ORCHID VENTURES, INC.
(DBA "ORCHID ESSENTIALS")

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED FEBRUARY 29, 2020

(Expressed in US dollars)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim condensed consolidated financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company’s independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditors.

ORCHID VENTURES. INC. (DBA "ORCHID ESSENTIALS")
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(Expressed in US dollars)

	Note	As at February 29, 2020	As at May 31, 2019
		$	$
Current assets			
Cash		41,835	111,671
Trade receivables	14	683,460	2,273,289
GST receivable		1,617	17,849
Prepaids		149,253	231,813
Inventory	4, 16	872,506	1,381,836
Total current assets		1,748,671	4,016,458
Non-current assets			
Equipment	5	56,522	62,721
Trademarks and licenses	6	151,294	253,796
Deposits		30,924	36,148
Right of use assets	13	602,196	-
		840,936	352,665
Total assets		2,589,607	4,369,123
Current liabilities			
Trade payables	3	1,177,409	838,468
Accrued liabilities		-	126,000
Wages payable	3	252,518	87,400
Loans payable	9	-	324,115
Obligation to issue shares	6	60,000	60,000
Lease liability	13	178,312	-
Warrant liability	15	7,615	-
Total current liabilities		1,675,854	1,435,983
Non-current liabilities			
Lease liability	13	508,702	-
Total liabilities		2,184,556	1,435,983
Shareholders' equity			
Share capital	8	10,679,282	8,466,628
Exchangeable units	8	1,062,097	1,667,303
Reserve	8	2,418,721	1,475,737
Deficit		(13,755,049)	(8,676,528)
Total shareholders' equity		405,051	2,933,140
Total liabilities and shareholders' equity		2,589,607	4,369,123

Note 1 - Nature of operations and going concern
Notes 10 – Commitments and contingencies
Note 17 – Subsequent events

On behalf of the Board of Directors on April 29, 2020.

/s/ Corey Mangold — Mr. Corey Mangold, CEO

/s/ Rick Brown — Mr. Rick Brown, Director

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

ORCHID VENTURES, INC. (DBA "ORCHID ESSENTIALS")
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)
(Expressed in US dollars)

	Note	Three Months Ended February 29, 2020	Three Months Ended February 28, 2019	Nine Months Ended February 29, 2020	Nine Months Ended February 28, 2019
		$	$	$	$
Sales	16	628,485	821,216	1,498,162	2,647,258
Cost of sales	4	571,438	576,928	1,251,116	1,159,401
Gross profit		57,047	244,288	247,046	1,487,857
Operating expenses					
Administrative		26,037	68,032	171,472	201,521
Bad debt expense (recovery)	9	(196,115)	-	518,529	-
Consulting	7	13,284	79,671	52,603	79,671
Depreciation and amortization	5,6,13	50,777	2,862	217,388	8,422
Insurance		9,690	31,964	45,699	31,964
Inventory write-off	4	-	77,892	-	105,094
Legal and professional fees		(20,241)	37,312	379,375	450,215
Management fees	7	83,500	108,000	147,500	324,000
Rent and utilities	3	46,200	90,436	71,659	123,534
Sales, marketing, and advertising	3	9,007	70,108	129,201	323,873
Software and information technology		-	42,781	39,019	69,617
Shipping and packaging		1,758	12,391	13,617	27,963
Share-based payments	7,8	17,737	-	942,984	-
Travel		30,189	24,723	136,645	87,776
Wages and benefits		376,077	489,143	1,524,710	1,355,636
Total operating expenses		447,900	1,135,315	4,390,401	3,189,286
Loss before other items		(390,853)	(891,027)	(4,143,355)	(1,701,429)
Other expenses					
Interest expense		27,288	-	97,154	3,113
Impairment - GreenBloom	8	15,828	-	941,500	-
Foreign exchange		(24,526)	-	45,238	-
Fair value change in warrant liability	15	(116,578)	-	(116,578)	-
Other income		(32,148)		(32,148)	-
		(130,136)	-	935,166	3,113
Net and comprehensive loss for the period		(260,717)	(891,027)	(5,078,521)	(1,704,542)
Net loss per share - basic and diluted		$ (0.00)	$ -	$ (0.07)	$ -
Weighted average number of common shares outstanding - basic and diluted		78,004,310	-	77,799,141	-

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

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
(UNAUDITED)
(Expressed in US dollars)

		Number of Shares/Units			$ Amount						
	Note	**Common Shares**	**Class A/B/C units**	**Exchangeable units**	**Share capital**	**Class A/B/C units**	**Contributions receivable for Class A/B/C units**	**Exchangeable units**	**Reserve**	**Deficit**	**Total**
					$	$	$	$	$	$	$
Balance at May 31, 2018		-	3,384,620	-	-	1,350,000	-	-	-	(1,983,947)	(346,494)
Issuance of common shares for cash		39,364,852	-	-	39,364	-	-	-	2,618,775	-	2,658,139
Issuance of warrants as finder's fees		-	-	-	(32,602)	-	-	-	32,602	-	-
Issuance of warrants as share-based payment		-	-	-	-	-	-	-	8,919	-	8,919
Issuance of Class C units		-	503,457	-	-	503,457	-	-	-	-	503,457
Corporate reorganization		-	(3,888,077)	3,888,077	-	(1,853,457)	-	1,853,457	-	-	-
Conversion of preferred shares		2	-	-	-	-	-	-	-	-	-
Reallocation of reserve		-	-	-	2,618,775	-	-	-	(2,618,775)	-	-
Recapitalization transaction:											
Equity of Earny		6,444,998	-	-	1,573,868	-	-	-	-	-	1,573,868
Issuance of common shares for finder's fee		2,000,000	-	-	487,318	-	-	-	-	-	487,318
Issuance of common shares for cash		14,344,511	-	-	3,495,166	-	-	-	-	-	3,495,166
Share issuance costs		-	-	-	(150,483)	-	-	-	23,266	-	(127,217)
Share-based payments		1,022,200	-	-	249,068	-	-	-	1,410,950	-	1,660,018
Conversion of exchangeable units		2,975,286	-	(186,154)	186,154	-	-	(186,154)	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	-	-	-	(6,692,581)	(6,692,581)
Balance at May 31, 2019		66,151,849	-	3,701,923	8,466,628	-	-	1,667,303	1,475,737	(8,676,528)	2,933,140
Private placement	8	9,826,756	-	-	892,524	-	-	-	-	-	892,524
Share issuance costs	8	-	-	-	(14,114)	-	-	-	-	-	(14,114)
Warrant liability	15	-	-	-	(121,698)	-	-	-	-	-	(121,698)
Share-based payments	8	200,000	-	-	28,634	-	-	-	942,984	-	971,618
Shares issued as deposit on acquisition	8	5,078,623	-	-	822,102	-	-	-	-	-	822,102
Conversion of exchangeable units	8	8,802,506	-	(706,937)	605,206	-	-	(605,206)	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	-	-	-	(5,078,521)	(5,078,521)
Balance at February 29, 2020		90,059,734	-	2,994,986	10,679,282	-	-	1,062,097	2,418,721	(13,755,049)	405,051

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

ORCHIID VENTURES, INC. (DBA "ORCHID ESSENTIALS")
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Expressed in US dollars)

	Nine Months Ended	
	February 29, 2020	**February 28, 2019**
	$	**$**
Operating Activities		
Net loss for the period	(5,078,521)	(813,515)
Adjustments for:		
Depreciation and amortization	217,388	5,560
Share-based payments	942,984	-
Bad debt	518,529	-
Impairment	941,500	-
Fair value change in warrant liability	(116,578)	-
Inventory write-off	-	27,202
Accrued interest	-	3,113
Changes in non-cash working capital items:		
Trade receivables	1,071,300	(342,070)
GST receivable	16,232	-
Prepaids and deposits	82,560	(356,486)
Inventory	509,330	(698,035)
Trade payables	338,941	717,657
Accrued liabilities	(126,000)	(406,000)
Wages payable	165,118	(69,231)
Cash used in operating activities	(517,217)	(1,931,805)
Investing Activities		
Dispositions, acquisitions of, trademarks and licenses	-	(5,770)
Deposits paid	-	(75,000)
Lease payments	(135,548)	-
Purchase of equipment	-	(20,555)
Cash used in investing activities	(135,548)	(101,325)
Financing activities		
Proceeds received from private placement	907,044	-
Proceeds paid to loans	(324,115)	(129,457)
Cash received from related parties	-	2,042,062
Cash received from convertible note - related party	-	405,774
Proceeds from the issuance of Class A/B/C units	-	50
Cash provided by financing activities	582,929	2,318,429
Change in cash during the period	(69,836)	285,299
Cash, beginning of period	111,671	73,409
Cash, end of period	41,835	358,708

Non-cash transactions during the period ended February 29, 2020 include:

(a) The fair value of $28,634 allocated to compensation shares (Note 8);
(b) The fair value of $605,206 reallocated between Class A/B/C units and common shares; and
(c) The fair value of $892,524 allocated to payment shares (Note 8).

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Orchid Ventures, Inc. (DBA "Orchid Essentials") was incorporated under the British Columbia Business Corporations Act on February 9, 2011.

The Company's head office, principal address and records office is 9930 Irvine Center Drive, Irvine, California. The registered office is also 9930 Irvine Center Drive, Irvine, California.

The Company is in the business of product development, branding, manufacturing and distribution of vape products containing cannabis.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available that it will be on terms that are acceptable to the Company. As at February 29, 2020, the Company has an accumulated deficit of $13,755,049 (May 31, 2019 - $8,676,528). These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual consolidated financial statements for the year ended May 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. The Company's annual consolidated financial statements for the year ended May 31, 2019 are filed on SEDAR on September 30, 2019.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. The financial statements are presented in US dollars and all financial amounts, other than per-share amounts, are rounded to the nearest dollar. The functional currency of the Company is the US dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the Company's annual consolidated financial statements.

These condensed consolidated interim financial statements have been prepared on a consolidated basis and include the accounts of the Company and the following subsidiaries:

Entity	**Registered**	**Holding**
CR Companies, LLC	California, USA	100% owned
CR International, Inc.	Nevada, USA	100% owned
Orchid Brands LLC	Delaware, USA	100% owned
CR Products, LLC (DBA "PurTec Delivery Systems")	California, USA	100% owned
CR Manufacturing OR, Inc.	Oregon, USA	100% owned
CR Property Management, LLC	Nevada, USA	100% owned
CR Manufacturing CA, Inc.	California, USA	100% owned
CA Forrest Green Distribution, LLC ("CA Forrest")	California, USA	100% owned

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

Leases

On June 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets.

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease liabilities related to its lease commitments for each of its leases. The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at January 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets will be measured at the lease liabilities amount, plus prepaid lease payments made by the Company. The Company has implemented the following accounting policies permitted under the new standard:

a) leases of low dollar value will continue to be expensed as incurred; and
b) the Company will not apply any grandfathering practical expedients.

As at June 1, 2019 the Company recognized $735,930 in right-of-use assets and $735,930 of incremental lease obligations.

The lease liabilities were discounted at a discount rate of 15% as at June 1, 2019.

<u>New accounting policy for leases under IFRS 16</u>

The following is the accounting policy for leases as of June 1, 2019 upon adoption of IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

(Expressed in US dollars)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Leases (continued)

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

a) fixed payments, including in-substance fixed payments, less any lease incentives receivable;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable under a residual value guarantee;
d) exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

3. RELATED PARTY TRANSACTIONS

During the period ended February 29, 2020 the Company incurred:

(a) $Nil (2019 - $21,627) in rent expense to Verdict Vapors, LLC, an entity related by a common director and officer.
(b) $Nil (2019 – 68,958) in marketing expense to Gigasavvy, an entity related by a common director and officer.

A total amount of $142,358 (2019 - $93,750) was recorded as due to related parties as at February 29, 2020 to directors and officers of the Company. Of this amount, $122,500 (2019 - $93,750) was included in the wages payable balance.

4. INVENTORY

Inventory consists of vape products and hardware, and oil purchased from third-party manufacturers. As at February 29, 2020, inventory is comprised of the following:

	February 29, 2020	May 31, 2019
	$	$
Finished goods	720,762	4,749
Raw material	68,068	1,332,515
Work-in-progess	83,676	44,572
	872,506	**1,381,836**

Inventory expensed in net loss and included in cost of sales for the three and nine months ended February 29, 2020 was a $571,348 (2019 - $576,928) and $1,251,116 (2019 - $1,159,401), respectively. An inventory obsolescence and damage allowance amount recognized in the statement of loss as inventory write-off for the three and nine months ended February 29, 2020 was $Nil (2019 - $77,982) and $Nil (2019 - $105,094), respectively.

(Expressed in US dollars)

5. EQUIPMENT

	Computers	Equipment	Furniture	Total
	$	$	$	$
Cost				
Balance, May 31, 2018	21,672	32,469	3,467	57,608
Additions	3,126	23,705	-	26,831
Balance, May 31, 2019	24,798	56,174	3,467	84,439
Additions	3,582	-	-	3,582
Deductions	(3,583)	-	-	(3,583)
Balance, February 29, 2020	**24,797**	**56,174**	**3,467**	**84,438**
Accumulated Amortization				
Balance, May 31, 2018	7,224	2,992	496	10,712
Additions	6,928	3,583	495	11,006
Balance, May 31, 2019	14,152	6,575	991	21,718
Additions	6,199	1,106	2,476	9,781
Deductions	(3,583)	-	-	(3,583)
Balance, February 29, 2020	**16,768**	**7,681**	**3,467**	**27,916**
Net Book Value				
As at May 31, 2019	**10,646**	**49,599**	**2,476**	**62,721**
As at February 29, 2020	**8,029**	**48,493**	**-**	**56,522**

6. TRADEMARKS AND LICENSES

Trademarks:

To February 29, 2020, the Company has incurred $231,447 (2019 - $15,392) in direct registration costs of its trademarks and recorded amortization of $80,153 (2019 - $2,595) resulting in a net balance of trademarks at February 29, 2020 in the amount of $151,294 (2019 - $12,797).

Licenses:

CA Forrest

On December 31, 2018, the Company completed the acquisition of all the outstanding common shares of CA Forrest. The Company acquired 100% of the issued and outstanding membership interest shares, resulting in CA Forrest becoming a wholly-owned subsidiary of the Company. For accounting purposes, the acquisition of CA Forrest has been recorded as an asset acquisition as CA Forrest did not have the necessary inputs and processes capable of producing outputs required to meet the definition as defined by *IFRS 3, Business Combinations*.

The consideration for the interest in CA Forrest was as follows:
(a) Payment of $5,000 (paid) on closing date;
(b) Payment of a further $15,000 (accrued) upon date at which the Bureau of Cannabis Control ("BCC") grants CA Forrest an annual license (the "License Acquisition Date"); and
(c) Issuance of the number of shares of common stock of the Company equal to $60,000, subject to CSE approval, upon License Acquisition Date.

The identifiable assets acquired and liabilities assumed resulting from the acquisition of CA Forrest were comprised only of a temporary license and annual distribution license in the state of California, with a carrying value of $Nil. Accordingly, the full amount of the consideration has been allocated to licenses. CA Forrest was granted a provisional distribution license, which expires on August 7, 2020.

(Expressed in US dollars)

6. TRADEMARKS AND LICENSES (continued)

Artemis Link, LLC ("Artemis")

On October 27, 2018, the Company completed the acquisition of all of the assets of Artemis, an Oregon LLC.

The consideration for the assets of Artemis was as follows:
(a) Payment of $136,000 (paid) on closing date; and
(b) Payment of a further $25,000 (paid) in settlement of a litigation to which Artemis has been identified as a defendant.

The identifiable assets acquired from the acquisition with Artemis were comprised only of a wholesale license, with a carrying value of $Nil. Accordingly, the full amount of the consideration has been allocated to license. The license expires on April 30, 2020.

7. EXECUTIVE COMPENSATION

Key Management Compensation:

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company's directors and other members of key management, being the CEO, President, and CFO who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts:

	Three Months Ended		Nine Months Ended	
	February 29, 2020	**November 30, 2018**	**February 29, 2020**	**November 30, 2018**
	$	**$**	**$**	**$**
Management fees	75,440	108,000	173,321	216,000
Share-based compensation	-	-	892,672	-
	75,440	**108,000**	**1,065,993**	**216,000**

Management fees were charged by the Company's CEO, Corey Mangold, the Company's President, Rick Brown, and the Company's CFO, Mathew Lee.

8. SHAREHOLDERS' EQUITY

(a) Authorized

The Company has an unlimited number of common shares authorized for issuance with no par value.

Prior to the RTO, CR International, Inc. was authorized to issue the following:

Common shares - 245,000,000 common shares with a par value of $0.001.
Preferred shares - 5,000,000 preferred shares with a par value of $0.001.

Prior to the RTO, CR Companies, LLC was authorized to issue the following:

Class A units - 9,000,000 Class A units for the purpose of issuing equity to founders. Holders of Class A units are entitled to a number of votes equivalent to the number of class A units held.

Class B units - 5,000,000 Class B units of its equity for the purpose of issuing equity to investors. Holders of Class B units have no voting rights.

8. SHAREHOLDERS' EQUITY (continued)

Class C units - 1,000,000 Class C units of its equity for the purpose of issuing equity to incentivize its Members, Managers, officers, employees, consultants or other service providers of the company. Holders of Class C units have no voting rights.

(b) Issued and Outstanding

Class A units

As of February 29, 2020, the Company had issued and outstanding a total of 1,932,889 Class A units with a nominal value.

Class B units

As of February 29, 2020, the Company had issued and outstanding a total of 790,000 Class B units with a value of $790,000.

Class C units

As of February 29, 2020, the Company had issued and outstanding a total of 272,097 Class C units with a par value of $272,097.

Exchangeable units

In accordance with the corporate reorganization, the existing shareholders of CR Companies exchanged their Class A, Class B and Class C units for exchangeable units ("Exchangeable Units") at a rate of 1 (old): 15.98 (new). These shareholders have the right to exchange such Exchangeable Units for common shares of the Company at any time until March 7, 2023. Accordingly, an aggregate of 62,142,857 common shares of the Company will eventually be issued in connection with the exchange of Exchangeable Units.

A voting trust ("Voting Trust") was established on grant date, pursuant to which the trustees of such Voting Trust will be issued a special voting share ("Special Voting Share") entitling them to vote a total of 62,142,857 common shares, which represents the total number of common shares to be issued by the Company in exchange for the Exchangeable Units. The Special Voting Share has no other rights, preferences or privileges.

As Exchangeable Units are exchanged for common shares of the Company, the voting rights attaching to the Special Voting Share will be cancelled proportionately to the number of the Company's common shares issued. As a result, and at the end of the four-year period allowed for exchanges, the Special Voting Share will be cancelled.

The shareholders holding Exchangeable Units are required to exchange such units on or before March 7, 2023. If a shareholder has not exchanged such units on or prior to March 7, 2023, the units will be deemed to have been transferred and surrendered to the Company for exchange into common shares.

During the nine-month period ended February 29, 2020, a total of 706,937 Exchangeable Units were exchanged for the issuance of 8,802,506 common shares. Accordingly, the Company reallocated $605,206, the value of the underlying Class A/B or C unit, to share capital. To February 29, 2020, an aggregate of 50,365,065 common shares remain to be issued in connection with the exchange of Exchangeable Units.

8. SHAREHOLDERS' EQUITY (continued)

(c) Issued and Outstanding

Common Shares

During the period ended February 29, 2020, the Company:

i) On July 30, 2019, the Company entered into an asset purchase agreement (the "Definitive Agreement") for the acquisition of certain assets of GreenBloom Cannabis Co. ("GreenBloom"). Pursuant to the terms of the Definitive Agreement, in consideration for the Acquisition and upon closing, the Company will pay an aggregate purchase price of $10,000,000 to be paid over 12 months from the date of closing, and issue 50,000,000 common shares at a price of CAD $0.50 per share (the "Payment Shares"). The Payment Shares will be subject to escrow conditions and/or resale restrictions as required by applicable securities laws and the policies of the CSE as well as additional voluntary hold periods agreed to by GreenBloom.

   In connection with the initial closing, the Company issued 5,078,623 Payment Shares with a fair value of $822,102. The Payment Shares are subject to a statutory hold period expiring December 1, 2019. The Payment Shares were recorded as a deposit on investment as at August 31, 2019. During the three-month period ended February 29, 2020, the Company recognized an impairment on the deposit (Note 10).

ii) On October 24, 2019, the Company closed a non-brokered private placement (the "Offering") with the issuance of a total of 10,115,089 units ("Units") for gross proceeds of CAD $1,179,210 (USD $892,524). Each Unit consists of one common share and one full-share purchase warrant (a "Warrant") (the "Units"). Each full Warrant entitles the holder to acquire one common share at CAD$0.18 per share for 24 months following closing. The Company incurred $14,114 in share issuance costs in association with the Offering.

iii) Issued 200,000 common shares to the President of the Company at a value of $0.14 per common share for total proceeds of $28,634 as a share-based payment.

iv) 706,937 Exchangeable units were converted into 8,802,506 common shares of the Company.

(d) Escrow shares

30,564,922 shares issued to the principals of the Company under the RTO are subject to escrow conditions required by applicable securities laws and the CSE requirements. Pursuant to the terms of the escrow agreements, 10% of the escrowed shares were released from escrow on March 7, 2019. The remaining 27,508,431 shares held within escrow will be released over a period of 36 months.

(e) Reserve

The reserve records items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

(f) Stock options

On October 23, 2019. the Company adopted a 20% rolling share option plan (the "Plan") that enables management to grant options to directors, officers, employees and other service providers. The Company follows the CSE policies where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options and have a maximum of 10 years. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options as determined by the Board of Directors.

(Expressed in US dollars)

8. SHAREHOLDERS' EQUITY (continued)

(f) Stock options (continued)

A summary of changes in stock options is presented below:

	Number of options	Weighted average exercise price ($ CAD)
		$
Balance, May 31, 2019	9,300,000	0.33
Issued	3,200,000	0.32
Expired	(100,000)	0.33
Balance, February 29, 2020	12,400,000	0.24

On March 18, 2019, the Company issued 9,300,000 stock options to directors, officers and employees of the Company. The stock options vest over a period of 9 months and are exercisable at a price of CAD $0.33 until March 18, 2024. The grant date fair value of the stock options was $1,891,664 and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.36%, expected stock price volatility – 110%, expected dividend yield – 0.0%, expected life – 5 years. During the period ended August 31, 2019, the Company recorded $472,916 in share-based compensation in relation to this grant.

On June 28, 2019, the Company issued 2,000,000 stock options to directors of the Company. The stock options vest immediately and are exercisable at a price of CAD $0.33 until June 28, 2024. The grant date fair value of the stock options was $285,925 and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.43%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years.

On July 30, 2019, the Company issued 1,200,000 stock options to the President of the Company. The stock options vest immediately and are exercisable at a price of CAD $0.30 until July 30, 2024. The grant date fair value of the stock options was $133,831 and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.43%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years.

Stock options outstanding as at February 29, 2020 is as follows:

Outstanding	Exercisable	Exercise Price (CAD)	Expiry date	Weighted average remaining life in years
		$		
200,000	200,000	0.33	May 22, 2020	0.23
9,000,000	9,000,000	0.33	March 18, 2024	4.05
2,000,000	2,000,000	0.33	June 28, 2024	4.33
1,200,000	1,200,000	0.30	July 30, 2024	4.42
12,400,000	12,400,000	0.33		

(Expressed in US dollars)

8. SHAREHOLDERS' EQUITY (continued)

(g) Warrants

A summary of changes in warrants is presented below:

	Number of warrants	Weighted average exercise price ($ CAD)
		$
Balance, May 31, 2019	832,550	0.33
Granted	10,026,756	0.19
Expired	(629,200)	0.33
Balance, February 29, 2020	10,230,106	0.18

The following warrants were outstanding as at February 29, 2020:

Outstanding	Exercisable	Exercise price (CAD)	Expiry date
		$	
203,350	203,350	0.33	March 7, 2021
9,826,756	9,826,756	0.18	October 24, 2021
200,000	200,000	0.33	July 3, 2022
10,230,106	10,230,106		

On July 3, 2019, the Company entered in a Memorandum of Understanding ("MOU") with Infusion Factory, LLC ("Infusion") and its parent company ICON Holdings, Inc. pursuant to which Infusion will provide vendor services in exchange for, among other things, warrants to purchase up to 200,000 shares of the Company at a price of CAD $0.33 per share for 36 months.

9. LOANS PAYABLE

i) On January 25, 2019, the Company entered into a distribution agreement (the "Agreement") with Cypress Manufacturing Company, a California corporation doing business as Indus Distribution ("Indus"). Under the terms of the Agreement, Indus will be the sole distributor of certain of the Company's products (the "Products"). Indus shall provide the Company with a request for Products ("Purchase Orders"). Indus' obligation under the Agreement is limited to sales representation, marketing, storage and delivery of the Products and purchase of only those quantities of Products itemized in its Purchase Orders, which Products are assembled, packaged, and delivered in accordance with such Purchase Order. All Products delivered to Indus shall be fully packaged in compliance with applicable law and ready for sale, pending the results of product testing.

9. LOANS PAYABLE (continued)

As part of the Agreement, Indus loaned $651,400 to the Company. The loan is unsecured and shall be repaid at a stated rate per unit sold by Indus until the loan has been repaid. In such case that the Company's RTO was completed while there is still a balance owing, the Company would remit the balance to Indus within 10 days of the RTO closing date. The Company repaid the balance during the period ended February 29, 2020. Included in trade receivables were receivables of $714,644 due from Indus. As the Agreement has been terminated (Note 16), the Company recognized $518,529 in bad debts in the condensed consolidated interim statement of loss and comprehensive loss during the nine months ended February 29, 2020.

ii) On April 30, 2019, the Company issued an Unsecured Promissory Note to arm's length party for a cash loan of $100,000 at simple interest rate of 5% or $5,000. Principal and interest were due on May 15, 2019. The Company did not repay the principal and interest on May 15, 2019. In accordance with the Unsecured Promissory Note, the Company incurred default interest of $5,000. The Company repaid the balance during the period ended February 29, 2020.

iii) On May 23, 2019, the Company issued an Unsecured Promissory Note to an arm's length party for a cash loan of $18,000 as no stated interest rate and due on demand. On June 20, 2019, the Company repaid the $18,000 loan.

iv) On June 27, 2019, the Company issued a promissory note for a principal amount of $150,000 with interest on the unpaid principal amount at an annual rate of 6%. The principal amount of $100,000 was due on July 10, 2019. The Company repaid the balance during the period ended February 29, 2020.

v) On July 10, 2019, the Company issued a promissory note to an arm's length party for a CAD $25,000 non-interest-bearing loan. The principal is due at the earliest of (a) October 10, 2019, or (b) upon the date of the Company closing a financing. The Company is obligated to pay an additional 15% cash payment as a loan bonus, payable at the time of repayment. The Company repaid the balance during the period ended February 29, 2020.

vi) On July 10, 2019, the Company issued a promissory note to an arm's length party for a CAD $75,000 non-interest-bearing loan. The principal is due at the earliest of (a) October 10, 2019, or (b) upon the date of the Company closing a financing. The Company is obligated to pay an additional 15% cash payment as a loan bonus, payable at the time of repayment. The Company repaid the balance during the period ended February 29, 2020.

vii) On September 26, 2019, the Company issued a secured promissory note for a principal amount of $155,000 with interest on the unpaid principal amount at an annual rate of 10%. The Company is required to issue one warrant exercisable at $0.16 for every dollar lent. The Company repaid the promissory note using a portion of the proceeds raised from the private placement that closed on October 24, 2019.

10. COMMITMENTS AND CONTINGENCIES

a) Settlement Agreement

On February 7, 2019, the Company entered into a Settlement and Release Agreement with Brown & Streza, LLP ("B&S"), a former legal service provider to the Company, whereby the Company and B&S agreed the Company shall pay $165,000. As of February 29, 2020, the Company owes B&S $65,000.

(Expressed in US dollars)

10. COMMITMENTS AND CONTINGENCIES (continued)

b) Severance Agreement

On May 22, 2019 (the "Termination Date"), the Company entered into a Severance Agreement with its former President, Rene Suarez whereby the Company agreed to pay Mr. Suarez $18,000 upon execution of the Severance Agreement and $25,000 either (a) in equal instalments of $4,167 over the six months beginning July 1, 2019; or (b) in full, upon closing of the next private placement equity financing of at least $2,000,000. The Company also agreed to vest 20% of Mr. Suarez's option grant of 1,000,000 shares such that a total of 200,000 shares shall be fully vested on the Termination Date. The options are exercisable for one year after the Termination Date. During the period, the Company paid Mr. Suarez $20,833. As of February 29, 2020, the Company owes Mr. Suarez $4,167.

c) Leases

On September 15, 2018, the Company entered into a Commercial Lease Agreement for its licensed production facility at 11785 SE Hwy 212, Suite 313, Clackamas, Oregon. The lease term ends on September 30, 2023, with two successive options to extend the lease term for a period of 5 years. Monthly base rent is $9,936 and a security deposit of $19,872 was required.

On May 23, 2019, the Company entered into a Commercial Lease Agreement for its head office located at 9930 Irvine Center Drive, Irvine, California. The lease is a Triple Net lease, which commenced on June 1, 2019 and expires on July 31, 2024 for a lease term of sixty-one months with an option to review for five additional years. The Company paid a security deposit of $15,000 upon execution of the lease.

Base rent (net) per month is payable as follows:

	Base rent
	$
2020	238,272
2021	240,058
2022	241,248
2023	162,348
2024	123,206
	1,005,132

On September 20, 2019, the Company entered into a Commercial Lease Agreement with Wildwood River Properties LLC (the "Landlord"), a company related by common shareholders, which provides the Company a lease for real property located at 300 W. Cole Road, Calexico, CA, to be used as cannabis cultivation, manufacturing, distribution and retail as permitted by state and local jurisdictions. In the event the Company is unable to secure a cannabis cultivation license from the City of Calexico, the Company will remain liable for the first month's rent, last month's rent, and security deposit, totalling $540,000, which will be retained as a termination fee. The Company will otherwise be released of any further liability under the Lease. On October 27, 2019, the Company served notice to the Landlord that the Company is terminating the Lease. On November 6, 2019 GreenBloom filed an arbitration claim against the Company seeking damages for terminating the Lease along with other damages referred to in the paragraph above.

d) GreenBloom Arbitration

On October 27, 2019, the Company terminated the First Amended and Restated Asset Purchase Agreement with GreenBloom. On November 6, 2019, GreenBloom filed an arbitration claim against the Company seeking $10,000,000 in damages for breach of contract and damages for termination of the Lease. The Company cannot comment on the case that is currently in arbitration.

(Expressed in US dollars)

11. FINANCIAL INSTRUMENTS

The Company is exposed to certain financial risks as listed below. There has been no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the prior year. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and trade receivables.

The Company limits its exposure to credit risk with respect to cash by investing available cash with major banks in the United States of America. The Company's cash is not subject to any external restrictions

The Company's receivables are due as follows:

	As At	
	February 29, 2020	**May 31, 2019**
	$	**$**
Current	89,657	105,000
31-60 days	11,757	568,000
Over 60 days	582,046	1,600,289
	683,460	**2,273,289**

With respect to receivables, the Company mitigates the risk by performing ongoing credit evaluations of its customers' financial condition. The Company monitors collectability of receivables on an on-going basis to determine credit risk.

At February 29, 2020, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

Liquidity Risk

As at February 29, 2020 the Company had cash of $41,835 (2019 - $337,208) available to settle current liabilities of $1,608,239 (2019 - $4,986,237) (excluding obligation to issue shares and warrant liability), all of which are due within one year. The Company expects to finance its inventory purchases and administrative expenditures through cash flows from operations, debt, as well as equity financing. Liquidity risk is assessed as high.

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at February 29, 2020:

	Within one year	**After one but not more than five years**	**After five years**	**Total**
	$	$	$	$
Trade payables	1,177,409	-	-	1,177,409
Wages payable	252,518	-	-	252,518
Loans payable	-	-	-	-
Lease liability	178,312	508,702	-	178,312
	1,608,239	**508,702**	**-**	**2,116,941**

(Expressed in US dollars)

11. FINANCIAL INSTRUMENTS (continued)

Market Risk

The Company is exposed to market risk with respect to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, trade payables and accrued liabilities that are denominated in a foreign currency. As at February 29, 2020, the Company had trade payables of $1,177,409 (2019 - $Nil) denominated in foreign currencies. Management's assessment of the Company's exposure to market risk is low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

12. CAPITAL MANAGEMENT

As at February 29, 2020 the Company's capital is composed of share capital. The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions.

The Company defines capital as cash and equity, consisting of the issued share capital. The capital structure of the Company is managed to provide sufficient funding operating activities. Funds are primarily secured through a combination of equity capital raised by way of private placements and short-term debt. There can be no assurances that the Company will be able to continue raising equity capital and short-term debt in this manner. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

There were no changes to the Company's approach to capital management during the period ended February 29, 2020.

13. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right-of-Use Assets

	Property Leases
Cost:	$
At May 31, 2019	-
Adjustment on initial adoption of IFRS 16 (Note 2)	735,930
At February 29, 2020	735,930
Depreciation:	
At May 31, 2019	-
Charge for the period	133,734
At February 29, 2020	133,734
Net Book Value:	
At May 31, 2019	-
At February 29, 2020	602,196

Depreciation of right-of-use assets is calculated using the straight-line method of the remaining lease term.

13. RIGHT OF USE ASSETS AND LEASE LIABILITY (continued)

Lease Liabilities

	$
Lease liabilities recognized as of June 1, 2019	735,930
Lease payments made	(125,541)
Interest expense on lease liabilities	76,625
	687,014
Less: current portion	(178,312)
At February 29, 2020	508,702

14. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Company operates primarily in a single geographical segment, being North America. The North American segment and two major customers make up approximately 100% (2018 – 100%) of the Company's sales and receivables.

15. WARRANT LIABILITY

In connection with the private placement completed during the nine months ended February 29, 2020, the Company issued a total of 4,913,378 warrants exercisable at a price of CDN $0.18. These warrants were assigned a fair value of $121,698 using the Black-Scholes Pricing Model.

The fair value allocated to these warrants at February 29, 2020 was $7,615 and is recorded as a derivative financial liability as these warrants are exercisable in Canadian dollars, differing from the Company's functional currency.

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a Company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

The Company used the following assumptions to estimate the fair value of the warrant liability:

Risk-free interest rate	2.04%
Expected stock price volatility	100%
Dividend payment during liife of warrant	Nil
Expected forfeiture rate	Nil
Expected dividend yield	0.0%
Expected warrant life in years	2.0
Weighted average strike price	0.18
Weighted average share price	0.06

16. SALES RETURN

During the nine months ended February 29, 2020, the Company terminated its distribution agreement with Indus and entered into a distribution agreement with Nabione, Inc., doing business as Nabis ("Nabis"). Nabis is a distributor in the business of providing warehousing, storage space, material handling, and transportation services. In connection with this change, inventory of $304,635 was returned from Indus and transferred to Nabis. Under the terms of the previous Indus distribution agreement, legal and beneficial ownership, right and title to the Company's products were considered transferred upon delivery to Indus. Under the terms of the distribution agreement with Nabis, legal and beneficial ownership, right and title to the Company's products are not considered transferred until the products are delivered to their destination as determined by the Company.

Due to the differing terms of the Nabis distribution agreement, the Company recognized a sales return of $593,376 and an increase in inventory of $304,635 during the nine months ended February 29, 2020.

17. SUBSEQUENT EVENTS

On March 31, 2020, the Company entered into a licensing agreement (the "Licensing Agreement") with two privately held nutrient delivery system companies (the "Licensors").

Pursuant to the Licensing Agreement, the Company will have the global exclusive right to sell CELLg8® for use in THC products and the non-exclusive right to sell the product within CBD, supplement, vitamin, and nutraceutical industries. Under the Licensing Agreement, the Company will issue an aggregate of 6,000,000 common share purchase warrants ("Warrants") which will allow the Licensors to acquire one common share of the Company (a "Warrant Share") at a price of $0.05 per Warrant Share for a period of 24 months. Certain of the Warrants are subject to certain vesting milestones, as follows: (a) 1,500,000 Warrants are immediately exercisable; (b) 1,500,000 Warrants once the Company does US$3MM in aggregate sales of CELLg8®; (c) an additional 1,500,000 Warrants once the Company does US$10MM in aggregate sales of CELLg8®; and (d) 1,500,000 Warrants once the Company does US$15MM in aggregate sales of CELLg8®. The Warrants issued in connection with the Licensing Agreement are non-transferable and any Warrant Shares issued upon the exercise thereof will be subject to a four-month-and one-day statutory hold period in accordance with applicable securities laws.

To maintain global exclusivity of CELLg8® use in THC products, the Company must meet the following purchase requirements:

i) Purchasing at least US$350,000 in products from CELLg8® by the end of the first consecutive 6-month period;
ii) Purchasing at least US$650,000 in products from CELLg8® by the end of the consecutive 12-month period; and
iii) Purchasing at least US$1,000,000 in products from CELLg8® by the end of the consecutive 18-month period.