ltd., a wholly-owned subsidiary of Experion, in accordance with the *Business Corporations Act* (Alberta).

Pursuant to the Amalgamation Agreement, Experion acquired all the issued and outstanding EFX Shares by the issuance of common shares in the capital of Experion (the "Experion Shares"), which were issued on the basis of one Experion Share for every 2.57 EFX Shares.

Upon completion of the Amalgamation, current holders of EFX Shares hold 49,412,781 Experion Shares, representing 50.05% of the outstanding Experion Shares and the current holders of Experion Shares hold 49,320,375 Experion Shares, representing approximately 49.95% of the outstanding Experion Shares.

The Amalgamation was an arm's length "reviewable transaction" as that term is defined by the TSX-V. The completion of the Amalgamation was subject to the satisfaction of a number of conditions, including but not limited to, TSX-V acceptance and EFX shareholder approval. As the Amalgamation is a three-cornered amalgamation, Experion shareholder approval was not required. The Amalgamation closed on February 11, 2019 and the trading of the Experion Shares on the TSX-V resumed on February 13, 2019.

Management is in the process of gathering the relevant information that existed as at the acquisition date to determine the fair value of net identifiable assets acquired. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. Management continues to work on finalizing the purchase price allocation for the fair value of identified intangible assets, property, plant and equipment acquired and the allocation to goodwill.



## 9. BUSINESS COMBINATIONS (Continued)

Completed during the three months ended February 28, 2019; no additions in the nine months ended August 31, 2019:

<b>Total consideration</b>		
Common shares issued	\$	25,694,646
Replaced share-based payments		404,784
	\$	26,099,430
<b>Net identifiable assets (liabilities) acquired</b>		
Cash	\$	13,769,006
Accounts receivables		91,849
Prepaid expenses		7,534
Property, plant and equipment		1,447,744
		(460,708)
	\$	14,855,425
<b>Purchase price allocation</b>		
Net identifiable assets acquired	\$	14,855,425
Intangible assets and Goodwill		11,244,004
	\$	26,099,429
<b>Acquisition costs expensed</b>		
Nine months ended August 31, 2019	\$	1,902,637

Goodwill represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition, as well as the deferred tax liability recognized for all taxable temporary differences. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

## 10. SHARE CAPITAL

### (a) Authorized

Unlimited number of common voting shares.  
 Unlimited number of preferred shares, without nominal or par value.

### (b) Issued

During the period ended August 31, 2019, the Company issued 49,412,781 common voting shares in relation to the business combination with EFX and 75,000 common voting shares in relation to the vested RSUs. The total number of common voting shares outstanding by the Company as of August 31, 2019 is 98,808,156.

**10. SHARE CAPITAL (Continued)**

**(c) Warrants**

The continuity of warrants for the nine months ended August 31, 2019 is as follows:

<b>Expiry date</b>	<b>Exercise price (\$)</b>	<b>November 30, 2017</b>	<b>Issued <sup>(1)</sup></b>	<b>Exercised</b>	<b>Expired</b>	<b>November 30, 2018 and August 31, 2019</b>
June 27, 2018	0.80	2,750,000	176,996	(1,715,020)	(1,211,976)	-
June 27, 2018	0.80	493,056	-	(462,500)	(30,556)	-
June 27, 2018	0.80	1,771,962	-	(50,340)	(1,721,622)	-
Warrants outstanding		5,015,018	176,996	(2,227,860)	(2,964,154)	-

Weighted average exercise price (\$)

\$ 0.80 \$ 0.80 \$ 0.80 \$ 0.80 n/a

<sup>(1)</sup> Warrants were issued as a result of the exercise of Finder's Options.

As at August 31, 2019, the weighted average contractual remaining life of warrants is nil (November 30, 2018 – nil).

**(d) Agent's Options**

The continuity of agent's options for the nine months ended August 31, 2019 is as follows:

<b>Expiry date</b>	<b>Exercise price (\$)</b>	<b>November 30, 2017</b>	<b>Exercised</b>	<b>Expired</b>	<b>November 30, 2018 and August 31, 2019</b>
June 27, 2018 <sup>(1)</sup>	0.60	355,670	(353,990)	(1,680)	-
Agent's Options outstanding		355,670	(353,990)	(1,680)	-

Weighted average exercise price (\$)

\$ 0.60 \$ 0.60 \$ 0.60 n/a

<sup>(1)</sup> Each agent's option is exercisable into one common share and a half warrant. Each full warrant is exercisable at \$0.80 until June 27, 2018. Subsequent to May 31, 2018, 306,660 agent's options were exercised and the remaining expired.

As at August 31, 2019, the weighted average contractual remaining life of agent's options is nil (November 30, 2018 – nil).

## 10. SHARE CAPITAL (Continued)

### (e) Share-Based Compensation

The Company has a Stock Option Plan that is administered by the Board of Directors of the Company who establish the number of options granted, exercise prices, at not less than market price at the date of grant, expiry dates, and vesting conditions. The Company also has a Restricted Share Unit Plan that is administered by the Board of Directors of the Company who establish the number of restricted share units (“RSUs”) granted, expiry dates and vesting conditions. RSUs have no exercise price. The maximum number of common shares reserved for issuance for options and RSUs that may be granted under the plan is 10% of the common shares outstanding, which amounts to 9,880,815 at August 31, 2019.

The vesting terms on the issued options and RSUs can vary based on the following:

- i) Upon a specified future date – service condition;
- ii) At the discretion of the Compensation Committee;
- iii) Upon receipt of a license to sell pursuant to the ACMPR – non-market performance condition;
- iv) 1/365<sup>th</sup> per day, during the employment period – service condition;
- v) Volume weighted average trading price over a period of trading days prior to the grant.

During the nine months ended August 31, 2019, the Company granted a total of 1,489,491 stock options with a fair value of \$404,784 as replacement options to past EFX directors, officers, employees and consultants at exercise prices ranging from \$0.64 to \$0.90 per share. Of these options, 1/3 (496,497) vested immediately as of the grant date; 1/3 vest on the first anniversary per the original EFX options grant date and the remaining on the second anniversary of the original EFX grant date. These options expire between February 13, 2022 and November 1, 2023.

The Company also granted 275,000 stock options with a fair value of \$91,658 to its employees on March 18, 2019 at an exercise price of \$0.65 for a period of three years, vesting 50% immediately and 50% in six months; and another 250,000 stock options with a fair value of \$65,500 to its officer on March 26, 2019 at an exercise price of \$0.65 for a period of three years, vesting 12.5% every three months.

During the nine months ended August 31, 2019, 691,633 options (\$168,785) were forfeited.

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**10. SHARE CAPITAL (Continued)**

**(e) Share-Based Compensation (continued)**

The continuity of options for the period ended August 31, 2019 is as follows:

Expiry date	Exercise price (\$)	November 30, 2017	Granted	Expired / forfeited	November 30, 2018	Granted	Expired / forfeited	August 31, 2019
June 30, 2018	1.80	8,325	-	(8,325)	-	-	-	-
October 6, 2019	0.60	525,000	-	-	525,000	-	-	525,000
December 1, 2019	1.31	-	50,000	-	50,000	-	-	50,000
March 21, 2020	0.94	-	75,000	-	75,000	-	-	75,000
March 23, 2020	3.60	8,325	-	-	8,325	-	-	8,325
March 23, 2020	7.21	8,325	-	-	8,325	-	-	8,325
October 23, 2020	0.91	-	250,000	-	250,000	-	-	250,000
May 31, 2021	<sup>(1)</sup> 0.64	-	-	-	-	389,105	-	389,105
May 31, 2021	<sup>(2)</sup> 0.81	-	149,625	-	149,625	-	-	149,625
May 31, 2021	<sup>(3)</sup> 0.91	-	149,625	-	149,625	-	-	149,625
June 14, 2021	0.91	-	110,000	-	110,000	-	-	110,000
June 21, 2021	0.81	-	999,625	-	999,625	-	(149,625)	850,000
October 11, 2021	0.89	-	561,797	-	561,797	-	-	561,797
October 23, 2021	0.91	-	50,000	-	50,000	-	-	50,000
February 13, 2022	0.78	-	-	-	-	400,000	-	400,000
March 18, 2022	0.65	-	-	-	-	275,000	-	275,000
March 26, 2022	0.65	-	-	-	-	250,000	-	250,000
October 6, 2022	0.60	750,000	-	-	750,000	-	(100,375)	649,625
May 8, 2023	0.64	-	-	-	-	389,105	(389,105)	-
August 20, 2023	0.90	-	-	-	-	233,462	-	233,462
October 8, 2023	0.90	-	-	-	-	19,455	(19,455)	-
October 15, 2023	0.90	-	-	-	-	52,528	(33,073)	19,455
November 1, 2023	0.90	-	-	-	-	5,836	-	5,836
Options outstanding		1,299,975	2,395,672	(8,325)	3,687,322	2,014,491	(691,633)	5,010,180
Options exercisable		699,975	1,944,008	-	3,273,159	1,030,365	-	4,134,525
Weighted average exercise price (\$)		\$ 0.67	\$ 0.87	\$ 1.80	\$ 0.79	\$ 0.71	\$ 0.69	\$ 0.78

(1) These options' original expiry date was June 1, 2023.

(2) These options' original expiry date was June 21, 2021.

(3) These options' original expiry date was October 23, 2021.

As at August 31, 2019, the weighted average contractual remaining life of options is 2.13 years (November 30, 2018 – 2.55 years).

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**10. SHARE CAPITAL (Continued)**

**(e) Share-Based Compensation (continued)**

The assumptions used to estimate the fair value of options for the nine month period ended August 31, 2019 and 2018 were as follows:

	2019	2018
Risk-free interest rate	1.45-1.8%	1.82-1.92%
Expected stock price volatility	103-109%	119.39-124.81%
Expected option life in years	0.10 to 4.17 years	1.5 to 3 years
Expected dividend in yield	Nil	Nil
Forfeiture rate	Nil	Nil

The continuity of RSUs for the period ended August 31, 2019 is as follows:

Expiry date	Deemed price (\$)	November 30, 2017			Vested and Converted into shares	November 30, 2018			Vested and Converted into shares	August 31, 2019
		Granted	Cancelled			Granted	Cancelled			
June 21, 2018	0.81	-	349,625	-	(349,625)	-	-	-	-	-
October 6, 2018	0.54	1,947,375	-	(1,149,250)	(648,500)	149,625	-	(149,625)	-	-
October 23, 2018	0.91	-	40,913	-	(40,913)	-	-	-	-	-
December 1, 2018	0.84	-	50,000	-	(50,000)	-	-	-	-	-
March 18, 2019	0.53	-	-	-	-	-	50,000	-	(50,000)	-
December 31, 2019	0.94	-	75,000	-	(25,000)	50,000	-	-	(25,000)	25,000
February 11, 2020	0.51	-	-	-	-	-	31,250	-	-	31,250
May 31, 2020	0.40 & 0.51	-	-	-	-	-	50,000	-	-	50,000
June 17, 2020	0.40	-	-	-	-	-	31,250	-	-	31,250
July 22, 2020	0.40 & 0.51	-	-	-	-	-	100,000	-	-	100,000
1 year from resignation	0.40 & 0.51	-	-	-	-	-	75,000	-	-	75,000
RSUs outstanding		1,947,375	515,538	(1,149,250)	(1,114,038)	199,625	337,500	(149,625)	(75,000)	312,500
RSUs vested		-	465,538	-	-	149,625	50,000	-	-	-

As at August 31, 2019, the weighted average contractual remaining life of RSUs is 0.73 years (November 30, 2018 – 0.26 years), excluding the RSUs that will vest 1 year from the date of the directors' resignations. The Company cancelled 149,625 RSUs during the nine months ended August 31, 2019.

## 10. SHARE CAPITAL (Continued)

### (f) Escrow shares

In accordance with the escrow agreement dated September 25, 2017, 21,167,581 shares were placed in escrow. Of the escrowed common shares, 10% were released on October 6, 2017, with an additional 15% being released thereafter every 6 months. On February 25, 2019, the Company graduated from Tier 2 to Tier 1 of the TSX-V; and, as a result, the escrow schedule has shortened from 36 months to 18 months, with the remaining escrow shares released on April 6, 2019. As of May 31, 2019, there were no common shares (November 30, 2018 – 12,700,549) held in escrow.

Another 2,117,591 shares were placed in escrow in accordance with a separate escrow agreement also dated September 25, 2017. Of the escrowed common shares, 5% were released on October 6, 2017, with an additional 5% being released on April 6, 2018. The remaining 90% would be released as follows: 10% on October 6, 2018; 10% on April 6, 2019; 15% on October 6, 2019, 15% on April 6, 2020; and the rest of 40% would be released on October 6, 2020. With the TSX-V tier graduation, the escrow release schedule has shortened from 36 months to 18 months, with the remaining escrow shares released on April 6, 2019. As of August 31, 2019, there were no common shares (November 30, 2018 – 1,694,072) held in escrow.

## 11. RELATED PARTY TRANSACTIONS

### (a) Compensation of key management personnel

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consist of the Company's executive management team and management directors.

	<b>Nine months ended August 31,</b>	
	<b>2019</b>	<b>2018</b>
Management compensation	\$ 1,012,296	\$ 434,680
Directors' fees	132,500	19,500
Share-based payments <sup>(1)</sup>	195,467	1,259,948
	<b>\$ 1,340,263</b>	<b>\$ 1,714,128</b>

<sup>(1)</sup> Share-based payments are the fair value of options and RSUs granted and vested to key management personnel and directors of the Company under the Company's stock option plan and RSU plan.

Certain officers' employment agreements have termination benefits and one officer is entitled to future committed payments (see Note 13).

## 11. RELATED PARTY TRANSACTIONS (Continued)

### (b) Goods and services

The Company incurred the following transactions with related parties during the period ended August 31, 2019:

	<b>Nine months ended August 31,</b>	
	<b>2019</b>	<b>2018</b>
Consulting fees paid or payable to companies in which the officers of the Company have control over	\$ 129,459	\$ 38,407
Operational fees paid or payable to companies owned by a director of the Company	108,377	24,711
	<b>\$ 237,836</b>	<b>\$ 63,118</b>

### (c) Related party balances

The following related party amounts were included in (i) amounts receivable, and (ii) accounts payable and accrued liabilities:

	<b>2019</b>	<b>2018</b>
(i) Former director <sup>(1)</sup>	\$ 39,499	\$ 78,999
(i) Former officer <sup>(1)</sup>	24,944	24,944
(ii) Current directors	30,000	-
(ii) Current officers <sup>(2)</sup>	447,624	239,544
(ii) Companies controlled by director and officer of the Company <sup>(3)</sup>	-	39,346

(1) The amounts are unsecured, non-interest bearing, have no specific repayment term and due on demand. The amount has been reduced by 50% in the third quarter and an associated write-down recorded to bad debt expense for the period. The remaining balance is expected to be recovered.

(2) The amounts relate to an accrual for current services to an officer and an accrual for past services payable to an officer (see note 13).

(3) The amounts are due on demand.

## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash investing and financing transactions during the period ended August 31, 2019, other than the events described in Note 9.

### 13. COMMITMENTS AND CONTINGENCIES

#### (a) Claims and litigation

Experion's predecessor Morro Bay Resources Ltd. ("Morro Bay") has been named in a legal action. Dundee Canada (GP) Inc. is seeking damages of \$167,781 from Morro Bay and a company affiliated with the former Chief Executive Officer of Morro Bay, as a result of a sublease for office space. The litigation process will continue into the foreseeable future unless settled and no amount has been recorded in these condensed interim consolidated financial statements as the plaintiff has not taken a step to move this matter forward since April 2017 and the matter had been dormant for close to two years.

In the second quarter of 2019, Viridium Pacific Group Ltd (now known as Experion Holdings Ltd.) and its wholly owned subsidiary, Experion Biotechnologies Inc., were named as defendants along with others in a civil claim filed by Mr. Stephen Serenas, their ex-CEO. In the Amended Notice of Civil Claim, Mr. Serenas advances claims against Experion and Experion Biotechnologies Inc. for 149,625 restricted stock units fully vested in Experion, along with general damages for wrongful dismissal, breach of contract, bad faith, an indemnity, aggravated and punitive damages, and ancillary relief. No amount has been recorded with respect to this claim in these condensed interim consolidated financial statements.

#### (b) Capital project commitments

The Company has capital project commitments of approximately \$900,000 to be paid within one year.

#### (c) Other commitments

The Company is committed to pay \$268,228 to an officer over a period of five years; or immediately upon resignation or termination of his services. As of August 31, 2019, the Company included its net present value of \$197,624 in accrued liabilities.

### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK

#### (a) Fair value of financial instruments

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine fair value of each of the Company's financial instruments.

	IFRS 9
<b>Financial assets</b>	
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
<b>Financial liabilities</b>	
Accounts payable and accrued liabilities	Amortized cost

The carrying values of the financial instruments at August 31, 2019, reflected on the condensed interim consolidated statement of financial position, approximate their fair value due to the relatively short maturity of those instruments.



#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK (Continued)

##### (b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

##### (i) Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents, trade and other receivables and short-term GIC investments. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions. Trade and other receivables primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST"). The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk.

As at August 31, 2019, 7% (November 30, 2018 – 52%) of the receivables are from customers and of those 78% are outstanding for less than 30 days. The Company has assessed its expected credit loss in accordance with IFRS 9 and determined it to be nominal due to the nature and term of the receivables.

##### (ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

During the nine months ended August 31, 2019, the Company increased its cash position with the EFX amalgamation; while during the year ended November 30, 2018, the Company received \$1,994,683 in proceeds from the exercise of warrants and finder's options.

In addition to the commitments disclosed in Note 12, the Company is obligated to the following contractual maturities of undiscounted cash flows, which are due within a year: Accounts payable and accrued liabilities \$1,241,209 (November 30, 2018 - \$588,522).

The composition of the Company's accounts payable and accrued liabilities was as follows:

	August 31, 2019	November 30, 2018
Trade payables	\$ 425,951	\$ 112,087
Accrued liabilities	331,998	192,585
Payroll liabilities	-	4,960
Excise tax payable	5,636	-
Due to related party	477,624	278,890
	<u>\$ 1,241,209</u>	<u>\$ 588,522</u>

#### **14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK (Continued)**

##### **(b) Financial instruments risk (continued)**

###### (iii) Market risk

- Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates in Canada, its financial instruments and transactions are denominated in Canadian dollars. The Company has very limited currency risk.

- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's investments in GIC's have fixed rates of interest.

- Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company currently does not have marketable securities and investments that would be susceptible to price risk arising from uncertainties about their future values.

#### **15. SEGMENTED INFORMATION**

As at August 31, 2019, the Company operates in two segments: the production and sale of adult-use cannabis; and the production and sale of medical cannabis. All property, plant and equipment are in Canada.

#### **16. CAPITAL MANAGEMENT**

The Company's objective is to have a sufficient capital base so as to maintain investor, creditor and consumer confidence, and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity and debt. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders.

As at August 31, 2019 total managed capital was comprised of shareholders' equity and debt of \$27,631,585 (November 30, 2018 - \$5,949,459).

The Company's approach to capital management includes the maintenance of sufficient cash, cash equivalents and credit capacity to execute its business plan over the next fiscal year.

The Company is not subject to externally imposed restrictions.

## **17. SUBSEQUENT EVENTS**

On September 6, 2019, the Company purchased an equity investment in True North Cannabis Corp. comprising of 153,846 units at a subscription price of \$3.25 per unit. Each unit consists of one common share and one common share purchase warrant with each warrant entitling the holder thereof to acquire one common share at a price of \$4.50 before the earlier of (i) 24 months from the date on which the common shares of True North Cannabis Corp. become listed or traded on a recognized exchange, and (ii) five years from the date of issuance thereof.

On September 24, 2019, the Company granted 162,500 RSUs to its directors and a former director at a value of \$0.40 per RSU, vesting 12 months from the dates that the directors resign.