Condensed Interim Consolidated Financial Statements

LGC Capital Ltd.

For the three months ended December 31, 2018 and 2017

(Unaudited)

INDEX

NOTICE TO READER

Management has compiled the unaudited condensed interim consolidated financial statements of LGC Capital Ltd. as at December 31, 2018 and for the three month periods ended December 31, 2018 and 2017. These condensed interim consolidated financial statements have not been audited or reviewed by the Corporation's independent auditors.

LGC Capital Ltd.

Condensed interim consolidated statements of financial position (Unaudited)

As at,

	December 31, 2018	September 30, 2018
	$	$
Assets		
Current assets		
Cash	**2,916,845**	6,566,218
Non refundable deposits *[note 5]*	**150,307**	—
Other receivables	**555,952**	211,084
Total current assets	**3,623,104**	6,777,302
Non-current assets		
Cash held in trust	**29,131**	759,136
Equity investments *[note 5]*	**3,762,170**	—
Available for sale investments [note 5]	—	3,652,023
Loans receivable *[note 6]*	**2,398,756**	1,576,266
Investments in associates *[note 7]*	**2,251,296**	—
Convertible debentures receivable *[note 8]*	**4,412,247**	3,408,580
Royalty streams *[notes 7, 8 and 9]*	**6,672,118**	4,191,739
Loans to directors and officers *[note 10]*	**369,188**	362,802
Fixtures and fittings	**9,475**	9,969
Total non-current assets	**19,904,381**	13,960,515
	23,527,485	20,737,817
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities *[note 14]*	**476,501**	340,345
Deferred revenue *[note 5]*	**84,623**	116,357
Convertible debentures payable *[note 11]*	**3,031,936**	2,528,720
Conversion feature of convertible debentures payable *[note 11]*	**—**	78,419
Total current liabilities	**3,593,060**	3,063,841
Equity		
Share capital *[notes 2 and 12]*	**36,449,782**	32,335,757
Warrants *[notes 2, 11 and 12]*	**4,537,871**	4,537,871
Contributed surplus *[note 12]*	**10,025,778**	10,003,130
Accumulated other comprehensive loss	**33,806**	(188,876)
Deficit	**(31,112,812)**	(29,013,906)
Total equity	**19,934,425**	17,673,976
	23,527,485	20,737,817

Contingent liabilities *[note 15]*

Subsequent events *[note 16]*

See accompanying notes

LGC Capital Ltd.

Condensed interim consolidated statements of loss and comprehensive loss (Unaudited)

Three-month periods ended December 31,

	2018	2017
	$	$
Revenues		
Finance income *[notes 4, 6 and 8]*	**214,628**	345
Other revenues *[note 5]*	**31,734**	—
	246,362	345
Expenses		
Adminstrative expenses *[note 4]*	**1,693,743**	4,599,893
Finance expense *[notes 4, and 11]*	**412,888**	—
Depreciation	**494**	—
Realized gain on available for sale investments *[note 5]*	**—**	(154,763)
Share of profit of associate *[note 7]*	**(1,272)**	—
Impairment of loans receivable *[note 6]*	**3,267**	—
Provision for doubtful debts *[note 6]*	**23,660**	—
Net loss in financial assets measured at fair value through profit or loss *[notes 5, 8 and 9]*	**147,750**	—
Net gain in fair value of embedded derivative in convertible debentures payable at fair value through profit or loss *[note 11]*	**(78,419)**	—
Foreign exchange (gain) loss	**(45,719)**	27,750
	2,156,392	4,472,880
Net loss for the period	**(1,910,030)**	(4,472,535)
Other comprehensive income		
Other comprehensive income items never to be reclassified to profit or loss		
Increase in value of available for sale investments, net of taxes *[note 5]*	**—**	305,208
Realized gain on available for sale investments reclassified to profit or loss, net of taxes *[note 5]*	**—**	(154,763)
Foreign exchange gain on translation of foreign subsidiaries	**33,806**	21,829
Other comprehensive income	**33,806**	172,274
Comprehensive loss	**(1,876,224)**	(4,300,261)
Net loss per share		
Basic and fully diluted	**(0.00)**	(0.02)
Weighted average number of outstanding shares		
Basic and fully diluted	**391,957,049**	227,409,143

See accompanying notes

LGC Capital Ltd.

Condensed interim consolidated statements of changes in equity
(Unaudited)

Three-month periods ended December 31,

	Share capital		Warrants		Contributed surplus	Accumlated other comprehensive loss: Available-for-sale reserve	Accumlated other comprehensive loss: Foreign currency tralsation reserve	Deficit	Total
	#	$	#	$	$	$	$	$	$
Balance – October 1, 2017	264,201,810	13,108,479	32,968,000	1,008,365	1,568,627	545,455	(1,647,820)	(13,006,763)	1,576,343
Foreign exchange gain on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	—	21,829	—	21,829
Net loss for the period	—	—	—	—	—	—	—	(4,472,535)	(4,472,535)
Comprehensive loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**21,829**	**(4,472,535)**	**(4,450,706)**
Issuance of LGC Capital shares and warrants *[notes 2 and 12]*	24,871,822	2,583,846	24,871,822	1,146,927	—	—	—	—	3,730,773
Issue costs - shares and warrants *[notes 2 and 12]*	—	(111,877)	—	(49,660)	—	—	—	—	(161,537)
Issue costs - warrants issued to brokers *[notes 2 and 12/*	—	(234,709)	1,100,828	234,709	—	—	—	—	—
Stock-based compensation *[notes 4 and 12]*	—	—	—	—	3,871,335	—	—	—	3,871,335
Exercise of stock options *[note 12]*	100,000	17,632	—	—	(2,632)	—	—	—	15,000
Exercise of warrants *[note 12]*	2,700,000	493,499	(2,700,000)	—	(88,499)	—	—	—	405,000
Increase in value of available for sale investments, net of taxes *[note 5]*	—	—	—	—	—	305,208	—	—	305,208
Realized gain on available for sale investments reclassified to profit or loss *[note 5]*	—	—	—	—	—	(154,763)	—	—	(154,763)
Issuance of LGC Capital shares to acquire available for sale investments *[notes 5 and 12]*	5,660,000	622,600	—	—	—	—	—	—	622,600
Balance – December 31, 2017	**297,533,632**	**16,479,470**	**56,240,650**	**2,340,341**	**5,348,831**	**695,900**	**(1,625,991)**	**(17,479,298)**	**5,759,253**
Balance – October 1, 2018	380,288,641	32,335,757	49,218,314	4,537,871	10,003,130	(188,876)	—	(29,013,906)	17,673,976
Impact of adopting IFRS 9 *[note 2.2]*	**—**	**—**	**—**	**—**	**—**	**188,876**	**—**	**(188,876)**	**—**
Restated opening balance under IFRS 9 *[note 2.2]*	**380,288,641**	**32,335,757**	**49,218,314**	**4,537,871**	**10,003,130**	**—**	**—**	**(29,202,782)**	**17,673,976**
Foreign exchange gain on translation of foreign subsidiaries, net of taxes	**—**	**—**	**—**	**—**	**—**	**—**	**33,806**	**—**	**33,806**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,910,030)**	**(1,910,030)**
Comprehensive loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**33,806**	**(1,910,030)**	**(1,876,224)**
Issuance of shares to acquire equity investments *[notes 5 and 12]*	**35,167,001**	**3,868,370**	**—**	**—**	**—**	**—**	**—**	**—**	**3,868,370**
Issuance of shares to settle accounts payable and accrued liabilities *[note 12]*	**703,340**	**77,367**	**—**	**—**	**—**	**—**	**—**	**—**	**77,367**
Share purchase loans to directors and officers repaid during the period *[notes 10 and 12]*	**—**	**171,654**	**—**	**—**	**—**	**—**	**—**	**—**	**171,654**
Share purchase loans to directors and officers - accretion during the period *[notes 10 and 12]*	**—**	**(3,366)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,366)**
Stock-based compensation *[notes 4 and 12]*	**—**	**—**	**—**	**—**	**22,648**	**—**	**—**	**—**	**22,648**
Balance – December 31, 2018	**416,158,982**	**36,449,782**	**49,218,314**	**4,537,871**	**10,025,778**	**—**	**33,806**	**(31,112,812)**	**19,934,425**

Contingent liabilities *[note 15]*
Subsequent events *[note 16]*

See accompanying notes

LGC Capital Ltd.

Condensed interim consolidated statements of cash flows (Unaudited)

Three-month periods ended December 31,

	2018	2017
	$	$
Operating activities		
Net loss for the period	**(1,910,030)**	(4,472,535)
Items not impacting cash:		
Revenues received in shares *[note 5]*	**(31,734)**	—
Finance income *[notes 4, 6, and 8]*	**(214,628)**	—
Finance expense *[notes 4, and 11]*	**339,459**	—
Non-cash finder's fees [*notes 4 and 7]*	**77,367**	—
Net loss of financial assets measured at fair value through profit or loss *[notes 5, 8 and 9]*	**147,750**	—
Net gain in fair value of embedded derivative in convertible debentures payable at fair value through profit or loss *[note 11]*	**(78,419)**	—
Realised gain on sale of available for sale investments *[note 5]*	**—**	(154,763)
Share of profit of associates *[note 7]*	**(1,272)**	—
Impairment of loans receivable *[note 6]*	**3,267**	—
Provision for doubtful debts *[note 6]*	**23,660**	—
Depreciation	**494**	—
Stock-based compensation *[notes 4 and 12(d)]*	**22,648**	3,871,335
Unrealized foreign exchange loss	**84,125**	405
	(1,537,313)	(755,558)
Change in non-cash working capital items	**(17,926)**	(195,094)
Net cash flows from operating activities	**(1,555,239)**	(950,652)
Investing activities		
Acquisition of available for sale investments *[note 5]*	**—**	(1,478,699)
Disposal of available for sale investments *[note 5]*	**—**	585,528
Restricted cash transfers to trust account	**730,005**	—
Payments for non-refundable deposits *[note 5]*	**(150,307)**	—
Issuance of loans receivable *[note 6]*	**(721,685)**	—
Acquisition of convertible debentures receivable *[note 8]*	**(1,258,917)**	—
Acquisition of royalty streams *[note 8 and 9]*	**(864,680)**	—
Cash flows from investing activities	**(2,265,584)**	(893,171)
Financing activities		
Repayment of loans	**—**	(325,440)
Proceeds from issuance of shares and warrants *[note 12]*	**—**	3,357,611
Share and warrant issue costs *[note 12]*	**—**	(161,537)
Proceeds from the exercise of stock options *[note 12]*	**171,654**	15,000
Proceeds from the exercise of warrants *[note 12]*	**—**	405,000
Cash flows from financing activities	**171,654**	3,290,634
Increase in cash	**(3,649,169)**	1,446,811
Net foreign exchange differences	**(204)**	7,442
Cash, beginning of period	**6,566,218**	2,018,570
Cash, end of period	**2,916,845**	3,472,823

See accompanying notes

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three-month periods ended December 31, 2018 and 2017

1. Nature of operations and comparative information

LGC Capital Ltd. (“LGC Capital”) was incorporated under the Canada Business Corporations Act on July 9, 2004. LGC Capital Ltd. is a publicly listed company and its shares are listed on the TSX Venture Exchange (the “TSX-V”) under the symbol “LG” [“QBA” prior to September 19, 2017]. The registered office of LGC Capital is located at 800 Place Victoria, Suite 3700, Montréal, Québec, Canada.

LGC Capital and its wholly-owned subsidiaries, LGC Finance Limited (formerly Leni Gas Cuba Limited) (“LGC Finance”), LGC Capital EU OU (“LGC Estonia”) and LGC Capital Spain S.L (“LGC Spain”), are collectively referred to as the “Company” in these consolidated financial statements.

LGC Capital is focused on investing in the legal global cannabis market. The Company’s aim is to be involved and invested in jurisdictions globally that allow legal cultivation and production of cannabis products, with the exception of investments in businesses operating in the United States. To date, the Company has expanded to securing significant positions in emerging legal cannabis companies in Australia, Canada, Jamaica, Switzerland and Italy.

All amounts are expressed in Canadian dollars unless otherwise noted. Certain amounts in these consolidated financial statements are expressed in British Pounds (“GBP”), Australian dollars (“AUD”) and Euros (EUR).

2. Summary of significant accounting policies

2.1 Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements of the Company for the three-month period ended December 31, 2018 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the financial statements for the year ended September 30, 2018 except for the new standards and interpretations effective October 1, 2018 as summarised in note 2.2. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended September 30, 2018 which have been prepared in accordance with IFRS.

The Board of Directors approved these condensed interim consolidated financial statements, effective March 11, 2019.

Basis of consolidation

The condensed interim consolidated financial statements include the financial statements of LGC Capital and its subsidiaries as described in note 1. All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full on consolidation.

The condensed interim consolidated financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as LGC Capital.

Reclassification of fair value of warrants

On September 12, 2017, the Company completed a private placement by issuing 30,000,000 units at a price of $0.10 per unit, for gross proceeds of $3,000,000. Each unit was composed of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.15 for a period of one year from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX Venture Exchange for a period of 20 consecutive trading days is at least $0.20, the warrants will expire at the sole discretion of the Company on the 30th day after the Company sends a notice to the holders of the warrants (the "Notice"). Initially, in the Company's consolidated financial statements for the year ended September 30, 2017, the Company allocated no value to the warrants based on the initial valuation model based on stochastic simulations. However, during the three month period ended December 31, 2017, the Company updated its valuation model to properly reflect the fact that upon the receipt of the Notice, the holders of the warrants still have 30 days to exercise their warrants, and reclassified $983,325 from share capital to warrants as at September 30, 2017 and $66,539 from issue costs in share capital to warrants based on the relative fair value of the share capital and warrants.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of LGC Capital. The functional currency of LGC Finance is the GBP and that of LGC Estonia and LGC Spain are each the Euro.

2.2 New standards adopted

[i] IFRS 9 - Financial Instruments

IFRS 9 replaces IAS 39 and contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains four principal classification categories for financial assets, namely: amortized cost, FVOCI with gains or losses recycled to profit or loss on derecognition, FVOCI with no recycling of gains or losses to profit or loss on derecognition and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The following summarizes the accounting policies used by the Company upon adoption of IFRS 9.

Initial classification

The classification of the Company's financial instruments is as follows:

Classification	Financial instrument	Description
Financial assets measured at amortized cost	Cash	Cash balances with banks
	Cash held in trust	Cash balances held in trust for specified purposes - not available to fund normal operations
	Other receivables	Amounts receivable from third parties
	Loans receivable	Loans receivable and long-term receivables
Financial assets measured at FVTPL	Convertible debentures receivable	Convertible debentures receivable including conversion feature
	Royalty streams	Royalty streams acquired that do not satisfy the definition of an intangible asset
	Equity investments	Equities of publicly traded and private entities
Financial assets measured at FVOCI (with no recycling)	Equity investments	Equities of publicly traded and private entities
Financial liabilities	Accounts payable and accrued liabilities	Amounts payable to suppliers and third parties
	Convertible debentures payable	Financial liability host component of convertible debentures payable
Financial liabilities measured at FVTPL	Conversion feature of convertible debentures payable	Conversion feature embedded in convertible debentures payable and accounted for separately from the financial liability host

Criteria for classification
Under IFRS 9 the Company can classify, measure and account for its loans receivable and other receivables as amortized cost, FVOCI (with recycling) and FVTPL while equity investments can be classified as FVOCI (with no recycling) or FVTPL. The Company analyzes each loan receivable, other receivables and equity investment on an individual basis. The analysis and classification is driven by the following criteria.

Classification	Criteria
Loans and receivables	
Amortized cost	• Held within a business model whose objective is to hold assets in order to collect contractual cash flows and; • Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Financial assets measured at FVOCI (with recycling)	• Held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets and; • Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
FVTPL	• All loans receivable and investments in funds not measured at amortized cost or at FVOCI must be measured at FVTPL.

Classification	Criteria
Investments in equity instruments	
FVTPL	• Investment acquired with the purpose of sale or, • Evidence of historical short-term profit making on similar instruments.
FVOCI (with no recycling)	• Investment made primarily for non-financial benefits such as strategic alliances and strategic investments.

Measurement
After classification as amortized cost, FVTPL or FVOCI, the Company uses the following policy for initial measurement and subsequent measurement at each reporting period.

Classification	Initial measurement	Subsequent measurement	Changes in fair value
Amortized cost	Fair value less expected credit loss	Amortized cost using the effective interest method	Reported in consolidated statement of loss when realized or impaired. Interest accretion on loans is recorded in "Finance income" on the consolidated statement of loss.
FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in "Net gain (loss) on financial assets measured at FVTPL" on the consolidated statement of loss.
FVOCI (with no recycling)	Fair value	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in consolidated statement of other comprehensive loss. There is no recycling of amounts from the statement of comprehensive loss to the statement of loss upon the disposal of the financial asset.
Financial liabilities	Fair value	Amortized cost using the effective interest method.	Reported in consolidated statement of loss when liability is extinguished. The interest accretion is recorded in "Finance expense" on the consolidated statement of loss.
Financial liabilities measured at FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in "Net gain (loss) on financial liabilities measured at FVTPL" on the consolidated statement of loss.

Use of estimates and judgments
The fair value of each strategic loan is determined using the discounted future cash flow of the principal and interest payments and the discount rate used is the fair value interest rate ("FV Interest Rate") of the loan. The Company estimates the FV Interest Rate through the following steps which involves use of significant judgement and estimates:

Fair value measurement of convertible debentures receivable and royalty streams: The fair value of convertible debentures receivable, royalty streams and embedded derivatives contained within convertible debentures payable, is measured using valuation techniques including discounted cash flow (DCF) models, Monte Carlo simulations and funded production capacity. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO, and also appropriate valuation multiples. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Assignment of credit rating: There is no reliable third-party credit rating on any of the strategic partners from which the Company has a loan outstanding balance. Therefore, the Company judgmentally assigns a credit rating to each loan based on quantitative and qualitative factors which include but are not limited to review of borrower's business plan, cash flow forecasts and financial standing.

Interest rate of comparable financial instruments: The Company reviews the interest rates of comparable debt instruments with similar maturity term and credit rating as the loan being analysed. Based on the review the Company assigns a FV Interest Rate to each of its loan receivable. The Company may judgmentally exclude certain outliers in this analysis.

Impact of transition to IFRS 9
Upon adoption of IFRS 9, the Company has not restated prior periods and therefore the comparative information for year ended September 30, 2018 is reported under IAS 39 and is not comparable to information presented for three-month period ended December 31, 2018. The impact of the transition is as follows:

	As at September 30, 2018				As at October 1, 2018		
	IAS 39 classification	IAS 39 measurement	IAS 39 Carrying amount ($)	IFRS 9 classification & measurement	IFRS 9 Carrying amount ($)	Impact on opening deficit	Impact on opening AOCI
Cash	FVTPL	FVTPL	6,566,218	Amortized cost	6,566,218	—	—
Cash held in trust	FVTPL	FVTPL	759,136	Amortized cost	759,136	—	—
Other receivables	Other receivables	Amortized cost	211,084	Amortized cost	211,084	—	—
Loans receivable	Loans and other receivables	Amortized cost	1,576,266	Amortized cost	1,576,266	—	—
Equity investments	AFS	FVOCI	3,652,023	FVTPL	3,652,023	188,676	(188,676)
Convertible debentures	FVTPL	FVTPL	3,408,580	FVTPL(1)	3,408,580	—	—
Royalty streams	FVTPL	FVTPL	4,191,739	FVTPL(1)	4,191,739	—	—
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	340,345	Amortized cost	340,345	—	—
Convertible debentures payable	Financial liabilities	Amortized cost	2,528,720	Amortized cost	2,528,720	—	—
Conversion feature of convertible debentures payable	Financial liabilities measured at FVTPL	FVTPL	78,419	FVTPL	78,419	—	—
Transition impact						188,676	(188,676)

1 On transition, a Deferred day 1 gain of $4,059,655 remains to be recognized on eventual disposal of these financial instruments. Refer to note 8 for additional details.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For other receivables and loans receivable, the Company utilizes a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to its' counterparties and other relevant factors. The carrying amount of other receivables and loans receivable is reduced for any expected credit losses through the use of a provision for doubtful debts (for other receivables) or a provision for impairment (for loans receivable). Changes in the carrying amount of these provisions are recognized in the condensed interim consolidated statement of loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. The adoption of the new expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets recognized at amortized cost.

The impact on opening deficit and accumulated other comprehensive loss is summarized below:

	Deficit	**AOCI**
	$	$
Closing balance under IAS 39 – September 30, 2018	(29,013,906)	(188,876)
Transition impact	(188,876)	188,876
Opening balance under IFRS 9 – October 1, 2018	**(29,202,782)**	**—**

[ii] Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements relating to the accounting of:

- effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature concerning the legal obligation related to withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments to IFRS 2 are effective for the Company on October 1, 2018 and have been applied prospectively. The transition to the updated standard resulted in no adjustment to opening deficit as at October 1, 2018.

3. Recent accounting pronouncements

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") which is effective for the Company for periods commencing October 1, 2019 and replaces IAS 17 Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is less than 12 months or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. Finance income and expense and administrative expenses

The following is a breakdown of the nature of expenses included in administration expenses and finance expenses for the three-month periods ended December 31:

	2018	2017
	$	$
Administration expenses:		
Salaries and other employee benefits	**171,855**	36,822
Directors' fees and consultancy	**240,885**	142,908
Legal fees	**361,587**	158,696
Regulatory expenses	**97,553**	136,916
Consultancy fees	**263,230**	—
Travel and business development	**179,116**	21,000
Investor / public relations	**60,045**	38,450
Office expenses	**32,888**	61,737
Professional fees	**30,379**	4,176
Stock-based compensation *[note12(d)]*	**22,648**	3,871,335
Finder's fee [*note 7]*	**210,608**	—
House of Hemp (i)	**—**	70,707
Tricho-Med option expense (ii)	**—**	50,000
Other administration	**31,949**	7,146
Total	**1,693,743**	4,599,893

	2018	2017
	$	$
Finance income:		
Interest on loans receivable *[note 6]*	**83,983**	—
Interest on convertible debentures receivable *[note 8]*	**130,645**	—
Other interest	—	345
Total	**214,628**	345

	2018	2017
	$	$
Finance expenses:		
Accretion of loans to directors and officers *[note10]*	**(9,752)**	—
Interest on convertible debentures payable *[note 11]*	**73,492**	—
Accretion of convertible debentures payable *[note 11]*	**349,148**	—
Total	**412,888**	—

[i] House of Hemp expense

In June 2017, the Company entered into a strategic alliance with AfriAg (Pty) Ltd., to create a new 50/50 joint venture to grow and distribute medical and recreational cannabis products in the southern African region for export to regulated and certified end users around the world. The proposed 50/50 joint venture with AfriAg was never created.

In July 2017, LGC Capital and AfriAg (Pty) Ltd. entered into a binding memorandum of agreement to acquire a 60% interest in South Africa's House of Hemp (Pty) Ltd.'s hemp and cannabis related businesses, subject to an exclusive option for the period ended January 28, 2018, which was subsequently rolled over on a monthly basis until terminated.

On March 23, 2018, the Company's Directors decided to terminate its option to acquire, through the above mentioned joint venture, a 30% interest in House of Hemp citing legislative delays in South Africa adversely impacting the timeline for House of Hemp to obtain the necessary commercial licenses.

In connection with House of Hemp, the Company incurred expenses of $Nil for the three-month period ended December 31, 2018 [December 31, 2017 – $70,707].

[ii] Tricho-Med option expense

On October 31, 2017, the Company signed a term sheet with Quebec based Tricho-Med Corporation ("Tricho-Med") giving the Company an option to acquire a 49% interest in AAA Trichomes plus a 5% royalty on its net sales. The cost of this option of $50,000 was expensed in the three-month period ended December 31, 2017.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three-month periods ended December 31, 2018 and 2017

5. Equity investments

A breakdown of equity investments as at December 31, 2018 and September 30, 2018 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three-months ended December 31, 2018 $	**Year ended September 30, 2018** $
Balance, beginning of period / year	**3,652,023**	677,241
Additions	—	4,118,562
Disposals	—	(958,057)
Increase (decrease) in value	—	38,440
Net gain of equity investments measured at fair value through profit or loss	110,147	—
Impairment	—	(228,192)
Foreign currency gain on translation	—	4,029
Balance, end of period / year	**3,672,170**	3,652,023

[a] Melbana Energy Limited

During the three-month period ended December 31, 2018, the Company did not hold or trade any shares of Melbana.

During the three-month period ended December 31, 2017, the Company divested 44,140,121 shares in Melbana, at an average price of AUD$0.015, for total proceeds of AUD$556,074 ($536,953), which resulted in a reduction of the Company's interest in Melbana from 4.81% as at September 30, 2017 to 1.67% as at December 31, 2017. As a result, during the three-month period ended December 31, 2017, the Company recognized a gain on disposal of shares of Melbana of AUD$114,673 ($154,763), recorded in other comprehensive (loss) income which was subsequently reclassified to net loss.

The closing share price of Melbana as at December 31, 2017 was AUD$0.015 and during the three-month period then ended the increase in fair value of the Company's investment amounted to AUD$210,713 ($150,445).

[b] Little Green Pharma Limited (formerly Habi Pharma Pty Ltd)

As at December 31, 2018, the Company's interest in Little Green Pharma Limited ("Little Green Pharma") was 14.06% [September 30, 2018 – 14.21%.

As at December 31, 2018, the fair value of the investment in Little Green Pharma was determined to be AUD0.40 per share [September 30, 2018 – AUD0.40 per share], based on an arm's length offering of a significant shareholder in Little Green Pharma, representing a balance of investment of $3,672,170 [September 30, 2018 - $3,652,023]. For the three-month period ended December 31, 2018, the movement in the fair value of the Company's investment in Little Green Pharma amounted to $110,147 [December 31, 2017 – $Nil] which related entirely to movements in foreign currency rates.

On February 8, 2018, Little Green Pharma became a public company and changed its name from Habi Pharma Pty Ltd to Little Green Pharma Limited.

[c] Etea Sicurezza Group Ltd

As at December 31, 2018, the Company's interest in Etea Sicurezza Group Ltd ("Etea Sicurezza") was 3% [September 30, 2018 – 3%].

The Company continues to be supportive of Etea Sicurezza's future business prospects and intends to convert its loans into equity in Etea Sicurezza. However, as at December 31, 2018, in view of Etea Sicurezza's current liquidity position and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors determined the fair value of the Company's equity and loan exposure to Etea Sicurezza continues to be $Nil [September 30, 2018 - $Nil].

During the three-months ended December 31, 2018, a total of $31,734 related to Etea guarantee fees has been transferred from deferred revenue and recorded in revenues in the condensed interim consolidated statement of loss [2017 - $Nil].

[d] Freia Farmaceutici S.R.L.

On October 23, 2018, the Company entered into a Letter of Intent with Freia Farmaceutici S.R.L.("Freia") for a proposed investment of up to EUR3,214,000 for up to a 35% interest in the share capital of Freia ("the Freia Investment"). Freia is based in Italy with approved hemp-based pharmaceutical products. The Freia Investment is subject to the execution of Definitive Agreements and normal closing conditions and review and approval by TSX-V. Pursuant to the Letter of Intent, the Company paid a non-refundable deposit of EUR100,000 ($150,307), that will be applied to monies payable by the Company on completion of the Freia Investment.

6. Loans receivable

A breakdown of loans receivable as at December 31, 2018 and and September 30, 2018 are as follows:

	December 31, 2018	**September 30, 2018**
	$	$
Etea Sicurezza – at amortized cost	**1,330,708**	1,275,047
Less: provision for impairment	**(1,330,708)**	(1,275,047)
	—	—
Evolution Debenture – at amortized cost	**2,398,756**	1,576,266
Total	**2,398,756**	1,576,266

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the movement in loans receivable during the three-month periods ended December 31, 2018 and 2017.

	Three-months ended December 31, 2018 $	Three-months ended December 31, 2017 $
Balance, beginning of period / year	**1,576,266**	**—**
Additions:		
Etea Sicurezza	**3,267**	—
Evolution Debenture	**718,417**	—
Impairment	**(3,267)**	—
Foreign currency gain on translation	**104,073**	—
Balance, end of period / year	2,398,756	**—**

[a] Etea Sicurezza

During the three-month period ended December 31, 2018, the Company provided additional loans to Etea Sicurezza totaling EUR2,191 ($3,267) [December 31, 2017 - $Nil]. The remaining movement in the carrying value of the loan and the impairment provision related to the impact foreign exchange translation during the period.

As outlined in note 5(c), in light of Etea Sicurezza's current liquidity position and the subordinated position of the Company's loans to Etea Sicurezza, the Board of Directors has decided to record an impairment in full of its equity and loan exposure to Etea Sicurezza, Consequently during the three-month period ended December 31, 2018 the Company recorded, an impairment charge related to loan movements in the period amounting to $3,267 [December 31, 2017 - $Nil], interest earned and a corresponding provision for doubtful debts totaling $23,660 [December 31, 2017 - $Nil] in the condensed interim consolidated statement of loss in respect of these loans.

[b] Evolution BNK SRL convertible debentures receivable

On August 13, 2018, the Company entered into a convertible debenture ("the Evolution Debenture") with 9379-1432 Québec Inc., ("QuebeCo"), Evolution BNK and Evolution ATM and their principals, to provide a EUR3,000,000 secured loan, convertible into a 49% equity interest upon the successful completion of an IPO. QuebeCo is the parent entity of Evolution BNK and Evolution ATM. The Evolution Debenture bears interest of 10% per annum and has a maturity of 4 years.

The completion of the Evolution Debenture transaction is subject to condition precedent, including TSX-V approval. If the Conditions are not complied with and the transaction is therefore not approved, the features of the financial instruments will then be those of a plain vanilla loan bearing interest at 10% and repayable in full.

As at December 31, 2018, uncertainties with respect to the compliance with the Conditions were still unresolved and therefore, this financial instrument continues to be accounted for as a plain vanilla loan.

As at December 31, 2018, amounts drawn down under the Evolution Debenture totaled EUR1,535,000 ($2,398,756) [September 30, 2018 - EUR1,050,000 ($1,576,666)]. In addition, during the three-month period ended December 31, 2018, the Company recorded a gain of $104,073 due to foreign currency translation in the condensed interim consolidated statement of loss [December 31, 2017 - $Nil].

During the three- month period ended December 31, 2018 interest earned in respect of these loans, amounting to EUR38,557 ($60,323) (December 2017 – $Nil), has been recorded in the condensed interim consolidated statement of comprehensive loss. As at December 31, 2018, interest receivable in respect of these loans, totaling $109,619 (September 30, 2018 - $47,422), adjusted for foreign exchange movements, has been recorded in the condensed interim consolidated statement of financial position under Other receivables.

7. Investments in associates

The table below presents the Company's associates.

Associate	Country of registration	Nature of business	Holding December 31, 2018	Holding September 30, 2018
Viridi Unit SA	Switzerland	Cannabis	**30%**	**—**

A breakdown of investments in associates as at December 31, 2018 and September 30, 2018 and the respective changes during the years then ended are summarized as follows:

	As at December 31, 2018	As at September 30, 2018
	$	$
Balance, beginning of year	**—**	—
Additions during the period / year	**2,250,024**	—
Share of profit	**1,272**	—
Balance, end of year	**2,251,296**	—

[a] Investment in Viridi Unit SA

On December 12, 2018, the Company announced that it had closed its investment in Swiss cannabis company, Viridi Unit SA ("Viridi"), with LGC Capital issuing 35,167,001 shares of its common stock in exchange for a 30% equity interest in Viridi (the "Viridi Equity") plus a 5% royalty on Viridi's net sales over ten years {"the Viridi Royalty") which together comprise the "Viridi Transaction". The total consideration for the Viridi Transaction amounted to approximately CHF3,000,000 ($3,868,370) based on the share price of $0.11 on the date of issue). In respect of this transaction, LGC Capital has paid a finder's fee to an arm's length party equal to 3% of the total consideration in cash ($124,241) and 2% of the total consideration by the issuance of 703,340 common shares of LGC Capital ($77,367). For the three-month period ended December 31, 2018, the Company incurred a charge of $201,608 in respect to this finder's fee (note 4).

[b] Initial recognition of Viridi Transaction

For the purpose of initial recognition accounting, the Viridi Transaction was deemed to comprise two separate assets, being an investment in associates related to the Viridi Equity component and a financial asset, an embedded derivative, comprising the Viridi Royalty. On initial recognition the Company used discounted cashflows incorporating assumptions of projected sales estimates and growth rates to calculate the fair value of Viridi Royalty component and then used the residual method, to allocate the remaining consideration paid to the Viridi Equity component. The consideration allocated to the Vridi Royalty component ($1,618,346), comprising the royalty stream was classified as FVTPL while the consideration allocated to the Vridi Equity component ($2,250,024), is accounted for as an investment in associates.

[c] Subsequent accounting for investment in associate (Viridi Equity)

The consideration allocated to the investment in associate of $2,250,024 is carried forward at cost and the Company's share of profits and losses are recognized as incurred.

During the three-month period ended December 31, 2018 the Company's share of profits amounted to $1,272 [2017 –$Nil].

[d] Subsequent accounting Viridi Royalty

The fair value of Viridi Royalty is re-assessed at each balance date, with increases in fair value, being recorded as fair value adjustments through the profit and loss. As at December 31, 2018, the fair value of the Viridi royalty was assessed to be unchanged at $$1,618,346. Consequently, the fair value adjustment recognized through net loss for the three-month period ended December 31, 2018, related to the Viridi royalty was $Nil (December 31, 2017 - $Nil) (refer note 9).

8. Convertible debentures receivable

[a] Tricho-Med convertible debentures receivable

On January 8, 2018, the Company announced that it had finalized a transaction with Quebec based Tricho-Med and had entered into a four-year secured convertible loan agreement in an amount of $4,000,000 [the "Tricho-Med Debenture"], to be disbursed in accordance with a pre-agreed milestone disbursement schedule. Upon Tricho-Med obtaining a license to cultivate cannabis from the relevant regulatory authorities, the Tricho-Med Debenture will automatically convert into common shares of Tricho-Med. If the full amount of $4,000,000 is disbursed to Tricho-Med, the Company would then receive 49% of Tricho-Med's then-issued and outstanding shares. In the event that Tricho-Med does not become a publicly-listed company within twelve months of having obtained the license, the Company will receive such number of shares so that it owns 54% of the then-issued and outstanding shares of Tricho-Med. If the full amount is not disbursed, the equity percentage to be received by LGC Capital would be prorated accordingly. Upon conversion into equity, the Company will also be entitled to a 5% royalty on Tricho-Med's net sales for an unlimited time period. The Tricho-Med Debenture bears interest at an annual rate of 10%, has a term of four years, maturing on December 21, 2021, and is secured by first-ranking security on all of Tricho-Med's assets.

On December 18, 2017, the final approval bulletin from the TSX-V in respect of LGC Capital's investment into Tricho-Med was obtained.

During the three-month period ended December 31, 2018 the amounts drawn down under the Tricho-Med Debenture totaled $2,123,597 [December 31, 2017 - $Nil] bringing the total amounts drawn down to $3,874,461 [September 30, 2018 - $1,750,864].

[b] Global Canna Labs convertible debentures receivable

On August 30, 2018 the Company announced the closing in trust of an investment in Global Canna Labs Limited ("GCL"), subject to the pending receipt of the TSX-V's final approval. Pursuant to the executed closing agreements, LGC Capital subscribed for a $2,500,000 secured debenture, automatically convertible into an initial 30% interest in GCL upon the successful completion of an IPO. The Company has also acquired a 5% royalty on GCL's net sales for an unlimited time period for $3,091,558, payable by way of 15,854,141 shares of LGC Capital at a deemed issue price of $0.195 each. GCL has an option to repurchase the 5% royalty for an amount of $6 million. In addition, the Company paid an arm's length finder's fee in respect of the transaction of $257,500, paid $128,750 in cash and $128,750 by way of 1,020,610 shares of LGC Capital. The debenture bears interest at an annual rate of 10%, has a term of four years, maturing on August 30, 2022. Both the debenture and the royalty are fully secured with a first ranking security on all of Global Canna Labs' assets.

On September 20, 2018, the Company announced that it had received the final approval bulletin from the TSX-V in respect of LGC Capital's investment into GCL.

As at December 31, 2018, the GCL Debenture was fully drawn down with total consideration paid amounting to $5,591,558, [September 30, 2018 - $5,591,558].

[c] Classification as fair value through P&L

On initial recognition the Tricho-Med Debenture and the GCL Debenture were both classified as financial assets at fair value through profit or loss.

Each debenture and its associated royalty component were determined to comprise two financial instruments, the first being a compound financial instrument comprising the host debt receivable and also its associated conversion feature while the second comprised the associated royalty stream. On initial recognition LGC Capital used the valuation techniques outlined below to calculate the fair value of each financial instrument acquired. It then used the relative fair value method to allocate the total consideration paid across each financial instrument. Where amounts paid in respect of a convertible debenture were drawn down over a significant period of time, draw-down amounts were amalgamated into tranches and each tranche was assigned a unique initial recognition date based on the pattern of amounts drawn down.

On each initial recognition date and again at each quarter end, the fair values of each convertible debenture and the fair value of the Tricho-Med royalty were estimated using valuation techniques including DCF models, Monte Carlo simulations and funded production capacity. The models incorporate management's estimates such as liquidity risk, credit risk and volatility and also reasonable estimates for sales projections, discount rates, the probability of the investee to obtain its operating license, the probability of completing a successful IPO, and also appropriate valuation multiples all based on published data from a basket of similar companies in cannabis sector.

The fair value of the GCL Royalty was estimated using discounted cashflows incorporating assumptions of projected sales estimates and growth rates. As the valuation techniques used in assessing the fair value of each component included lowest-level inputs that were significant to the fair value measurement that were unobservable, the valuation techniques employed have been categorized as being Level 3 in fair value hierarchy.

During the three-month period ended December 31, 2018 and the year ended September 30, 2018, the weighted average relative fair values assigned, based on the initial recognition dates of tranches drawn down during the period or year respectively then ended, and the resultant allocation of the consideration paid for each financial instrument comprising each convertible debenture acquired are set out below:

	Three-months ended December 31, 2018			Year ended September 30, 2018		
Financial instrument	**Weighted Average relative fair value on initial recognition**		**Consideration allocated using relative fair value method**	**Weighted Average relative fair value on initial recognition**		**Consideration allocated using relative fair value method**
	$	%	$	$	%	$
Tricho-Med Debenture						
Host debt receivable and conversion feature	1,258,917	59%	1,258,917	1,037,952	59%	1,037,952
Royalty stream	864,680	41%	864,680	712,912	41%	712,912
Total	2,123,597	100%	2,123,597	1,750,864	100%	1,750,864
GCLDebenture						
Host debt receivable and conversion feature	—	—	—	3,651,213	38%	2,115,378
Royalty stream	—	—	—	6,000,000	62%	3,476,180
Total	—	—	—	9,651,213	100%	5,591,558
Host debt receivable and conversion feature	1,258,917	59%	1,258,917	4,689,165	38%	3,153,330
Royalty stream	864,680	41%	864,680	6,712,912	62%	4,189,092
Total	2,123,597	100%	2,123,597	11,402,077	100%	7,342,422

As at December 31, 2018 the fair value of each component was re-assessed with increases in fair value for each instrument, except for the Day-1 gain, being recorded as fair value adjustments through the profit and loss. The fair values assessed for each instrument as at December 31, 2018 based on the cumulative tranches drawn down, and the respective movement in fair value recognized in profit and loss for the three-month period ended December 31, 2018 and for the year ended September 30, 2018 were as follows:

Financial instrument	Cumulative consideration drawn down	Cumulative fair value on initial recognition	Day-1 Gain (loss) on initial recognition	Fair value as at December 31, 2018	Cumulative FVTPL as at December 31, 2018 (i)	Cumulative FVTPL Year ended September 30, 2018	FVTPL Three months ended December 31, 2018
	$	$	$	$	$	$	$
Tricho-Med Debenture							
Host debt receivable and conversion feature	2,296,869	2,296,869	—	2,296,869	—	255,250	(255,250)
Royalty stream (refer note 9)	1,577,592	1,577,592	—	1,577,592	—	2,647	(2,647)
Total	3,874,461	3,874,461	—	3,874,461	—	257,897	(257,897)
GCL Debenture							
Host debt receivable and conversion feature	2,115,378	3,651,213	1,535,835	2,737,250	—	—	—
Royalty stream (refer note 9)	3,476,180	6,000,000	2,523,820	6,000,000	—	—	—
Total	5,591,558	9,651,213	4,059,655	8,737,250	—	—	—
Host debt receivable and conversion feature	4,412,247	5,948,082	1,535,835	5,034,119	—	255,250	(255,250)
Royalty stream (refer note 9)	5,053,772	7,577,592	2,523,820	7,534,183	—	2,647	(2,647)
Total	9,466,019	13,525,674	4,059,655	12,611,711	—	257,897	(257,897)

(i) Where there is a Day-1 loss, cumulative FVTPL equals movement in FV since inception. Where there is a Day-1 gain cumulative FVTPL equals movement in FV since inception that exceeds Day-1 gain

As at December 31, 2018, the amount of the Day-1 gain arising on the initial recognition of the GCL Debenture, as yet unrecognized through profit and loss, amounted to $4,059,655 [September 30, 2018 - $4,059,655].

During the three-month period ended December 31, 2018, the total fair value adjustment recognized through the profit and loss account in respect of these debentures amounted to a loss of $257,897 [December 31, 2017 - $Nil].

A breakdown in the movement of convertible debentures receivable and their respective royalty streams during the three-month period ended December 31, 2018 and the year ended September 30, 2018 and the fair value adjustments recognized in the statement of loss during the three-month period and the year then ended, respectively, are as follows:

	Tricho-Med Debenture $	Global Canna Debenture $	Total $
Balance, as at October 1, 2017	—	—	—
Debentures issued during the year – amounts drawn down / allocated face value	1,750,864	5,591,558	7,342,422
FVTPL recognized in net loss in year	257,897	—	257,897
Balance, as at September 30, 2018	2,008,761	5,591,558	7,600,319
Debentures issued during the period – amounts drawn down / allocated face value	**2,123,597**	**—**	**2,123,597**
FVTPL recognized in net loss in period	**(257,897)**	**—**	**(257,897)**
Balance, as at December 31, 2018	**3,874,461**	**5,591,558**	**9,466,019**
By financial instrument as at September 30, 2018			
Host debt receivable and conversion feature	1,293,202	2,115,378	3,408,580
Royalty stream (refer note 9)	715,559	3,476,180	4,191,739
Balance, as at September 30, 2018	2,008,761	5,591,558	7,600,319
By financial instrument as at December 31, 2018			
Host debt receivable and conversion feature	**2,296,869**	**2,115,378**	**4,412,247**
Royalty stream (refer note 9)	**1,577,592**	**3,476,180**	**5,053,772**
Balance, as at December 31, 2018	**3,874,461**	**5,591,558**	**9,466,019**

During the three-month period ended December 31, 2018, total interest earned on these debentures amounted to $130,645 [December 31, 2017 - $Nil].

9. Royalty streams

As at December 31, 2018, and September 30, 2018 and for the three-month period and year respectively, then ended the breakdown of royalty stream assets was as follows:

	Tricho-Med Royalty (refer note 8) $	GCL Royalty (refer note 8) $	Viridi Royalty (refer note 7) $	Total $
Balance, October 1, 2017	—	—	—	—
Consideration paid during the year	712,912	3,476,180	—	4,189,092
FVTPL recognized in net loss in year	2,647	—	—	2,647
Balance, September 30, 2018	**715,559**	**3,476,180**	—	4,191,739
Consideration paid during the period	864,680	—	1,618,346	2,483,026
FVTPL value recognized in net loss in period	(2,647)	—	—	(2,647)
Balance, December 31, 2018	**1,577,592**	**3,476,180**	**1,618,346**	**6,672,118**

10. Loans to directors and officers

	Three-month period ended December 31, 2018		Year ended September 30, 2018	
	Share purchase loans and advances to exercise stock options / warrants (Note 12) $	Loans to fund payment of taxes $	Share purchase loans and advances to exercise stock options / warrants (Note 12) $	Loans to fund payment of taxes $
Outstanding balance, beginning of period	**362,860**	**362,802**	—	—
Loans issued during the period / year - at present value	—	—	354,578	347,088
Loans repaid during the period / year	(171,654)	—	—	—
Accretion during the period / year	3,366	6,386	8,282	15,714
Outstanding in **balance, end of year**	**194,572**	**369,188**	**362,860**	**362,802**

On February 16, 2018, LGC Capital announced it had entered into loan agreements with a number of directors and officers of the Company amounting to $609,412, in order to fund the exercise by them of LGC Capital stock options and also to fund the payment by them of related taxes. These loans to directors and officers do not bear interest, and must be repaid within two years. In addition, on September 17, 2018, an advance was made to a Director, totaling $171.654, to fund the exercise of warrants. The advance was repaid in early October, 2018.

These loans are carried at their present value using a discount rate of 7%. The Loans provided to directors and officers to fund the exercise of stock options, together with the advance to a director to fund the exercise of warrants have been reclassified and offset against share capital.

During the three-month period ended December 31, 2018, the value of accretion income recognized in respect of these loans amounted to $9,752 [December 31, 2017 - $Nil].

11. Convertible debentures payable

On January 31, 2018, the Company entered into an Investment Agreement (the “Debenture Agreement”) with YA II PN Ltd. (“YA II”), a company incorporated in the Cayman Islands, and Cuart Investments PCC Limited (“Cuart”), a company incorporated in Gibraltar.

Under the Debenture Agreement, the Company agreed to issue to YA II and Cuart (collectively the “Noteholders”), 9.5% unsecured convertible debentures in a principal amount totaling US$2,340,000 (the “YAII/Cuart Debentures”) and 1,643,764 common share purchase warrants (“the Debenture Warrants”).

Under the Debenture Agreement, YA II and Cuart agreed to subscribe for 25% and 75% respectively, of each of the Debentures and the Debenture Warrants (YA II - US$585,000 principal amount ($736,850) and 410,941 common share purchase warrants and Cuart US$1,755,000 principal amount ($2,210,551) and 1,232,823 common share purchase warrants). The Debentures were drawn down on February 8, 2018 (the “Advance Date”), for proceeds of US$2,340,000 ($2,947,401).

The Debentures mature in one year and bear interest at a rate of 9.5% per annum, payable quarterly and, at any time after the expiry of a four-month period after the Advance Date, at the holder’s exclusive option, can be converted into common shares at a price ranging between $0.50 and $0.675 per share depending on the variable weighted average price of the Company’s shares during the 5 trading days prior to the date of the conversion notice. The Company has the right to repay any portion of the Debentures prior to the maturity date if the value of the share is less than 110% of the volume weighted average price at the date the debentures were made.

Each of the 1,643,764 common share purchase warrants issued entitles the Noteholders to acquire one common share of the Company at a price of $0.70, for a period of one year from the date of issuance.

The Debentures were determined to comprise two components, the first being the host debt component, the second being an embedded derivative consisting of the conversion feature The common share purchase warrants that were issued along with the Debentures are considered another instrument

On initial recognition, the fair value of these instruments was estimated as outlined below and used to allocate the cash consideration received amongst these instruments, on a relative fair value basis.

The fair value of the host or liability component of the convertible debenture was calculated by discounting the stream of future payments of interest and principal at 18% being the estimated market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have any associated share purchase warrants nor any embedded derivative features. The fair values of the of the embedded derivative and of the warrants, issued on February 8, 2018, were determined based on the Black-Scholes option pricing model using the weighted average assumptions set out as follows:

Assumption	Common share purchase warrants Issued	Conversion feature Issued
Risk-free interest rate	1.79%	1.79%
Expected volatility	180%	180%
Dividend yield	Nil	Nil
Expected life [in years]	1.0	1.0
Exercise price	$0.70	$0.50
Share Price	$0.29	$0.29
Fair value at grant date	$0.13	$0.15

In connection with the Agreement, the Company incurred cash settled issue costs amounting to $67,788 and other transaction fees settled by issuing 376,162 shares of the Company at $0.285 per share amounting to $107,206, for total issue costs of $174,994 which have been pro-rated between the host debt component of the convertible debentures, the embedded derivative and the common share purchase warrants, in the amounts of $124574, $40,546 and $8,874, respectively. The issue costs of $40,546 related to the embedded derivative, were expensed as incurred.

The carrying value of the host debt component of the debentures is accreted using the effective interest rate method over the term of the debenture, such that the carrying amount will equal the total face value of the debenture at maturity.

The embedded derivative component is carried in the consolidated statement of financial position at its fair value with movements therein recognized in net (loss) for the period. The fair value of the embedded derivative as at December 31, 2018 was determined based on the Black-Scholes option pricing model using the weighted average assumptions set out as follows:

Assumption	Embedded derivative as at December 31, 2018
Risk-free interest rate	1.70%
Expected volatility	140%
Dividend yield	Nil
Expected life [in years]	0.11
Exercise price	$0.50
Share Price	$0.10
Fair value	$0.00

A breakdown of convertible debentures payable as at December 31, 2018 and September 30, 2018 and the movement therein for the three-month period and year then ended respectively is as follows:

	Host debt component $	Embedded derivative $	Common share purchase warrants $	Total $
Balance, October 1, 2017	**—**	**—**	**—**	**—**
Debentures issued during the year	1,894,967	886,131	166,303	2,947,401
Issue costs	(124,574)	—	(9,874)	(134,448)
Accretion	711,921	—	—	711,921
Change in fair value of embedded derivative	—	(807,712)	—	(807,712)
Foreign currency loss on translation	46,406	—	—	46,406
Balance, September 30, 2018	**2,528,720**	**78,419**	**156,429**	**2,763,568**
Accretion	349,148	—	—	349,148
Change in fair value of embedded derivative	—	(78,419)	—	(78,419)
Foreign currency loss on translation	154,068	—	—	154,068
Balance, December 31, 2018	**3,031,936**	—	**156,429**	**3,188,365**

	As at December 31, 2018 $	As at September 30, 2018 $
Total in current liabilities	**3,031,936**	2,607,139
Total equity	**156,429**	156,429
	3,188,365	**2,763,568**

During the three-months ended December 31, 2018, interest expense pursuant to Debentures amounted to USD55,575 ($73,491) [December 31, 2017 – $Nil].

12. Share capital

Authorized

Common

An unlimited number of common shares, voting, participating, without par value.

[a] Common shares

	Three-months ended December 31, 2018		Year ended September 30, 2018	
	#	$	#	$
Issued common shares	**416,518,982**	**36,644,354**	380,288,641	32,698,617
Share purchase loans to directors and officers	**—**	**(194,572)**	—	(362,860)
Issued and fully paid common shares	**380,288,641**	**36,449,782**	380,288,641	32,335,757

Issuances during the three-months ended December 31, 2018

[i] On December 12, 2018, the Company issued 35,167,001 common shares of LGC Capital at a deemed issue price of $0.11 per share representing a total consideration of $3,868,370 as payment for its 30% equity investment in Viridi [note 7[a]].

[ii] On December 12, 2018, the Company issued 703,340 common shares at a deemed issue price of $0.11 per share for total consideration of $77,367, to settle a 2% finders' fee associated with the Company's investment in Viridi [note 7[a]].

Issuances during the three-months ended December 31, 2017

[i] On October 12, 2017, as part of a subscription agreement signed with Little Green Pharma, the Company issued 5,660,000 common shares of LGC Capital at a deemed issue price of $0.11 per share representing a total consideration of $622,600 as part payment for a 4.99% initial investment in Little Green Pharma.

[ii] On December 1, 2017, the Company announced that it had raised gross proceeds of $2,980,773 at a first closing of a private placement by issuing 19,871,822 units at a price of $0.15 per unit. On December 7, 2017, the Company announced the completion of the private placement by issuing 5,000,000 additional units for gross proceeds of $750,000 at a second closing. Each unit was composed of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.25 for a period of 18 months from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX Venture Exchange for a period of ten consecutive trading days is at least $0.30, the warrants will expire at the sole discretion of the Company on the 30th day after the Company sends a notice to the holders of the warrants. As a result, using valuation model based on stochastic simulations at the date of grant, the gross proceeds of the combined first and second closings, totaling $3,730,773, was allocated $2,583,846 to share capital and $1,146,928 to warrants based on relative fair value [note 12[c]].

Concurrently, the Company issued a total of 1,100,828 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of $0.15 per share at any time for a period of 18 months from the closing date. The total fair value of broker compensation warrants was $338,892, allocated to contributed surplus with the debit allocated $234,709 to share capital and $104,183 to warrants [note 12[c]].

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of $161,537 which have been pro-rated between share capital and warrants in the amounts of $111,877 and $49,660 respectively.

[iii] During the three-month period ended December 31, 2017, the Company issued 100,000 common shares at an average exercise price of $0.15 per share for a total cash amount of $15,000 upon the exercise of stock options, and an amount of $21,000 related to exercised stock options was transferred from contributed surplus to share capital *[note 12[b]]*.

[iv] During the three-month period ended December 31, 2017, the Company issued 2,700,000 common shares at an average exercise price of $0.15 per share for a total cash amount of $405,000 upon the exercise of share purchase warrants, and an amount of $783,000 related to exercised share purchase warrants was transferred from contributed surplus to share capital *[note 12[c]]*.

[b] Stock options

On December 8, 2017, the Board of Directors amended the 2016 Stock Option Plan so as to increase the number of shares that can be issued thereunder to 58,946,726 shares, equal to 20% of the 294,733,632 common shares of the Company's issued and outstanding at that date. The amendment to the 2016 Stock Option Plan was approved by the TSX-V and shareholders approved it at the Company's Annual General Meeting held on April 9, 2018.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three-month periods ended December 31, 2018 and 2017

The outstanding options as at December 31, 2018 and September 30, 2018 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three-months ended December 31, 2018		Year ended September 30, 2018	
	Number of options \#	Weighted average exercise price $	Number of options \#	Weighted average exercise price $
Outstanding, beginning period	**62,194,400**	**0.22**	46,513,179	0.28
Granted during the period	—	—	45,050,000	0.24
Cancelled during the period	—	—	(12,000,000)	(0.70)
Expiries during the period	(5,500,000)	0.15	(4,000,000)	(0.23)
Forfeited during the period	—	—	(500,000)	(0.16)
Exercised during the period	—	—	(12,868,779)	(0.07)
Outstanding, end of period	**56,694,400**	**0.22**	62,194,400	0.22

The following options are outstanding and exercisable as at December 31, 2018.

Options outstanding					
Range of exercise price $	Number outstanding \#	Weighted average remaining contractual life (in years)	Weighted average exercise price $	Number exercisable \#	Weighted average exercise price $
0.050 to 0.749	2,894,400	3.25	0.05	2,894,400	0.05
0.100 to 0.149	6,000,000	2.81	0.11	6,000,000	0.11
0.150 to 0.199	21,300,000	3.24	0.16	20,900,000	0.16
0.200 to 0.249	8,000,000	2.00	0.23	8,000,000	0.23
0.350 to 0.399	18,500,000	8.94	0.36	18,500,000	0.36
0.00 to 1.499	**56,694,400**	**5.02**	**0.22**	**56,294,400**	**0.22**

No stock options were granted during the three-month period ended December 31, 2018. The fair value of stock options granted during the year ended September 30, 2018 were estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Year ended September 30, 2018
Risk-free interest rate	**1.92%**
Expected volatility	**180%**
Dividend yield	**Nil**
Expected life [in years]	**6.51**
Share price at grant date	**$0.28**
Fair value at grant date	**$0.27**

[c] Warrants (note 2.1)

The outstanding warrants as at December 31, 2018 and September 30, 2018 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three months ended December 31, 2018		Year ended September 30, 2018	
	Number of warrants #	Weighted average exercise price $	Number of warrants #	Weighted average exercise price $
Outstanding balance, beginning of period / year	**49,218,314**	**0.36**	32,968,000	0.15
Warrants issued during the period / year			45,030,586	0.36
Broker compensation warrants issued during the period / year	—	—	2,211,728	0.29
Warrants exercised in the period / year	—	—	(29,597,371)	(0.15)
Broker compensation warrants exercised in the period / year	—	—	(952,000)	(0.10)
Warrants expired during the period / year	—	—	(402,629)	(0.15)
Broker compensation warrants expired during the period / year	—	—	(40,000)	(0.10)
Outstanding balance, end of period / year	**49,218,314**	**0.36**	**49,218,314**	**0.36**

As at December 31, 2018, the warrants outstanding had a weighted average life of 1.07 years and all warrants were exercisable [September 30, 2018 - 1.32 years].

No warrants or broker compensation warrants were granted during the three-month period ended December 31, 2018. The fair value of warrants and broker compensation warrants respectively granted during the year ended September 30, 2018 were estimated at their respective grant dates using a valuation model based on stochastic simulations, using the following weighted average assumptions.

	Warrants - Year ended September 30, 2018	**Broker compensation warrants - Year ended September 30, 2018**
Risk-free interest rate	**1.68%**	**1.64%**
Expected volatility	**180%**	**180%**
Dividend yield	**Nil**	**Nil**
Expected life [in years]	**2.10**	**2.25**
Share price at grant date	**$0.41**	**$0.331**
Fair value at grant date	**$0.22**	**$0.281**

[d] Stock-based compensation

For the three-month period ended December 31, 2018, the stock-based compensation expense included in net loss, was $22,648 [2017 – $3,871,335] (note 4).

13. Related party transactions

In addition to the related party transactions disclosed elsewhere, the Company entered into the following related party transactions in the normal course of operations.

[a] During the three-month period ended December 31, 2018, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party. For the three-month period ended December 31, 2018, the total amount for such services was $170,416, which was recorded in directors fees [December 31, 2017 – $93,008]. As at December 31, 2018, an amount of $Nil [September 30, 2018 – $Nil] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

[b] Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the three-month period ended December 31, 2018 and 2017, the Company recorded the following compensation for key management personnel and the Board of Directors:

	2018 $	2017 $
Directors' fees	70,470	49,900
Management fees	154,141	24,000
Stock compensation	14,155	2,352,958
Total	238,766	2,426,858

14. Financial instruments

General objectives, policies and procedures

The Company's objectives when managing capital are to safeguard its ability to continue its investments *[note 1]* As such, the Company relies primarily on the equity markets to fund its activities. In order to carry out planned activities and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company has not paid any dividends. As well, the Company does not have any externally imposed capital requirements, either regulatory or contractual, to which it is subject.

The Company's Board of Directors has overall responsibility for the determination of the Company's risk management objectives and operating processes that ensure effective implementation of the policies set out below. The Company's Board of Directors receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Principles of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed through its activities to the following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Foreign exchange risk.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the carrying value of its financial instruments.

The Company is exposed to credit risk from its cash, other receivables, loans receivable, convertible debentures receivable and royalty streams. The Company reviews the banks, financial institutions and other counterparties it deals with to ensure that standards of credit worthiness are maintained.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure.

As at December 30, 2018, the Company had a total of $2,916,845 in cash. Accounts payable and accrued liabilities and loan payable have contractual maturities of 30 days or less and are subject to normal trade terms, and amounts due to related parties are due on demand.

Market risk analysis

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's primary market exposures are to foreign exchange risk and interest rate risk.

The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on net loss and comprehensive loss where applicable.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to foreign currency denominated cash, other receivables, AFS investments, and accounts payable and accrued liabilities.
- The sensitivity of the relevant net loss is the effect of the assumed changes in foreign currency. This is based on the financial assets and financial liabilities held at September 30, 2017 and 2016 and constant throughout the year/period.
- The impact on other comprehensive loss/income where applicable

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exchange risk arises primarily with respect to GBP, USD, AUD, EUR and CHF.

To the extent that these financial instruments are unhedged, or are not adequately hedged, the value of the Company's financial instruments may fluctuate with exchange rates as well as with price changes in various local markets and currencies. The value of the financial assets may therefore be affected unfavourably by fluctuations in currency rates and exchange control regulations. The Company has not entered into hedging instruments to manage exposure to currency movements at this stage.

As at December 31, 2018 the exposure of the Company to foreign exchange rates is summarized as follows:

	GBP	USD	AUD	EUR	CHF
Cash	7,451	2,290,793	193,346	(18,356)	—
Available for sale investments	—	—	—	—	—
Other receivables	766	—	—	70,147	—
Accounts payable and accrued liabilities	—	(55,308)	—	(31,967)	(12,712)
Loans receivable	—	—	—	1,535,000	—
Convertible debentures payable – host debt component	—	(2,340,000)	—	—	—
Total	8,217	(104,515)	193,346	1,554,824	(12,712)

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at December 31, 2018. This sensitivity does not represent the consolidated statement of loss and comprehensive loss impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in net comprehensive loss for the three-month period ended December 31, 2017 would have been as follows:

	Impact on net comprehensive loss				
Fluctuation in foreign currency rate	**CAD/GBP rate**	**CAD/USD Rate**	**CAD/AUD rate**	**CAD/EUR rate**	**CAD/CHF rate**
	$	$	$	$	$
+ 5%	714	208	9,411	102,712	834
- 5%	(714)	(208)	(9,411)	(102,712)	(834)

15. Contingent liabilities

From time to time, the Company and/or its subsidiaries may become defendants in legal actions and the Company intends to defend itself vigorously against all legal claims. LGC is not aware of any claims against the Company that could reasonably be expected to have a materially adverse impact on the Company's consolidated financial position, results of operations or the ability to carry on any of its business activities.

16. Subsequent events

[a] Private Placement

On January 24, 2019, the Company announced that it had received a binding commitment from Arlington Capital Inc., ("Arlington") a private London based investment company for a private placement of 80,000,000 common shares in the capital of LGC Capital at a price of $0.10 per share for aggregate proceeds of $8,000,000 ("the Arlington Placement").

Closing of the Arlington Placement is subject to customary closing conditions including, but not limited to, approval from the TSX Venture Exchange. On closing of the Arlington Placement, the Company will pay a 3% finder's fee to an arms-length third party. Upon closing of this private placement, Arlington Capital will become an insider as they will hold a greater than 10% in LGC Capital and will be entitled to appoint a representative to its board of directors.

[b] Loan

On February 5, 2019, the Company executed a loan agreement with Arlington for an unsecured loan of $1,500,000 for a period of three months, with interest of 12% per annum, payable quarterly. The loan is to be used for working capital purposes and is to be repaid on completion of the Arlington Placement.

[c] Investment Agreement for US$2,340,000 loan

On February 28, 2019, the Company announced that, following receipt of conditional approval from the TSX-V, it has now closed its previously announced convertible loan transaction with international investors YA II, PN, Ltd. and RiverFort Global Opportunities PLC (the "Lenders") pursuant to which they have loaned to LGC an aggregate amount of US$2,340,000 (the "Loan"). The proceeds of the Loan have been be used to refinance the existing debt that matured on February 8, 2019.

The Loan has a term of 12 months with one-half of the principal amount outstanding payable in six equal monthly installments beginning on the date falling six months from the date of closing and the remaining outstanding amount payable in a single installment at maturity. The Loan bears interest at an annual rate of 12%, payable in cash on the date which is three months from the date of closing and, thereafter, on each date on which a repayment of principal is made.

The principal amount of the Loan may be convertible into common shares of LGC (the "Shares") at the option of the Lenders at a price per Share equal to the lesser of (i) US$0.0912 (CAD$0.120), representing the US dollar equivalent of 120% of CAD$0.10; and (ii) 90% of the lowest daily VWAP during the five trading days immediately preceding the date of the conversion notice from the Lenders, subject to a minimum conversion price of US$0.076, representing the US dollar equivalent of CAD$0.10.

At closing, the Company issued an aggregate of 12,048,055 common share purchase warrants (the "Warrants") to the Lenders, representing an amount equal to 45% of the principal amount of the Loan divided by US$0.0874, representing the US dollar equivalent of CAD$0.115. Each Warrant entitles the holder thereof to acquire one Share at an exercise price of CAD$0.115, for a period of one year from the date of issuance.

In connection with the transaction, the Company paid a cash due diligence fee of US$13,100 to RiverFort Global Capital Limited ("RiverFort") of London, England.

The Company is at arm's length to both of the Lenders and to RiverFort.

[d] The Evolution Debenture

On January 30, 2019, the Company made a further advance under the Evolution Debenture of EUR280,000. The total principal of funds advanced under the Evolution Debenture as at the date of this report was EUR 1,815,000 ($2,715,815).

[e] Freia Farmaceutici S.R.L.

On October 23, 2018, the Company entered into a Letter of Intent with Freia Farmaceutici S.R.L.("Freia") for a proposed investment of up to EUR3,214,000 for up to a 35% interest in the share capital of Freia ("the Freia Investment"). Freia is based in Italy with approved hemp-based pharmaceutical products. The Freia Investment is subject to the execution of Definitive Agreements and normal closing conditions and review and approval by TSX-V. Pursuant to the Letter of Intent, the Company paid a non-refundable deposit of EUR100,000, that will be applied to monies payable by the Company on completion of the Freia Investment.

On January 30, 2019, the Company entered into a promissory note ("the Promissory Note") for the advance to Freia of EUR150,000 ("the Advance"). The proceeds from the Advance are to be applied towards the completion of the Freia Investment. In the event the Freia Investment is not completed by March 30, 2019, the Promissory Note shall become due and payable on April 30, 2019. The Promissory Note is unsecured and does not bear interest.

[f] Zimmer International

On January 31, 2019, the Company agreed to purchase from GCL, its 6.75% interest in the share capital of Zimmer International Inc ("Zimmer") for USD$270,000. Zimmer is a pharmaceutical and health care distribution business in the Caribbean, Mexico and South America.

[g] The Tricho-Med Debenture

Subsequent to year end, the balance of the $4,000,000 Tricho-Med Debenture of $125,539 was drawn down in full.