Invictus MD Strategies Corp.

Consolidated Financial Statements

For the Years Ended January 31, 2019 and 2018

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3
Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Invictus MD Strategies Corp.

Opinion

We have audited the consolidated financial statements of Invictus MD Strategies Corp. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at January 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Fernando Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
May 28, 2019

Invictus MD Strategies Corp.
Consolidated statements of financial position
(Expressed in Canadian dollars)

	Notes	**January 31, 2019 $**	January 31, 2018 $
Assets			
Current			
Cash and cash equivalents	23	**9,832,280**	37,593,985
Restricted cash	23	**4,000,000**	–
Accounts receivable	3	**1,752,152**	883,381
Prepaid expenses and other assets	4	**1,654,678**	329,109
Biological assets	5	**312,085**	181,534
Inventory	6	**3,278,060**	2,302,484
Loans receivable	7	**6,086,193**	375,000
		26,915,448	41,665,493
Investments in associates	8	**25,485,135**	13,281,002
Property, plant and equipment	9	**31,132,463**	5,871,398
Intangible assets	10	**51,763,917**	40,641,365
Goodwill	11	**16,110,185**	13,987,546
Loans receivable	7	**2,500,000**	–
		126,991,700	73,781,311
Total assets		**153,907,148**	115,446,804
Liabilities and equity			
Current liabilities			
Bank indebtedness	12	**109,525**	–
Accounts payable and accrued liabilities	13	**4,862,309**	2,021,238
Deferred revenue		**–**	561,166
Liability for lease agreement put option	11	**1,600,000**	–
Current portion of long-term debt	14	**2,246,064**	–
		8,817,898	2,582,404
Long-term debt	14	**11,321,953**	–
Contingent consideration	11	**7,505,725**	–
Deferred tax liability	16	**9,090,000**	10,030,000
		27,917,678	10,030,000
Total liabilities		**36,735,576**	12,612,404
Equity			
Share capital	18	**153,516,641**	107,231,193
Contributed surplus		**26,300,302**	21,143,715
Deficit		**(64,308,795)**	(27,178,934)
Equity attributed to common shareholders		**115,508,148**	101,195,974
Non-controlling interest		**1,663,424**	1,638,426
Total equity		**117,171,572**	102,834,400
Total liabilities and equity		**153,907,148**	115,446,804

Commitments (Note 21)
Subsequent events (Note 24)

Approved by the Board of Directors:

"George E. Kveton"
George E. Kveton, Director

"Aaron Bowden"
Aaron Bowden, Director

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

Invictus MD Strategies Corp.
Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

		Year ended January 31,	
		2019	2018
	Notes	**$**	$
Revenue	22	**4,692,773**	2,364,423
Production costs		**3,359,695**	2,018,253
Gross margin before fair value adjustment		**1,333,078**	346,170
Fair value changes included in inventory sold		**(1,434,559)**	–
Unrealized gain on changes in fair value of biological assets	5	**1,614,563**	1,311,925
Gross margin		**1,513,082**	1,658,095
Operating expenses			
Sales and marketing		**14,448,050**	2,745,855
General and administrative	15	**11,076,256**	5,280,698
Share-based compensation	18	**3,159,277**	7,419,953
Acquisition costs		**915,594**	3,399,830
Depreciation and amortization	9,10	**3,699,376**	1,855,755
		33,298,553	20,702,091
Loss from operations		**(31,785,471)**	(19,043,996)
Other income (expense)			
Interest income		**410,612**	144,147
Interest expense		**(242,469)**	–
Foreign exchange gain (loss)		**(445)**	23,581
Loss on option to acquire agreements		**–**	(373,521)
Loss on write-off of loans receivable		**(112,500)**	(999,564)
Impairment of goodwill	11	**(4,825,695)**	–
Gain on sale of property, plant and equipment		**–**	2,076
Gain on write-off of shareholder loan		**–**	215,447
Equity loss on investments	8	**(795,867)**	(594,998)
		(5,566,364)	(1,582,832)
Net loss before income tax		**(37,351,835)**	(20,626,828)
Current income tax recovery		**19,835**	41,919
Deferred income tax recovery		**1,645,160**	795,941
Net loss and comprehensive loss		**(35,686,840)**	(19,788,968)
Net loss and comprehensive loss attributed to			
Shareholders of the Company		**(35,711,838)**	(19,777,824)
Non-controlling interest		**24,998**	(11,144)
		(35,686,840)	(19,788,968)
Net loss per common share			
Basic and diluted		**(0.35)**	(0.29)
Weighted average number of common shares outstanding		**101,588,181**	68,323,712

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

Invictus MD Strategies Corp.
Consolidated statements of changes in equity
(Expressed in Canadian dollars)

	Number of shares	Share capital $	Contributed surplus $	Non-controlling interest $	Deficit $	Total $
Balance, January 31, 2017	**27,839,600**	**17,238,846**	**6,137,595**	**1,649,570**	**(7,401,110)**	**17,624,901**
Shares and warrants issued for Acreage Pharms acquisition	20,000,000	36,800,000	2,890,884	–	–	39,690,884
Exercise of stock options	216,000	303,292	(141,162)	–	–	162,130
Exercise of warrants	10,621,938	23,470,120	(5,784,449)	–	–	17,685,671
Private placements	28,354,130	31,533,818	9,673,497	–	–	41,207,315
Share issuance costs	281,817	(5,334,883)	947,397	–	–	(4,387,486)
Shares issued for services rendered	2,000,000	3,220,000	–	–	–	3,220,000
Share-based compensation	–	–	7,419,953	–	–	7,419,953
Net loss and comprehensive loss	–	–	–	(11,144)	(19,777,824)	(19,788,968)
Balance, January 31, 2018	**89,313,485**	**107,231,193**	**21,143,715**	**1,638,426**	**(27,178,934)**	**102,834,400**
Shares issued for Gene-Etics acquisition	4,604,496	7,616,349	1,716,819	–	–	9,333,168
Shares issued for Leaf Wise acquisition	312,500	321,325	–	–	–	321,325
Shares issued for Canandia acquisition	7,878,791	8,274,730	–	–	–	8,274,730
Shares issued for settlement cost	250,000	550,000	–	–	–	550,000
Spinout of Poda Technologies Ltd.	–	–	771,609	–	(1,418,023)	(646,414)
Private placements	11,500,000	19,916,946	3,083,054	–	–	23,000,000
Share issuance costs	–	(2,391,592)	–	–	–	(2,391,592)
Exercise of stock options	357,500	939,208	(394,157)	–	–	545,051
Exercise of warrants	5,838,731	11,058,482	(3,180,015)	–	–	7,878,467
Share-based compensation	–	–	3,159,277	–	–	3,159,277
Net loss and comprehensive loss	–	–	–	24,998	(35,711,838)	(35,686,840)
Balance, January 31, 2019	**120,055,503**	**153,516,641**	**26,300,302**	**1,663,424**	**(64,308,795)**	**117,171,572**

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

Invictus MD Strategies Corp.
Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Notes	Year ended January 31, 2019 $	2018 $
Operating activities			
Net loss		**(35,686,840)**	(19,788,968)
Items not affecting cash			
Fair value changes included in inventory sold		**1,434,559**	–
Unrealized gain on changes in fair value of biological assets	5	**(1,614,563)**	(1,311,925)
Shares issued for Gene-Etics acquisition	10	**6,667,733**	–
Shares issued for settlement cost		**550,000**	1,810,000
Share-based compensation		**3,159,277**	7,419,953
Depreciation and amortization		**3,699,376**	1,855,755
Loss on option to acquire agreements		–	373,521
Loss on write-off of loans receivable		–	999,564
Impairment of goodwill		**4,825,695**	–
Equity loss on investments	8	**795,867**	594,998
Deferred income tax recovery		**(1,645,160)**	(795,941)
Changes in non-cash working capital balances			
Increase in accounts receivable		**(719,653)**	(299,644)
Increase in prepaid expenses and other		**(1,343,631)**	(238,695)
Increase in biological assets		**(8,920)**	(21,000)
Increase in inventory		**(883,133)**	(598,368)
Increase in accounts payable and accrued liabilities		**2,703,942**	1,621,984
Decrease in deferred revenue		**(561,166)**	561,166
Net cash used in operating activities		**(18,626,617)**	(7,817,600)
Investing activities			
Increase in investments	8	**(13,000,000)**	–
Decrease in short-term investments		–	3,000,000
Increase in restricted cash	23	**(4,000,000)**	–
Increase in loans receivable	7	**(6,125,000)**	(300,000)
Acquisition of Acreage Pharms	11	–	(6,000,000)
Acquisition of Leaf Wise	11	**(598,373)**	–
Acquisition of Canandia	11	**50,981**	–
Cash included in spinout of Poda	17	**(519,972)**	–
Purchase of property, plant and equipment	9	**(22,404,122)**	(3,923,987)
Purchase of intangible assets	10	**(4,748,070)**	(404,271)
Net cash used in investing activities		**(51,344,556)**	(7,628,258)
Financing activities			
Exercise of stock options	18	**545,051**	162,130
Exercise of warrants	18	**7,878,467**	17,685,671
Private placements	18	**23,000,000**	41,207,315
Share issuance costs	18	**(2,391,592)**	(4,387,486)
Increase (decrease) in bank indebtedness	12	**109,525**	(91,144)
Proceeds from long-term debt	14	**13,068,017**	(2,000,000)
Net cash provided by financing activities		**42,209,468**	52,576,486
Decrease in cash and cash equivalents		**(27,761,705)**	37,130,628
Cash and cash equivalents, beginning of year		**37,593,985**	463,357
Cash and cash equivalents, end of year		**9,832,280**	37,593,985

Supplemental cash flow information (Note 23)

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

1. NATURE OF OPERATIONS

Invictus MD Strategies Corp. is a publicly traded company listed on the TSX Venture Exchange (“TSXV”) under the symbol “GENE”, as well as "8IS2" on the Frankfurt Stock Exchange and "IVITF" on the OTCQX. The Company is primarily engaged in the investment, acquisition, and development of synergistic businesses in an effort to increase and sustain growth, value and profits in the legal cannabis industry.

The consolidated financial statements for the years ended January 31, 2019 and 2018, include Invictus MD Strategies Corp. and its subsidiaries (together referred to as “Invictus” or the “Company”) and the Company’s interest in affiliated companies. The Company’s most active subsidiaries include Acreage Pharms Ltd. (“Acreage Pharms”), Future Harvest Development Ltd. (“Future Harvest”), 2015059 Alberta Ltd. (“Leaf Wise”), and 0989561 B.C. Ltd. (“Canandia”). The Company’s most active investments include an ownership interest in AB Laboratories Inc. (“AB Labs”) and AB Ventures Inc. (“AB Ventures”).

Acreage Pharms, Canandia, and AB Labs are licensed producers and sellers of cannabis in Canada under the Cannabis Act and Cannabis Regulations. Future Harvest produces and sells plant fertilizers, nutrients, and other supplies for hydroponics. Leaf Wise operates a group of medical clinics in Alberta and AB Ventures is in the application phase for a license to produce cannabis under the Cannabis Act and Cannabis Regulations.

The Company was incorporated on February 11, 2014, under the Business Corporations Act (British Columbia). The head office is located at 16th floor, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L4, and the registered and records office is located at 10th floor, 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors on May 28, 2019.

Basis of presentation and measurement

These consolidated financial statements include the accounts of the Company and its subsidiaries and have been presented in Canadian dollars on a historical cost basis, except for biological assets and certain financial instruments, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the consolidated statements of operations and comprehensive loss are presented by function.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its Canadian subsidiaries, as presented below. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company’s share capital. All intercompany transactions and balances have been eliminated.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

	Percentage ownership interest January 31, **2019**	2018
Greener Pastures Marihuana Dispensary Ltd.	**100%**	100%
Prestige Worldwide Holdings Inc.	**100%**	100%
Acreage Pharms Ltd.	**100%**	100%
Future Harvest Development Ltd.	**82.5%**	82.5%
Vitaleaf Management Inc. (inactive)	**100%**	100%
2102168 Alberta Ltd.	**100%**	–
0989561 B.C. Ltd. (“Canandia”)	**100%**	–
2015059 Alberta Ltd. (“Leaf Wise”)	**100%**	–
Gene-Etics Strains Co.	**100%**	–

Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

Inventory

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Inventories of fertilizers and nutrients include costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

Investments in associates

The Company has interests in associates. Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. The Company accounts for associates using the equity method of accounting. Interests in associates are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company’s interest in an associate is adjusted for the Company’s share of comprehensive income and distributions of the investee. The carrying value of associates is assessed for impairment at each statement of financial position date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant, and equipment

Property, plant, and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the following terms:

Buildings	25-50 years
Manufacturing and facility equipment	8 years
Office equipment	5 years
Computer hardware and software	2 years
Leasehold improvements	Term of the lease

Estimates of residual values or useful lives and depreciation methods are reassessed annually and any changes in estimates are accounted for prospectively and amounts of depreciation are adjusted accordingly.

An asset's residual value, useful life, and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss. Assets under construction are not subject to depreciation until they are available for use and depreciation of the assets commences at that point.

Intangible assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis. The Health Canada license for Acreage Pharms is amortized over the 20 year lease term of the facility. The Health Canada license for Canandia is amortized over the 10 year lease term of the facility. The Gene-Etics IP is amortized over 5 years. The other intangible assets are amortized over their expected useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of trademarks and similar intangibles, including certain intellectual property, which are carried at cost less accumulated impairment losses.

Impairment of non-current assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of operations and comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, such as forecasted future net cash flows discounted to present value and the mergers and acquisitions method. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired property, plant and equipment, intangible assets and contingent consideration.

In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Revenue recognition

Revenue is recognized at the point in time when control over the goods has been transferred to the customer. For cannabis sales, the Company satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. For fertilizer sales, the Company satisfies its performance obligation and transfers control to the customer upon shipment of the product.

Payments received from customers in advance of meeting the performance obligations are recorded as deferred revenue and subsequently recognized as revenue when the performance obligations are satisfied.

Research and development

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 in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued.

The Company has adopted the relative fair value method with respect to the measurement of common shares and warrants issued as equity units. The relative fair value method requires an allocation of the net proceeds received based on the pro rata relative fair value of the components. If and when the warrants are ultimately exercised, the applicable amounts are transferred from reserve for warrants to share capital.

Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Income taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recognized to the extent it is probable that future taxable profits of the relevant entity will be available against which the assets can be utilized and are reviewed at the end of each reporting period.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation on the consolidated statements of operations and comprehensive loss.

Financial instruments

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 assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit and loss ("FVTPL") transaction costs.

Financial assets are subsequently measured at either:

(i) amortized cost;
(ii) fair value through other comprehensive income ("FVTOCI"); or
(iii) at fair value through profit or loss ("FVTPL").

Financial liabilities 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 the new measurement under IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash and cash equivalents	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
GTEC loan receivable	FVTPL	FVTPL
Other loans receivables	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Bank indebtedness	Amortized cost	Amortized cost
Loans	Amortized cost	Amortized cost
Liability for put-call lease agreement	FVTPL	FVTPL
Contingent consideration	FVTPL	FVTPL

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. 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.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgments (continued)

Biological assets and inventory

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

Estimated useful lives and impairment considerations

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

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The 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.

Share-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

New accounting standards adopted effective February 1, 2018

IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" replaced IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") and all previous versions of IFRS 9. The Company elected to apply IFRS 9 using a full retrospective approach. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards adopted effective February 1, 2018 (continued)

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 elected to apply IFRS 15 using a full retrospective approach. 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 five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

The adoption of this new standard had no impact on the amounts recognized in the Company's consolidated financial statements.

New accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended January 31, 2019, and have not been applied in preparing these consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") that sets out the principles for recognition, measurement, presentation and disclosure of leases for both lessee and lessor. IFRS 16 introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases, except when the term is 12 months or less or when the underlying asset has a low value. The effective date of IFRS 16 for the Company is February 1, 2019 and the Company will apply the standard retrospectively with the cumulative effect of initially applying the standard recognized as an adjustment to the opening balance of retained earnings or deficit at that date, subject to permitted practical expedients. Therefore, the Company will not restate comparative information.

The adoption of IFRS 16 will result in the recognition of a right-of-use asset and a lease liability measured at the present value of the future lease payments on the consolidated statements of financial position for a majority of its leases that are considered operating leases under IAS 17 "Leases". An amortization expense on the right-of-use asset and an interest expense on the lease liability will replace the operating lease expense. IFRS 16 will change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but does not cause a difference in the amount of cash transferred between the parties of a lease. As at February 1, 2019, it is estimated that total liabilities would increase by $280,544 and assets would increase by approximately $273,685. The estimated impact to shareholder's equity as at February 1, 2019 is a decrease of $6,860. The Company is continuing to assess the overall impact of the new standard, including the required changes to the disclosures in its consolidated financial statements.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards issued but not yet effective (continued)

IFRIC 23, "Uncertainty over Income Tax Treatments"

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual years beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The Company intends to adopt the Interpretation in its financial statements for the annual year beginning on February 1, 2019. The Company does not expect the adoption of IFRIC 23 to have a material effect on the Company's future results and financial position.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. ACCOUNTS RECEIVABLE

		January 31,
	2019	2018
	$	$
Trade accounts receivable	**505,292**	735,939
GST and taxes recoverable	**1,149,620**	147,442
Interest receivable (Note 7)	**97,240**	–
	1,752,152	883,381

4. PREPAID EXPENSES AND OTHER ASSETS

		January 31,
	2019	2018
	$	$
Prepaid consulting and advisory fees	**726,394**	–
Prepaid advertising and marketing	**302,883**	57,242
Prepaid insurance	**104,091**	16,541
Other prepaid expenses	**521,310**	255,326
	1,654,678	329,109

5. BIOLOGICAL ASSETS

		January 31,
	2019	2018
	$	$
Balance, beginning of year	**181,534**	–
Purchases of seeds and clones	**8,920**	21,000
Changes in fair value less costs to sell due to biological transformation	**1,614,563**	1,311,925
Transferred to inventory upon harvest	**(1,492,932)**	(1,151,391)
Balance, end of year	**312,085**	181,534

5. BIOLOGICAL ASSETS (continued)

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest. The Company's biological assets consist of cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data. These inputs are Level 3 on the fair value hierarchy and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company values cannabis plants at cost, which approximates fair value from the date of initial clipping from mother plants until the plants begin the propagation cycle. The number of weeks in the growth cycle is between nine and eleven weeks from propagation to harvest. The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs.

The selling price is between $3.19 and $7.33 per gram.
The harvest yield is between 20 and 65 grams per plant.

The selling price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on strain, as well as the proportion derived from wholesale compared to retail. Expected yield is also subject to a variety of factors including strain and length of growth cycle. Processing costs include post-harvest labour, lab testing, packaging and labelling, and allocated overheads. Selling costs include shipping, order fulfillment, customer maintenance and point of sale costs.

The Company includes repairs and maintenance of the cultivation facilities in variable production overheads. Fixed production overheads include depreciation associated with cultivation equipment and buildings. The allocation of fixed production overheads is based on the normal capacity of the facilities. Normal capacity is defined as the production expected to be achieved on average over a number of periods or seasons under normal circumstances, and accounting for the loss of capacity resulting from planned maintenance.

During the year, there was no material change to the significant inputs and therefore there has been no change in the determined fair value per plant.

The Company has quantified the sensitivity of the significant unobservable inputs used to calculate the fair value of biological assets recorded in its consolidated financial statements and determined the following:

Selling price per gram – a decrease in the average selling price per gram of 5% would result in a decrease in biological assets of $22,270 (January 31, 2018: $8,075) and a decrease in inventory of $96,458 (January 31, 2018: $57,885)

Harvest yield per plant – a decrease in the harvest yield per plant of 5% would result in a decrease in biological assets of $14,224 (January 31, 2018: $8,027).

(Expressed in Canadian dollars)

6. INVENTORY

		January 31,
	2019	2018
	$	$
Dry cannabis		
Finished goods	**1,937,718**	1,062,184
Work-in-process	**455,451**	273,073
	2,393,169	1,335,257
Fertilizers and nutrients		
Finished goods	**434,305**	312,298
Materials and supplies	**450,586**	654,929
	884,891	967,227
	3,278,060	2,302,484

As at January 31, 2019, the Company held 432,436 grams of dried cannabis, comprised of 232,387 grams awaiting release for sale and 200,049 grams held for future extract production (January 31, 2018: 185,846 grams of dried cannabis, comprised of 136,949 grams awaiting release for sale and 48,897 grams held for future extract production).

The cost of inventory is recognized as an expense and included in cost of sales when sold. For the year ended January 31, 2019, the amount of inventory recognized in cost of sales was $3,848,042, comprised of $2,110,110 in fertilizers and nutrients and $1,737,932 in dried cannabis (2018: $909,486 in fertilizers and nutrients).

7. LOANS RECEIVABLE

(a) As at January 31, 2019, the Company has a loan receivable of $2,086,193 from Poda Technologies Ltd. (“Poda”). Poda was spun-out of the Company on November 8, 2018 as described in Note 17. The amount is unsecured, non-interest bearing, and is due on demand.

(b) As at January 31, 2019, the Company has a loan receivable of $1,000,000 from AB Labs, an associated company as described in Note 8 (January 31, 2018: $300,000). The amount due is unsecured, non-interest bearing, and is due on demand.

(c) As at January 31, 2019, the Company has a loan receivable of $3,000,000 from AB Labs, an associated company as described in Note 8 (January 31, 2018: nil). The amount due is secured by a first mortgage over the AB Labs Secondary Facility and bears interest at 8% per annum. The loan shall become due and payable on the last day of the first fiscal quarter (the “Maturity Date”) in which AB Labs achieves positive earnings before interest, taxes, depreciation and amortization. Following the Maturity Date, the loan shall be repaid in installments on or before the last day of the month immediately following the end of each fiscal quarter, with each installment equal to seventy five percent (75%) of AB Labs net change in operating cash flow during such fiscal quarter, provided a positive net change in operating cash flow has occurred. As at January 31, 2019, the loan receivable had accrued interest of $45,197.

(d) As at January 31, 2019, the Company has a non-revolving convertible loan receivable of $2,500,000 from GTEC Holdings Ltd. (“GTEC”), a non-related party (January 31, 2018: nil). The amount due is unsecured and bears interest at 8% per annum. The loan shall become due and payable on October 23, 2020 (the “Maturity Date”). As at January 31, 2019, the loan receivable had accrued interest of $52,043.

(Expressed in Canadian dollars)

7. LOANS RECEIVABLE (continued)

Subject to regulatory approvals, all or a portion of the principal and accrued interest on the loan facility may be convertible into common shares of GTEC, at the option of the Company, at any time prior to or on the last business day immediately preceding October 23, 2020 (the "Maturity Date") at a conversion price equal to $1.50 per common share (the "Conversion Price"). In conjunction with the loan, GTEC has provided the Company with a right of first refusal to fill up to 30% of any cannabis purchase orders that GTEC, or its wholly owned subsidiaries are seeking to purchase from third party Licensed Producers for a period of two year. Upon mutual agreement of both parties and prior to the Maturity Date, the Company may increase the amount of the loan facility up to $6,000,000.

8. INVESTMENTS IN ASSOCIATES

On November 29, 2017, the Company entered into a binding letter of intent ("LOI") for an option to increase the Company's ownership interest in AB Labs from 33.33% to 50%, and on February 6, 2018, the Company exercised its option to acquire an additional 16.67% ownership in AB Labs. The exercise price of the option was $10,000,001, and will be used by AB Labs as follows:

(i) $2,750,000 for the purchase of the "Primary Facility" building;
(ii) $5,200,000 for the purchase of the "Secondary Facility" land and building, and for the anticipated construction costs of the Secondary Facility; and
(iii) $2,050,001 for working capital purposes.

The increased investment in AB Labs results in the Company having 50% of the equity. However, the President of AB Labs holds the remaining 50% and retains power and control to manage operations without restriction. In addition to the payment of the purchase price for the Primary Facility and Secondary Facility, the use of the proceeds shall also include all closing costs related to the purchase of the properties.

On May 25, 2018, the Company paid $3,000,000 to AB Ventures to increase its ownership to 24.99%. Upon payment of the remaining $2,500,000 commitment the Company will have a 33.33% ownership interest in AB Ventures.

The following table summarizes the change in investment in associates for the year ended January 31, 2019:

AB Labs	**$**
Balance, January 31, 2018	11,302,015
Consideration paid	10,000,001
Equity loss on investment	(790,917)
Balance, January 31, 2019	**20,511,099**
AB Ventures	
Balance, January 31, 2018	1,978,987
Consideration paid	3,000,000
Equity loss on investment	(4,951)
Balance, January 31, 2019	**4,974,036**
Total	**25,485,135**

(Expressed in Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings $	Computer hardware $	Computer software $	Leasehold improvements $	Manufacturing equipment $	Office equipment $	Facility equipment $	Total $
Cost								
Balance, January 31, 2017	–	6,035	–	10,651	20,995	6,784	393,779	438,244
Additions through business combinations	1,886,168	–	–	–	–	–	–	1,886,168
Additions	3,304,939	356,874	15,497	1,731	–	1,965	242,981	3,923,987
Balance, January 31, 2018	5,191,107	362,909	15,497	12,382	20,995	8,749	636,760	6,248,399
Additions through business combinations	2,173,451	11,558	–	1,174,179	–	13,500	27,237	3,399,925
Additions	20,159,034	38,738	–	186,942	920	350	2,018,138	22,404,122
Balance, January 31, 2019	27,523,592	413,205	15,497	1,373,503	21,915	22,599	2,682,135	32,052,446
Accumulated depreciation								
Balance, January 31, 2017	–	3,769	–	2,412	8,734	1,347	68,275	84,537
Depreciation	87,462	125,076	2,749	2,275	3,645	1,665	69,592	292,464
Balance, January 31, 2018	87,462	128,845	2,749	4,687	12,379	3,012	137,867	377,001
Depreciation	205,091	146,137	2,498	27,459	3,645	2,419	155,733	542,982
Balance, January 31, 2019	292,553	274,982	5,247	32,146	16,024	5,431	293,600	919,983
Carrying amounts								
Balance, January 31, 2018	**5,103,645**	**234,064**	**12,748**	**7,695**	**8,616**	**5,737**	**498,893**	**5,871,398**
Balance, January 31, 2019	**27,231,039**	**138,223**	**10,250**	**1,341,357**	**5,891**	**17,168**	**2,388,535**	**31,132,463**

Included in property, plant and equipment is $17,260,209 of assets under construction that were not subject to depreciation as at January 31, 2019.

(Expressed in Canadian dollars)

10. INTANGIBLE ASSETS

	Intellectual property $	Licenses $	Gene-Etics IP $	Other $	Total $
Balance, January 31, 2017	1,137,285	–	–	23,100	1,160,385
Additions through business combinations	–	40,640,000	–	–	40,640,000
Additions	387,371	–	–	40,000	427,371
Disposals	–	–	–	(23,100)	(23,100)
Amortization	–	(1,563,291)	–	–	(1,563,291)
Balance, January 31, 2018	1,524,656	39,076,709	–	40,000	40,641,365
Additions through business combinations	–	7,991,800	–	958,000	8,949,800
Additions	559,703	–	5,964,858	888,946	7,413,507
Amortization	–	(2,073,553)	(1,058,967)	(23,875)	(3,156,395)
Spinout of Poda	(2,084,359)	–	–	–	(2,084,359)
Balance, January 31, 2019	**–**	**44,994,956**	**4,905,891**	**1,863,070**	**51,763,917**

The Health Canada licenses are amortized over the life of the leased property.

Acquisition of Gene-Etics Strains Co.

On March 13, 2018, the Company entered into an Amended and Restated Purchase and Sale Agreement (the “Agreement”) with Gene Simmons and Gene-Etics Strains Co. (“Gene-Etics”) and appointed Gene Simmons as its Chief Evangelist Officer. Pursuant to the terms of the Agreement, the Company acquired all the issued and outstanding shares of Gene-Etics Strains Co (“Gene-Etics”), a privately held company incorporated in the state of Delaware, which includes certain licensed characteristics, promotional materials and other intellectual property, personality rights and publicity rights (collectively “Gene-Etics IP”). Pursuant to the terms of the agreement, the Company acquired all of the issued and outstanding shares of Gene-Etics for:

(i) $3,299,423 (US$2,500,000) on closing (paid);
(ii) 2,631,141 common shares at closing (issued);
(iii) 1,973,355 common shares issued on the date that is the later of (i) 180 days following the closing date, and (ii) the date on which the Management Services Agreement has been executed by each party (issued); and
(iv) 1,973,355 common shares, issued on the date that is the later of (i) 240 days following the closing date, (ii) January 2, 2019, and (iii) the date on which the Management Services Agreement has been executed by each party.

On March 13, 2018, the Company and Gene Simmons entered into a Management Services Agreement to provide marketing and promotional services for five years at US $200,000 per year. The Company determined that this transaction is an asset acquisition as the assets acquired did not constitute a business. The fair value of the intangible assets was determined using a combination of the comparative income differential method and the discounted cash flow method. In addition, the fair value of the management contract with Gene Simmons was calculated as the net present value of the savings over the term of the five-year contract. The unallocated difference between consideration paid and the fair value of the assets acquired was expensed to sales and marketing.

(Expressed in Canadian dollars)

10. INTANGIBLE ASSETS (continued)

The fair value of the assets acquired are as follows:

	$
Consideration paid	
Cash	3,299,423
Fair value of 2,631,141 common shares issued at closing	4,084,044
Fair value of 1,973,355 common shares issued on September 10, 2018	3,532,305
Fair value of 1,973,355 common shares issuable on January 2, 2019	1,716,819
	12,632,591

	$
Fair value of assets acquired	
Intangible assets	5,964,858
Expensed to sales and marketing	6,667,733
	12,632,591

The 1,973,355 common shares issuable on January 2, 2019 were issued subsequent to year-end on April 25, 2019.

The Company incurred professional fees of $315,912 in connection with the acquisition of Gene-Etics that were expensed to sales and marketing.

11. BUSINESS COMBINATIONS AND GOODWILL

Acreage Pharms

On April 25, 2017, the Company acquired 100% of the issued and outstanding shares of Acreage Pharms (the “Acquisition”) by exercising its share purchase option agreement that was entered into on February 24, 2017. As a result of the Acquisition, Acreage Pharms operates as a wholly-owned subsidiary of Invictus.

The aggregate consideration paid by the Company to acquire Acreage Pharms comprised of: (i) 20,000,000 common shares of the Company; (ii) $6,000,000 in cash; (iii) and 3,000,000 warrants with an exercise price of $1.50, one-third of such warrants expiring every six months after the Acquisition date of April 25, 2017. The warrants had an estimated fair value of $2,890,884, calculated using the Black-Scholes option pricing model assuming one-third of the warrants will expire every six months following the date the option is exercised, an average risk-free interest rate of 0.60%, an expected dividend rate of 0%, and an average expected annual volatility of 127%.

The Company has determined this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The Company applied a market approach, specifically the mergers and acquisition method, for measuring the fair value of the license to produce medical cannabis under ACMPR. This valuation model uses data from actual market transactions regarding the sale of similar companies or groups of assets to determine the price of the asset under review.

(Expressed in Canadian dollars)

11. BUSINESS COMBINATIONS AND GOODWILL (continued)

The allocation of the purchase price to the total fair value of net assets acquired is as follows:

	$
Fair value of net assets acquired	
Cash and cash equivalents	454
Accounts receivable	69,484
Property, plant and equipment	1,886,168
Intangible assets	40,640,000
	42,596,106
Accounts payable and accrued liabilities	(66,827)
Deferred tax liability	(10,825,941)
Identifiable net assets acquired	31,703,338
Goodwill	13,987,546
	45,690,884

	$
Consideration paid	
Cash	6,000,000
Fair value of 20,000,000 common shares of the Company	36,800,000
Fair value of 3,000,000 share purchase warrants of the Company	2,890,884
	45,690,884

The resulting goodwill represents the sales and growth potential of Acreage Pharms.

Leaf Wise

On October 31, 2018, the Company acquired 100% of the issued and outstanding shares of 2015059 Alberta Ltd. (“Leaf Wise”) (the “Acquisition”). As a result of the Acquisition, Leaf Wise operates as a wholly-owned subsidiary of Invictus.

The aggregate consideration paid by the Company to acquire Leaf Wise comprised of: (i) 312,500 common shares of the Company; (ii) $625,000 in cash; (iii) and future consideration to be paid based on the achievement of certain performance-based milestones related to patient metrics.

The Company has determined this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The intangible assets acquired as part of the Acquisition consisted of trademarks, a patient list, and a key consulting agreement. The Company used the Relief from Royalty Method, the Multi-Period Excess Earnings, and a combination of the CDIM and Discounted Cash Flow Method for measuring the fair value of the trademarks, the patient list, and the key consulting agreement, respectively.

(Expressed in Canadian dollars)

11. BUSINESS COMBINATIONS AND GOODWILL (continued)

The allocation of the purchase price to the total fair value of net assets acquired is as follows:

	$
Fair value of net assets acquired	
Cash and cash equivalents	26,629
Accounts receivable	49,961
Prepaid expenses and other	3,616
Property, plant and equipment	60,867
Intangible assets	924,000
	1,065,073
Accounts payable and accrued liabilities	8,496
Deferred tax liability	29,375
Identifiable net assets acquired	1,027,202
Goodwill	1,481,452
	2,508,654

	$
Consideration paid	
Cash	625,000
Fair value of 312,500 common shares of the Company	321,325
Fair value of contingent consideration	1,562,329
	2,508,654

The resulting goodwill represents the sales and growth potential of Leaf Wise. At January 31, 2019, the Company recorded impairment of $849,450 to write-down the goodwill to its estimated recoverable amount.

Canandia

On November 15, 2018, the Company acquired 100% of the issued and outstanding shares of 0989561 B.C. Ltd. (“Canandia”) (the “Acquisition”) by exercising its share purchase option agreement entered into on July 17, 2018. As a result of the Acquisition, Canandia operates as a wholly-owned subsidiary of Invictus.

The aggregate consideration paid by the Company to acquire Canandia comprised of:

(i) $2.4 million in common shares of the Company (the “First Consideration Common Shares”) at $1.32 per common share. The First Consideration Common Shares will be subject to a 4 month hold period;
(ii) $10 million in common shares of the Company (the “Second Consideration Common Shares”) at $1.65 per common share with the following release schedule:
   a. 25% of the Second Consideration Common Shares on the closing; and
   b. 25% of the Second Consideration Common Shares every 4 months thereafter; and
(iii) $7 million in common shares of the Company issued to the Vendors on the date that is within 10 business days of the Mission Location receiving its cultivation license under the Cannabis Act and Cannabis Regulations, valued at the greater of $1.06 per share and the 10 trading days Volume Weighted Average Price (“VWAP”) on the TSXV immediately prior to the License Date.

In addition, the Company will provide a $10 million investment (the “Investment”) in cash into Canandia to be used for expansion of the Mission Location and working capital purposes. The Investment will be paid into Canandia over time on an as-needed basis.

(Expressed in Canadian dollars)

11. BUSINESS COMBINATIONS AND GOODWILL (continued)

The Company has determined this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The Company applied a market approach, specifically the mergers and acquisition method, for measuring the fair value of the license to produce cannabis under the Cannabis Act. This valuation model uses data from actual market transactions regarding the sale of similar companies or groups of assets to determine the price of the asset under review.

The allocation of the purchase price to the total fair value of net assets acquired is as follows:

	$
Fair value of net assets acquired	
Cash and cash equivalents	50,981
Accounts receivable	113,624
Inventory	34,070
Security deposit	21,000
Property, plant and equipment	3,339,058
Intangible assets	8,025,800
	11,584,533
Accounts payable and accrued liabilities	57,502
Mortgage payable	500,000
Liability for put-call lease agreement	1,600,000
Deferred tax liability	675,785
Identifiable net assets acquired	8,751,246
Goodwill	5,466,880
	14,218,126

	$
Consideration paid	
Fair value of 7,878,791 common shares issued on the closing date	8,274,730
Fair value of contingent consideration	5,943,396
	14,218,126

The resulting goodwill represents the sales and growth potential of Canandia. At January 31, 2019, the Company recorded impairment of $3,976,245 to write-down the goodwill to its estimated recoverable amount.

12. BANK INDEBTEDNESS

As at January 31, 2019, bank indebtedness of $109,525 (2018: nil) consisted of a secured line of credit for Acreage Pharms. The amounts were due on demand and bore interest at the Bank's Prime Interest Rate plus 2% per annum. The maximum facility available is $500,000. The bank indebtedness is secured against all of Acreage Pharms' present and after acquired personal property.

(Expressed in Canadian dollars)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		January 31,
	2019	2018
	$	$
Trade accounts payable	**4,210,773**	1,109,498
Accrued liabilities	**516,333**	813,950
GST and taxes payable	–	19,913
Payroll liabilities	**135,202**	77,877
	4,862,308	2,021,238

14. LONG-TERM DEBT

		January 31,
	2019	2018
	$	$
Non-revolving term loan facility bearing interest at the bank's prime interest rate plus 2%, repayable in quarterly principal payments of $217,829. The loan matures in fiscal 2022.	**4,082,171**	–
Non-revolving development loan facility bearing interest at the bank's prime interest rate plus 2%, repayable in quarterly principal payments. The loan matures in fiscal 2022.	**8,985,846**	–
Mortgage bearing interest at 5%. The mortgage is due in fiscal 2022.	**500,000**	
	13,568,017	–
Less current portion	**(2,246,064)**	–
	11,321,953	–

The term loan and development loan facilities are secured against all of Acreage Pharms' present and after acquired personal property, including a floating charge on land; a leasehold mortgage registered against Acreage Pharms' leasehold interest with respect to the lands municipally described as 14129 East Bank Road, Yellowhead County, Alberta, in the principal amount of $25,000,000; with specific pledges over certain bank accounts; and the specific assignment of material contracts.

The mortgage is secured against Canandia's land located in Mission, BC.

Repayments of long-term debt is as follows:

	$
2020	2,246,064
2021	3,021,316
2022 and onwards	8,300,637
	13,568,017

15. RELATED PARTY TRANSACTIONS AND BALANCES

All related party transactions have occurred in the normal course of operations. Related party transactions occur and are recorded at the amounts agreed between the parties.

For the year ended January 31, 2019, the Company was charged $119,565 in management fees (2018: nil) by the CEO of the Company. As at January 31, 2019, $36,141 remains outstanding in accounts payable and accrued liabilities (2018: nil).

For the year ended January 31, 2019, the Company was charged $212,000 in salaries and bonuses (2018: nil) and $550,000 (2018: nil) in advisory and consulting fees by the former Chairman and CEO of the Company. As at January 31, 2019, $33,845 remains outstanding in accounts payable and accrued liabilities (2018: nil). For the year ended January 31, 2019, the Company was charged $325,000 in management fees (2018: $637,000) and $nil (2018: $500,000) in acquisition costs by a company controlled by the former Chairman and CEO. As at January 31, 2019, $nil remains outstanding in accounts payable and accrued liabilities (2018: $351,099).

(Expressed in Canadian dollars)

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

For the year ended January 31, 2019, the Company was charged $208,000 in salaries and bonuses (2018: $18,667) by the CFO of the Company.

For the year ended January 31, 2019, the Company was charged $105,000 in director fees by the independent Directors of the Company (2018: $100,000). As at January 31, 2019, $22,500 remains outstanding in accounts payable and accrued liabilities (2018: $100,000).

Key management personnel compensation

Key management is comprised of the Company's directors and executive officers. The Company incurred the following key management compensation charges during the years ended January 31, 2019 and 2018:

	2019	2018
	$	$
Salaries, bonuses, fees and benefits	**1,810,565**	1,810,984
Share-based payments	**2,371,724**	5,650,801
	4,182,289	7,461,785

16. INCOME TAXES

The tax effect of significant temporary differences (computed by applying the Canadian federal and provincial statutory rate), which comprise deferred income tax assets and liabilities, are as follows:

	2019	2018
	$	$
Canadian statutory income tax rate	**27.0%**	26.1%
Income tax recovery at statutory rate	(10,091,745)	(5,380,161)
Tax effect of:		
Permanent and other differences	4,141,072	1,174,344
Change in unrecognized deferred income tax assets	4,305,513	3,409,876
Deferred income tax recovery	(1,645,160)	(795,941)
Current income tax expense (recovery)	(19,835)	(41,919)

The significant components of deferred income tax assets and liabilities are as follows:

	2019	2018
	$	$
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	8,684,000	3,308,000
Share issuance costs	1,402,000	1,202,000
Capital assets	(871,000)	41,000
Intangible assets	(10,041,000)	(10,623,000)
Total gross deferred income tax assets (liabilities)	(826,000)	(6,072,000)
Unrecognized deferred income tax assets	(8,264,000)	(3,958,000)
Net deferred income tax assets (liabilities)	(9,090,000)	(10,030,000)

(Expressed in Canadian dollars)

16. INCOME TAXES (continued)

As at January 31, 2019, the Company has non-capital losses carried forward of $32,162,000, which are available to offset future years' taxable income. The losses expire as follows:

	$
2034	246,000
2035	38,000
2036	264,000
2037	986,000
2038	10,774,000
2039	20,075,000
	32,162,000

17. SPINOUT OF PODA TECHNOLOGIES LTD.

On September 10, 2018, the Company and its wholly owned subsidiary, Poda Technologies Ltd. ("Poda"), entered into an arrangement agreement with respect to a plan of arrangement (the "Arrangement") to give effect to the spinout of Poda. On October 18, 2018, the shareholders of the Company approved the plan of arrangement (the "Arrangement") to give effect to the spinout transaction. The Arrangement closed on November 8, 2018. The assets and liabilities of Poda have been deconsolidated from the Company's consolidated financial statements.

The major classes of assets and liabilities of Poda as at November 8, 2018, are as follows:

Assets	**$**
Cash and cash equivalents	**519,972**
Accounts receivable	**14,467**
Prepaid expenses and other assets	**42,678**
Intangible assets	**2,084,359**
	2,661,476
Liabilities	
Accounts payable and accrued liabilities	**28,763**
Due to Invictus	**2,086,193**
Net assets included in spinout	**546,520**

As a result of the spinout, 166,667 common shares of the Company were released from escrow and were subject to a top-up mechanism whereby an additional 607,566 common shares with a fair value of $771,609 were issuable on November 8, 2018. These shares were issued subsequent to year-end on March 25, 2019. The Company also incurred professional fees of $99,894 in connection with the spinout and recorded a charge to deficit of $1,418,023.

18. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance and an unlimited number of non-voting and non-participating Class A redeemable preferred shares.

As at January 31, 2019, the Company had 120,055,503 common shares issued and outstanding (January 31, 2018: 89,313,485).

As at January 31, 2019 and 2018, no Class A preferred shares issued are issued or outstanding.

18. SHARE CAPITAL (continued)

Share transactions during the year ended January 31, 2019:

Private placements

On October 19, 2018, the Company issued 11,500,000 units at $2.00 per unit for total proceeds of $23,000,000. Each unit was comprised of one common share and one-half of one share purchase warrant. Each warrant is exercisable at a price of $2.40 per share expiring on October 19, 2020. The share purchase warrants have a fair value of $3,083,054, calculated using the Black-Scholes option pricing model assuming an expected life of 24 months, a risk-free interest rate of 2.33%, an expected dividend rate of 0%, and an expected annual volatility of 81%.

As compensation, the underwriters received a commission of 7% of the gross proceeds raised or $1,610,000.

Gene-Etics acquisition

During the year ended January 31, 2019, the Company issued 4,604,496 common shares with a fair value of $7,616,349 as part of the Gene-Etics acquisition. Refer to Note 10.

Leaf Wise acquisition

On October 31, 2018, the Company issued 312,500 common shares with a fair value of $321,325 as part of the consideration paid for the acquisition of Leaf Wise Rx. Refer to Note 11.

Canandia acquisition

On November 15, 2018, the Company issued 7,878,791 common shares with a fair value of $8,274,730 as part of the consideration paid for the acquisition of Canandia. Refer to Note 11.

Poda spinout and escrow shares

As at January 31, 2019, the Company has no shares held in escrow.

On November 8, 2018, 166,667 common shares of the Company were released from escrow and were subject to a top-up mechanism whereby an additional 607,566 common shares were issuable with a fair value of $771,609, as a result of the Poda spinout. Refer to Note 17.

As at January 31, 2018, the Company had 166,667 common shares held in escrow with the following escrow provisions:

- 100,000 shares to be released once Poda has earned an aggregate of $2.5 million in gross revenues;

- 66,667 shares to be released once Poda has earned an aggregate of $12.5 million in gross revenues.

The first escrow issuance and the second escrow issuance are subject to a top-up mechanism, such that if the volume-weighted average trading price of the Company's common shares on the stock exchange for the seven most recent trading days immediately preceding the first sales milestone is below $0.50, or below $0.75 as of the second sales milestone, then the Company has the option to issue either additional common shares, cash payment or a combination thereof to the inventors, such that the aggregate value of the consideration issued at each milestone is equal to $500,000 and provided that the issuance of any additional common shares is not less than an issue price of $0.10.

18. SHARE CAPITAL (continued)

During the year ended January 31, 2019, 357,500 stock options were exercised for proceeds of $545,051 and the Company re-classified $394,157 from contributed surplus to share capital upon exercise.

During the year ended January 31, 2019, 5,838,731 warrants were exercised for proceeds of $7,878,467 and the Company re-classified $3,180,015 from contributed surplus to share capital upon exercise.

Share transactions during the year ended January 31, 2018:

Acquisition

On April 25, 2017, the Company issued 20,000,000 common shares with a fair value of $36,800,000 as part of the consideration paid for the acquisition of Acreage Pharms. Refer to Note 10.

Private placements

On March 2, 2017, the Company issued 9,829,130 units at $1.65 per unit for total proceeds of $16,218,065, of which $19,500 remains outstanding. Each unit was comprised of one common share and one-half of one share purchase warrant. Each warrant is exercisable at a price of $2.35 per share expiring on September 2, 2018. The share purchase warrants are subject to an acceleration provision that allows the Company to give notice of an earlier expiry date if the Company's daily volume weighted average share price is greater than $3.75 for ten consecutive trading days. The share purchase warrants have a fair value of $3,913,929, calculated using the Black-Scholes option pricing model assuming an expected life of 18 months, a risk-free interest rate of 0.68%, an expected dividend rate of 0%, and an expected annual volatility of 163%.

As compensation, the underwriters received a commission of 7% of the gross proceeds raised which was paid partly in cash of $670,265 and partly through the issuance of 281,817 units with a fair value of $465,000. The units issued to the underwriters have the same terms as the private placement. The Company also issued to the underwriters a total of 688,039 underwriters’ warrants with a fair value of $835,179. Each underwriters’ warrant is exercisable at a price of $1.65 per share until September 2, 2018.

On May 24, 2017, the Company issued 18,525,000 units at $1.35 per unit for total proceeds of $25,008,750. Each unit was comprised of one common share and one-half of one share purchase warrant. Each warrant is exercisable at a price of $1.75 per share expiring on November 24, 2018. The share purchase warrants have a fair value of $5,759,568, calculated using the Black-Scholes option pricing model assuming an expected life of 18 months, a risk-free interest rate of 0.71%, an expected dividend rate of 0%, and an expected annual volatility of 146%.

As compensation, the underwriters received a commission of 5% of the gross proceeds raised and a corporate finance fee of 5% of the gross proceeds raised, paid in cash of $2,500,875.

Other

On April 26, 2017, the Company issued 1,000,000 common shares with a fair value of $1,810,000 to a consultant as a finder's fee for the acquisition of Acreage Pharms.

On June 13, 2017, the Company issued 1,000,000 common shares with a fair value of $1,410,000 to a consultant for consulting services performed in relation to the acquisition of AB Labs and AB Ventures.

(Expressed in Canadian dollars)

18. SHARE CAPITAL (continued)

During the year ended January 31, 2018, 216,000 stock options were exercised for proceeds of $162,130 and the Company re-classified $141,162 from contributed surplus to share capital upon exercise.

During the year ended January 31, 2018, 10,621,938 warrants were exercised for proceeds of $17,685,671 and the Company re-classified $5,784,449 from contributed surplus to share capital upon exercise.

Stock option plan

The Company has adopted a rolling incentive stock option plan (the “Option Plan”) which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange’s requirements, grant to Directors, officers, employees or consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the Option Plan can have a maximum exercise term of 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

For the year ended January 31, 2019, the Company recognized share-based compensation of $3,159,277 (2018: $7,419,953).

Movements in the number of stock options outstanding and their related weighted average exercise prices are as follows:

	Number of options	Weighted average exercise price $
Outstanding, January 31, 2017	2,365,000	1.24
Granted	6,900,000	1.62
Exercised	(216,000)	0.75
Forfeited	–	–
Cancelled	(531,000)	1.44
Outstanding, January 31, 2018	8,518,000	1.55
Granted	3,695,000	1.66
Exercised	(357,500)	1.33
Forfeited	–	–
Cancelled	(110,000)	1.60
Outstanding, January 31, 2019	11,745,500	1.59

The Company uses the Black-Scholes option pricing model to estimate the fair value for all share-based compensation. The weighted average assumptions used in this pricing model, and the resulting weighted average fair values per option, for the 3,695,000 and 6,900,000 options granted during the years ended January 31, 2019 and 2018, respectively, are as follows:

	2019	2018
(i) Risk-free interest rate	2.02%	1.38%
(ii) Expected life	5 years	5 years
(iii) Expected volatility	83%	82%
(iv) Expected dividend yield	0%	0%
(iv) Expected forfeiture rate	0%	0%
(vi) Fair value per option	$0.94	$1.07

(Expressed in Canadian dollars)

18. SHARE CAPITAL (continued)

The following summarizes information about the stock options outstanding and exercisable as at January 31, 2019:

Outstanding			Exercisable		
Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $
25,000	1.2	1.50	25,000	1.2	1.50
15,000	1.4	1.50	15,000	1.4	1.50
20,000	2.5	0.35	20,000	2.5	0.35
200,000	2.7	0.92	200,000	2.7	0.92
1,356,500	2.8	1.38	1,356,500	2.8	1.38
1,050,000	3.0	1.69	1,050,000	3.0	1.69
570,000	3.1	1.88	570,000	3.1	1.88
1,150,000	3.1	1.75	1,150,000	3.1	1.75
1,029,000	3.4	1.48	1,029,000	3.4	1.48
1,385,000	3.7	1.34	1,385,000	3.7	1.34
150,000	3.8	1.19	100,000	3.8	1.19
1,100,000	4.0	1.42	1,100,000	4.0	1.42
1,275,000	4.3	1.84	1,275,000	4.3	1.84
120,000	4.4	1.78	40,000	4.4	1.78
160,000	4.7	1.50	55,000	4.7	1.50
300,000	4.7	1.77	100,000	4.7	1.77
750,000	4.8	2.00	–	4.8	2.00
1,090,000	5.0	2.00	1,090,000	5.0	2.00
11,745,500		1.59	10,560,500		1.56

Warrants

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows:

	Number of warrants	Weighted average exercise price $
Outstanding, January 31, 2017	8,882,668	1.40
Issued	18,006,013	1.87
Exercised	(10,621,938)	1.67
Expired	(1,040,000)	1.60
Outstanding, January 31, 2018	15,226,743	1.76
Issued	5,750,000	2.40
Exercised	(5,838,731)	1.35
Expired	(9,388,012)	2.01
Outstanding, January 31, 2019	5,750,000	2.40

The following summarizes information about the outstanding share purchase warrants exercisable to acquire common shares of the Company as at January 31, 2019:

Number of warrants outstanding	Exercise price $	Expiry date
5,750,000	2.40	October 19, 2020

(Expressed in Canadian dollars)

19. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash and cash equivalents and restricted cash are Level 1. The hierarchy is summarized as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3 inputs for assets and liabilities not based upon observable market data

The following financial instruments are presented at fair value on a recurring basis:

		January 31, 2019		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Cash and cash equivalents	**9,823,280**	**9,823,280**	**-**	**-**
Restricted cash	**4,000,000**	**4,000,000**	**-**	**-**
Bank indebtedness	**109,525**	**109,525**	**-**	**-**

		January 31, 2018		
	Carrying value	Level 1	Level 2	Level 3
	$	$	$	$
Cash and cash equivalents	37,593,985	37,593,985	-	-

The Company's financial instruments are exposed to certain financial risks, including credit, liquidity, currency and interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding accounts receivables and loans receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company seeks to limit its exposure to this risk by holding its cash and cash equivalents in large Canadian financial institutions. The Company does not have significant credit risk with respect to customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis, raising capital through equity financing, when required, and maintaining an accessible line of credit. The Company manages its credit risk relating to loans receivable by reviewing monthly payments and analyzes the counterparties' financial stability to ensure liquidity of available funds. As at January 31, 2019, the Company had working capital of $18,097,550 (January 31, 2018: $39,083,089).

(Expressed in Canadian dollars)

19. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The following table details the Company's expected remaining contractual cash flow requirements for its financial liabilities on repayment or maturity periods. The amounts presented are based on the contractual undiscounted cash flows and may not agree with the carrying amounts in the consolidated statements of financial position:

As at January 31, 2019	Up to 1 year	1 - 5 years	Total
Accounts payable	**4,862,309**	-	4,862,309
Bank indebtedness	**109,525**	-	109,525
Lease agreement put option	**1,600,000**	-	1,600,000
Long-term debt	**2,246,064**	11,321,953	13,568,017
Contingent consideration	**-**	7,505,725	7,505,725
	8,817,898	18,827,678	27,645,576

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the Company’s income or the value of its holdings of financial instruments. The Company has minimal financial assets and liabilities held in foreign currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk with respect to its long-term debt, as described in Note 14.

20. CAPITAL MANAGEMENT

The Company’s objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, enter into debt facilities, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company’s capital management approach in the period. The Company considers its shareholders’ equity as capital.

21. COMMITMENTS

The Company has six operating leases with respect to its premises for operations and inventory storage. The Company is also party to a brand licensing agreement with guaranteed minimum royalty payments for a contract period of ten years.

(Expressed in Canadian dollars)

21. COMMITMENTS (continued)

Future minimum commitments and lease payments are as follows:

	$
2020	5,202,835
2021	2,097,371
2022	2,325,370
2023	2,653,970
2024 onwards	19,407,326
	31,686,872

As described in Note 10, on March 13, 2018, the Company appointed Gene Simmons as its Chief Evangelist Officer. Pursuant to the terms of the agreement the Company had a commitment to issue 1,973,355 common shares to Gene Simmons on January 2, 2019. These shares were issued subsequent to year-end on April 25, 2019.

As described in Note 11, on October 31, 2018, the Company acquired 100% of the issued and outstanding shares of Leaf Wise (the "Acquisition"). The Company is committed to certain future consideration to be paid based on the achievement of certain performance-based milestones related to patient metrics.

As described in Note 11, on November 15, 2018, the Company acquired 100% of the issued and outstanding shares of Canandia (the "Acquisition"). The Company is committed to:

- $10 million investment (the "Investment") in cash into Canandia to be used for expansion of the Mission Location and working capital purposes. The Investment will be paid into Canandia over time on an as-needed basis;

- $7 million in common shares of the Company issued to the Vendors on the date that is within 10 business days of the Mission Location receiving its cultivation license under the Cannabis Act and Cannabis Regulations, valued at the greater of $1.06 per share and the 10 trading days Volume Weighted Average Price ("VWAP") on the TSXV immediately prior to the License Date; and

- Pursuant to the terms of a Lease and Put-Call Agreement dated July 1, 2017, purchase Canandia's Delta facility from the owner for $3,300,000 on October 18, 2019.

22. SEGMENT INFORMATION

The Company has two reporting segments: sale of cannabis and fertilizers, based on the type of products sold. The Company reports activities not directly attributable to an operating segment under Corporate. All property, plant and equipment are located in Canada.

(Expressed in Canadian dollars)

22. SEGMENT INFORMATION (continued)

	Cannabis $	Fertilizer $	Corporate $	Total $
January 31, 2019				
Total assets	**86,703,685**	**1,913,337**	**65,290,126**	**153,907,148**
Total liabilities	**25,762,546**	**142,259**	**10,830,771**	**36,735,576**
January 31, 2018				
Total assets	59,785,210	2,468,449	53,193,145	115,446,804
Total liabilities	10,475,559	916,311	1,220,534	12,612,404

	Cannabis $	Fertilizer $	Corporate $	Total $
For the year ended January 31, 2019				
Revenue	**1,657,341**	**3,035,432**	**–**	**4,692,773**
Net income (loss)	**(4,434,263)**	**142,843**	**(31,395,420)**	**(35,686,840)**
For the year ended January 31, 2018				
Revenue	–	2,364,423	–	2,364,423
Net income (loss)	(1,184,491)	(63,671)	(18,540,806)	(19,788,968)

23. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended January 31, **2019** $	 2018 $
Income taxes paid	–	–
Interest received	310,791	144,765
Interest paid	242,469	618
Non-cash investing and financing transactions		
Fair value of assets acquired in business combinations	12,571,996	42,595,652
Fair value of liabilities acquired in business combinations	2,871,158	10,892,768
Fair value of warrants reallocated to share capital from contributed surplus upon exercise	3,180,015	5,784,449
Fair value of stock options reallocated to share capital from contributed surplus upon exercise	394,157	141,162
Shares issued for settlement cost	550,000	–
Shares issuable for spinout of Poda	771,609	–
Shares issued for services rendered	–	3,220,000
Shares issued for acquisitions and business combinations	16,212,404	36,800,000
Shares issuable for acquisition of Gene-etics	1,716,819	–
Fair value of warrants issued for acquisitions	–	2,890,884
Fair value of warrants issued as finder's fee	–	947,397

	Year ended January 31, **2019** $	 2018 $
Cash and cash equivalents		
Cash	2,082,280	16,793,985
GICs	7,750,000	20,800,000
	9,832,280	37,593,985

23. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

Cash equivalents consist of redeemable guaranteed investment certificates ("GICs") of $7,750,000 (January 31, 2018: $20,800,000), which are redeemable prior to maturity without significant costs or penalties.

As at January 31, 2019, the Company had restricted cash of $4,000,000 (January 31, 2018: $nil) as security for the Company's long-term debt. Refer to Note 14.

24. SUBSEQUENT EVENTS

Subsequent to January 31, 2019, a total of 550,000 stock options were exercised for proceeds of $535,000 and the Company issued 146,739 common shares pursuant to a marketing agreement.

Subsequent to January 31, 2019, the Company granted a total of 1,050,000 stock options exercisable over a period of five years at exercise prices between $0.71 and $1.00 per common share.

On April 12, 2019, the Company purchased the Acreage Pharms' land from a Director and Chief Operating Officer of the Company for $356,500.