



GREENSTAR
BIOSCIENCES

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

(Unaudited)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three and six months ended February 29, 2020.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Greenstar Biosciences Corp. for the interim period ended February 29, 2020, have been prepared in accordance with the International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company's management.

The Company's independent auditors, Manning Elliott LLP, have not performed a review of these interim financial statements

April 27, 2020

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars) - Unaudited

	Note	February 29, 2020	August 31, 2019
ASSETS			
Current			
Cash		\$ 158,878	\$ 512,777
Trade and other receivables		515,824	401,590
Prepaid expenses		24,635	381,396
Promissory note receivable	4	724,946	696,227
Total current assets		1,424,283	1,991,990
Deposit	6	79,734	79,904
Intangible asset	5	3,918,555	3,992,239
Lease, net of amortization	6	380,310	457,178
Right of use asset, net of depreciation	3,7	423,908	-
Deferred acquisition cost	8	201,435	199,761
Total assets		\$ 6,428,225	\$ 6,721,072
LIABILITIES AND EQUITY			
Current			
Trade payables and other liabilities	13	\$ 400,492	\$ 527,558
Current lease liability	3,9	171,213	-
Total current liabilities		571,705	527,558
Lease liability	3,9	266,051	-
Total liabilities		837,756	527,558
Equity			
Share capital	10(c)	9,997,347	9,866,773
Reserves	10(h)	2,293,808	1,611,490
Accumulated other comprehensive income		133,054	94,941
Deficit		(6,833,740)	(5,379,690)
Total equity		5,590,469	6,193,514
Total liabilities and equity		\$ 6,428,225	\$ 6,721,072

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on April 27, 2020. They are signed on the Company's behalf by:

“Signed”

Thomas Baird, Director

“Signed”

Leighton Bocking, Director

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

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars, except share numbers) - Unaudited

	Note	February 29, 2020	Three months ended, February 28, 2019	February 29, 2020	Six months ended, February 28, 2019
Revenues					
License royalties	5	\$ 184,637	\$ 94,901	\$ 250,083	\$ 191,048
Lease		111,100	118,057	222,578	226,865
		295,737	212,958	472,661	417,913
Operating expenses					
General and administrative		14,446	38,159	40,448	61,958
Insurance		25,478	-	66,867	-
Advertising		452,532	15,943	695,250	154,918
Rent		10,938	59,027	21,898	113,431
Professional fees	13	97,261	111,448	170,981	236,871
Consulting fees	13	10,295	61,273	55,302	178,433
Management fees	13	66,683	63,866	128,604	122,729
Interest expense	9	11,370	-	23,728	-
Amortization	5	52,564	55,946	105,307	106,477
Depreciation	6,7	83,939	42,426	168,605	81,946
Share-based compensation	10,13	471,659	306,203	682,318	669,948
		1,297,165	754,291	2,159,308	1,726,711
Loss before other items		(1,001,428)	(541,333)	(1,686,647)	(1,308,798)
Other items					
Foreign exchange loss		7,305	(12,831)	18,546	48,583
Other income	4	(9,531)	(3,462)	(22,717)	(3,462)
Change in fair value of derivative liability	10(e)	-	(206,131)	-	(477,333)
Net loss		\$ (999,202)	\$ (318,909)	\$ (1,682,476)	\$ (876,586)
Other comprehensive income					
Foreign currency translation adjustments		55,611	(4,875)	38,113	80,561
Comprehensive loss		\$ (943,591)	\$ (323,784)	\$ (1,644,363)	\$ (796,025)
Net loss per share					
Basic and diluted		\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding					
Basic and diluted		69,311,359	44,545,806	68,933,823	44,545,806

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

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the six months ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars) - Unaudited

	Note	2020	2019
Operating activities			
Net loss		\$ (1,682,476)	\$ (876,586)
Adjustments for non-cash items:			
Amortization	5	105,307	106,477
Depreciation	6,7	168,605	81,946
Share-based compensation		682,318	669,948
Interest income	4	(22,717)	(3,462)
Change in fair value of derivative liability	10(e)	-	(477,333)
Unrealized foreign exchange (gain) loss		(7,472)	54,415
Changes in non-cash working capital items:			
Trade and other receivables		(109,860)	(58,242)
Prepaid expenses		359,104	(114,397)
Trade payables and other liabilities		(61,855)	(86,358)
Net cash used in operating activities		(569,046)	(703,592)
Investing activities			
Purchase of intangible assets	5	-	(263,229)
Net cash used in investing activities		-	(263,229)
Financing activities			
Common shares issued for cash – private placement	10(c)	-	467,095
Common shares issued for cash – exercise of warrants	10(c)	293,000	-
Repayment of lease liability	9	(76,155)	-
Promissory note receivable		-	(665,072)
Net cash provided by (used in) financing activities		216,845	(197,977)
Effect of exchange rate changes on cash		(1,698)	-
Decrease in cash		(353,899)	(1,164,798)
Cash, beginning of period		512,777	2,486,669
Cash, end of period		\$ 158,878	\$ 1,321,871

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

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars, except share numbers) - Unaudited

	Notes	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income	Deficit	Total equity
Balance, August 31, 2018		56,256,598	\$ 7,322,026	\$ 17,518	\$ 803,410	\$ 419	\$ (4,625,259)	\$ 3,518,114
Shares issued – private placement	10(c)	3,607,413	488,295	(10,000)	-	-	-	478,295
Penalty shares issued	10(c)	953,775	332,947	875	-	-	-	333,822
Reallocation of warrants to derivative liability		-	(307,496)	-	-	-	-	(307,496)
Share-based payments	10	-	-	-	304,817	-	-	304,817
Comprehensive income (loss)		-	-	-	-	76,156	(872,180)	(796,024)
Balance, February 28, 2019		60,817,786	\$ 7,835,772	\$ 8,393	\$ 1,108,227	\$ 76,575	\$ (5,497,439)	\$ 3,531,528
Balance, August 31, 2019		67,844,199	\$ 9,866,773	\$ -	\$ 1,611,490	\$ 94,941	\$ (5,379,690)	\$ 6,193,514
Shares issued – exercise of warrants	10(c)	2,930,000	293,000	-	-	-	-	293,000
Shares issued – debt settlement	10(c)	507,692	66,000	-	-	-	-	66,000
Shares cancelled	10(c)	(4,568,524)	(228,426)	-	-	-	228,426	-
Share-based compensation	10	-	-	-	682,318	-	-	682,318
Comprehensive loss		-	-	-	-	38,113	(1,682,476)	(1,644,363)
Balance, February 29, 2020		66,713,367	\$ 9,997,347	\$ -	\$ 2,293,808	\$ 133,054	\$ (6,833,740)	\$ 5,590,469

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

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
February 29, 2020 and February 28, 2019
(Expressed in Canadian dollars, except where noted) - Unaudited

1. NATURE OF OPERATIONS AND GOING CONCERN

GreenStar Biosciences Corp. (formerly Bethpage Capital Corp.) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on May 13, 2010. The head office, principal address and registered office of the Company are located at 717 – 1030 West Georgia Street, Vancouver, B.C. V6E 2Y3.

On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse acquisition (“RTO”). On May 30, 2019, the Company changed its name to GreenStar Biosciences Corp. The Company’s common shares are listed under the symbol “GSTR” on the Canadian Securities Exchange and under the symbol “GTSIF” on the OTCQX.

The Company owns acquired brands, owns intellectual property and leases office and production premises to a cannabis processor and retailer. It is a technology and services company that provides real estate, financial, management, IP and branding support to licensed cannabis businesses.

Going concern

During the three and six months ended February 29, 2020, the Company incurred a net loss of \$999,202 and \$1,682,476, respectively (three and six months ended February 28, 2019 - \$318,909 and \$876,586, respectively). As at February 29, 2020, the Company has an accumulated deficit of \$6,833,740 (August 31, 2019 - \$5,379,690). These factors form a material uncertainty that may raise significant doubt regarding the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon the Company’s ability to raise sufficient financing to acquire or develop a profitable business. The Company intends on financing its future development activities and operations from the sale of equity securities.

The Company indirectly derives its revenues from the cannabis industry in the State of Washington, U.S.A. and the cannabis industry remains illegal under U.S. federal law and the approach to enforcement of U.S. federal laws against cannabis is subject to change. Because the Company engages in cannabis related activities in the U.S., it assumes certain risks due to conflicting state and federal laws.

Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the Washington State level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

These unaudited condensed interim consolidated financial statements (“interim financial statements”) do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the consolidated financial statements.

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
February 29, 2020 and February 28, 2019
(Expressed in Canadian dollars, except where noted) - Unaudited

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements for the years ended August 31, 2019 and 2018 (“annual financial statements”).

These interim financial statements were authorized for issuance by the Board of Directors on April 27, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared in Canadian dollars on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(c) Functional and presentation currency

These interim financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar. See “Basis of Consolidation” for the functional currency of the Company’s subsidiaries. References to United States dollar are “USD”.

(d) Basis of consolidation

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These interim financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Percentage Ownership	Functional Currency
Green Star Biosciences Inc.	Canada	100%	USD
Green Star Washington LLC	United States	100%	USD
Green Star Biosciences Packing LLC	United States	100% ⁽¹⁾	USD
Capri PHGS, LLC	United States	50% ⁽¹⁾	USD

⁽¹⁾ Inactive and therefore has no impact on the Company’s interim financial statements

(e) Reclassification of prior year amounts

The Company has reclassified certain items to improve clarity.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied and disclosed in notes 2 and 3 to the annual financial statements with the exception of the following:

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
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February 29, 2020 and February 28, 2019
(Expressed in Canadian dollars, except where noted) - Unaudited

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Leases

Effective September 1, 2019, the Company adopted IFRS 16 - *Leases* ("IFRS 16") using the modified retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the right-of-use assets) in the statement of financial position. Comparative information has not been restated and continues to be reported under IAS 17 - *Leases* ("IAS 17") and IFRIC 4 - *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4").

The Company used the practical expedient not to reassess whether a contract is or contains a lease at September 1, 2019. Instead, the Company applied IFRS 16 only to contracts previously identified as leases under IAS 17 and IFRIC 4.

The Company also used the following practical expedients to account for leases at September 1, 2019:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Relied on the Company's assessment of whether leases are onerous immediately before September 1, 2019.
- Applied recognition exemptions for operating leases when the underlying asset was of low value or the lease term ends within 12 months. The payments associated with these leases are recognized as an expense in operating expenses.
- Excluded initial direct costs when measuring the right-of-use asset at September 1, 2019.
- Used hindsight to determine the lease term when the contract contained options to extend or terminate the lease.

These policies apply to contracts entered into or changed on or after September 1, 2019. A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration.

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted-average incremental borrowing rate, calculated in accordance with IFRS 16, at September 1, 2019, of 10%. Associated right-of-use assets were measured at the amount equal to the lease liabilities.

The lease liabilities as at August 31, 2019 can be reconciled to the operating lease commitments as of September 1, 2019 as follows:

Operating lease commitments as at August 31, 2019	\$	589,375
Weighted average incremental borrowing rate as at September 1, 2019		10%
Discounted operating lease commitments at September 1, 2019	\$	510,468

ii. Critical judgements and estimates

The Company's management makes judgements in the process of applying the Company's accounting policies in the preparation of its interim financial statements. In addition, the preparation of the financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The Company's interim results are not necessarily indicative of its results for a full year. The critical judgements and estimates applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 2(d) to the annual consolidated financial statements for the years ended August 31, 2019 and 2018 with exception of the following:

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases as a result of adopting IFRS 16

Identifying whether a contract includes a lease

IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

Estimate of lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

4. PROMISSORY NOTE RECEIVABLE

On February 4, 2019, the Company loaned a non-related party \$707,774 (USD\$500,000). The loan bore interest at a rate of 8% per annum and all outstanding principal and accrued interest was due on February 4, 2020. The note is secured by intellectual property and licenses held by the borrower. For the three and six months ended February 29, 2020, the Company recorded interest income of \$9,531 (USD\$7,233) and \$22,717 (USD\$17,205), respectively (three and six months ended February 28, 2019 - \$3,462 (USD\$2,630) and \$3,462 (USD\$2,630), respectively) which is included in other income on the consolidated statement of loss and comprehensive loss.

As at February 29, 2019, all outstanding principal and accrued interest was past due and remained outstanding. The Company's management is corresponding with the borrower and is assessing the fair value of the intellectual property and licenses held by the borrower to recover the past due amounts outstanding.

	February 29, 2020	August 31, 2019
Balance, beginning of period	\$ 696,227	\$ -
Advance	-	665,870
Interest income	22,717	30,356
Unrealized foreign exchange gain	6,002	1
Balance, end of period	\$ 724,946	\$ 696,227

5. INTANGIBLE ASSET

On May 17, 2018, the Company entered into an Intellectual Property Purchase Agreement ("IPPA") with Cowlitz County Cannabis Cultivation, Inc. ("Cowlitz") whereby the Company purchased the right to various brands and trademarks ("Licensed Products). Further, the Company obtained the right to sell these Licensed Products at any time.

GREENSTAR BIOSCIENCES CORP. (FORMERLY BETHPAGE CAPITAL CORP.)
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5. INTANGIBLE ASSET (continued)

Initial consideration was \$3,986,700 (USD\$3,000,000). On October 10, 2018, the Company amended the IPPA to include additional Licensed Products for additional consideration of \$265,780 (USD\$200,000).

	February 29, 2020	August 31, 2019
Cost		
Balance, beginning of period	\$ 4,261,570	\$ 3,885,708
Additions	-	263,229
Unrealized foreign exchange gain	35,710	112,633
Balance, end of period	4,297,280	4,261,570
Accumulated depreciation		
Balance, beginning of period	269,331	56,342
Amortization	105,307	210,411
Unrealized foreign exchange gain	4,087	2,578
Balance, end of period	378,725	269,331
Carrying amount	\$ 3,918,555	\$ 3,992,239

On May 17, 2018, the Company entered into a License Agreement with Cowlitz which was subsequently amended on October 10, 2018 pursuant to the amendment to the IPPA. The License Agreement granted Cowlitz a perpetual, irrevocable, non-exclusive, non-assignable, non-sublicensable right and license to use, manufacture, have manufactured and sell the Licensed Products in Washington State. Pursuant to the terms of the License Agreement, Cowlitz will pay the Company a monthly license fee based on unit sales.

During the three and six months ended February 29, 2020, the Company recognized \$65,981 (USD\$50,073) and \$131,427, respectively (USD\$99,571) (three and six months ended February 28, 2019 - \$94,901 (USD\$66,597) and \$191,048 (USD\$140,100), respectively) in licensing royalties earned pursuant to the License Agreement.

6. LEASE

On May 17, 2018, the Company entered into a Lease Purchase Agreement with the landlord of the premises of Cowlitz under which the Company paid \$664,450 (USD\$500,000) to purchase the rights to the lease and paid an additional \$79,734 (USD\$60,000) as a lease deposit. The purchase price of the lease rights is being amortized over the term of the lease which expires on June 30, 2022.

	February 29, 2020	August 31, 2019
Balance, beginning of period	\$ 457,178	\$ 601,605
Depreciation	(79,320)	(160,628)
Unrealized foreign exchange gain	2,452	16,201
Balance, end of period	\$ 380,310	\$ 457,178

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6. LEASE (continued)

During the three and six months ended February 29, 2020, the Company recognized \$111,100 (USD\$84,313) and \$222,578 (USD\$168,626), respectively (three and six months ended February 28, 2019 - \$118,057 (USD\$83,183) and \$226,865 (USD\$166,366), respectively) in lease revenues earned pursuant to the Lease Purchase Agreement.

7. RIGHT OF USE ASSET

	February 29, 2020	August 31, 2019
Balance, beginning of period	\$ -	\$ -
Adoption of IFRS 16	510,468	-
Depreciation	(89,285)	-
Unrealized foreign exchange gain	2,725	-
Balance, end of period	\$ 423,908	\$ -

8. DEFERRED ACQUISITION COST

On February 26, 2019, Green Star Biosciences Inc. entered into a non-binding letter of intent (“LOI”) for a Partnership Agreement with Delta One Consultants LLC (“Delta1”). The Company intends to partner with Delta1 to purchase an interest in an indoor cannabis grow operation. In connection with the LOI, the Company paid \$201,435 (USD\$150,000) to Delta1.

9. LEASE LIABILITY

	February 29, 2020	August 31, 2019
Balance, beginning of period	\$ -	\$ -
Adoption of IFRS 16	510,468	-
Repayment of lease obligation	(76,155)	-
Interest expense	23,728	-
Unrealized foreign exchange gain	(20,777)	-
Balance, end of period	437,264	-
Less: Non-current portion	266,051	-
Current portion of lease liability	\$ 171,213	\$ -

10. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

(b) Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2020. As at February 29, 2020, 11,681,000 common shares were subject to these escrow restrictions (August 31, 2019 - 39,873,475).

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10. SHARE CAPITAL (continued)

(c) Issued

The Company has the following common share transactions during the six months ended February 29, 2020:

- On September 11, 2019, the Company issued 330,000 common shares upon the exercise of warrants at a price of \$0.10 per common share for gross proceeds of \$33,000.
- On November 29, 2019, the Company issued 1,200,000 common shares upon the exercise of warrants at a price of \$0.10 per common share for gross proceeds of \$120,000.
- On January 27, 2020, the Company issued 507,692 common shares at a deemed fair value of \$0.13 per common share pursuant to debt settlement agreements whereby the Company will settle debt of \$66,000.
- On February 5, 2020, the Company issued 600,000 common shares upon the exercise of warrants at a price of \$0.10 per common share for gross proceeds of \$60,000.
- On February 6, 2020, the Company issued 350,000 common shares upon the exercise of warrants at a price of \$0.10 per common share for gross proceeds of \$35,000.
- On February 7, 2020, the Company issued 450,000 common shares upon the exercise of warrants at a price of \$0.10 per common share for gross proceeds of \$45,000.
- On February 17, 2020, the Company cancelled 4,568,524 common shares with a cost of \$0.05 per common share pursuant to a share cancellation and return to treasury agreement.

The Company has the following common share transactions during the year ended August 31, 2019:

- On November 1, 2018, the Company issued 2,500,000 units pursuant to a non-brokered private placement at \$0.05 per unit for gross proceeds of \$125,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.10 per warrant until May 10, 2020.
- On November 30, 2018, the Company issued 540,350 Penalty Units. Each Penalty Unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant until June 29, 2020.
- On November 30, 2018, the Company issued 95,500 Penalty Units. Each Penalty Unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant until July 31, 2020.
- On December 19, 2018, the Company issued 50,000 common shares in a non-brokered private placement at \$0.20 per share for gross proceeds of \$10,000.

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10. SHARE CAPITAL (continued)

- On January 4, 2019, the Company issued 977,413 units pursuant to a non-brokered private placement at \$0.35 per unit for gross proceeds of \$342,095. Each unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant until January 4, 2021. The Company paid finders fees equal to \$19,857.
- On January 15, 2019, the Company issued 80,000 common shares and 66,419 share purchase warrants to a consultant in exchange for services. The shares were fair valued at \$11,200. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.35 per warrant until January 1, 2021.
- On January 31, 2019, pursuant to the terms of the Agency Agreement, the Company issued 270,175 Penalty Units. Each Penalty Unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant until June 29, 2020.
- On January 31, 2019, pursuant to the terms of the Agency Agreement, the Company issued 47,750 Penalty Units. Each Penalty Unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant until July 31, 2020.
- On March 31, 2019, pursuant to the terms of the Agency Agreement, the Company issued 317,925 Penalty Units. Each Penalty Unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant for a period of 24 months.
- On May 15, 2019, the Company issued 328,948 units pursuant to a non-brokered private placement at \$0.45 per unit for gross proceeds of \$148,027. Each unit consists of one common share in the Company and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant for a period of 24 months from the closing date.
- On May 22, 2019, the Company issued 711,111 units pursuant to a non-brokered private placement at \$0.45 per unit for gross proceeds of \$320,000. Each unit consists of one common share in the Company and one half of one warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per warrant for a period of 24 months from the closing date.
- On August 7, 2019, the Company issued 500,000 common shares pursuant to a warrant exercise at \$0.10 per share for gross proceeds of \$50,000.
- On August 15, 2019, the Company issued 333,000 common shares pursuant to a warrant exercise at \$0.10 per share for gross proceeds of \$33,300.

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10. SHARE CAPITAL (continued)

(d) Share purchase warrants

A summary of share purchase warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, August 31, 2018	36,631,346	\$ 0.19
Issued	4,403,718	\$ 0.37
Exercised	(833,000)	\$ 0.10
Balance, August 31, 2019	40,202,064	\$ 0.21
Exercised	(2,930,000)	\$ 0.10
Balance, February 29, 2020	37,372,064	\$ 0.21

The share purchase warrants outstanding and exercisable at February 29, 2020 and August 31, 2019 have the following expiry date and exercise prices:

Expiry Date	Exercise Price	February 29, 2020	August 31, 2019
May 10, 2020	\$ 0.10	29,636,994	32,566,994
May 18, 2020	\$ 0.20	700,000	700,000
May 23, 2020	\$ 0.35	142,857	142,857
June 29, 2020	\$ 0.75	3,242,101	3,242,101
July 23, 2020	\$ 0.75	1,483,795	1,483,795
July 24, 2020	\$ 0.35	7,000	7,000
July 31, 2020	\$ 0.75	572,999	572,999
August 2, 2020	\$ 0.75	218,450	218,450
January 1, 2021	\$ 0.35	66,419	66,419
January 4, 2021	\$ 0.75	488,706	488,706
March 25, 2021	\$ 0.75	192,714	192,714
May 15, 2021	\$ 0.75	164,474	164,474
May 22, 2021	\$ 0.75	355,555	355,555
Total		37,272,064	40,202,064
Weighted average remaining contractual life of warrants outstanding at the end of the period		0.3 years	

(e) Performance warrants

On May 18, 2018, the Company issued 4,655,992 non-transferable performance warrants ("Performance Warrant"). Each Performance Warrant is exercisable into one common share of the Company at an exercise price of \$0.35. Pursuant to the completion of the RTO, the Performance Warrants vested on May 30, 2018.

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10. SHARE CAPITAL (continued)

Prior to the RTO, the Company's function currency was the USD. As the Performance Warrants are exercisable in the Canadian dollar, the Performance Warrants were accounted for as a derivative liability. Pursuant to the RTO, the Company changed its functional currency from USD to Canadian dollars (consistent with the exercise currency) and as such, the Performance Warrants were no longer considered derivative liabilities. During the three and six months ended February 29, 2020, the Company recognized \$nil and \$nil, respectively (three and six months ended February 28, 2019 - \$206,131 and \$477,333, respectively) with respect to fair value changes on the derivative liability.

The following table summarizes performance warrants outstanding as at February 29, 2020:

Grant Date	Expiry Date	Number of Performance Warrants	Number of Exercisable Performance Warrants	Weighted Average Exercise Price	Weighted Average Remaining Years
May 18, 2018	May 30, 2022	4,655,992	4,655,992	\$ 0.35	2.25
Total		4,655,922	4,655,992	\$ 0.35	2.25

The Company recognized share-based compensation expense of \$41,001 and \$82,002 during the three and six months ended February 29, 2020, respectively (three and six months ended February 28, 2019 - \$41,001 and \$82,002, respectively) with respect to the Performance Warrants.

(f) Share purchase options

A summary of share purchase options is as follows:

	Number of Share Purchase Options	Weighted Average Exercise Price
Balance, August 31, 2018	4,000,000	\$ 0.20
Granted	4,988,508	\$ 0.23
Cancelled	(3,025,008)	\$ 0.23
Balance, August 31, 2019	5,963,500	\$ 0.21
Granted	5,778,836	\$ 0.10
Expired	(112,500)	\$ 0.18
Cancelled	(5,011,000)	\$ 0.20
Balance, February 29, 2020	6,618,836	\$ 0.13

As at February 29, 2020, there were 4,893,836 (August 31, 2019 - 3,621,125) share purchase options vested and exercisable at an average exercise price of \$0.13 (August 31, 2019 - \$0.23).

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10. SHARE CAPITAL (continued)

The following table summarizes the share purchase options outstanding as at February 29, 2020 and August 31, 2019:

Expiry Date	Exercise Price	February 29, 2020	August 31, 2019
February 22, 2020	\$0.300	-	112,500
August 30, 2021	\$0.115	50,000	50,000
September 6, 2021	\$0.140	150,000	-
February 23, 2022	\$0.060	500,000	-
January 1, 2024	\$0.350	-	175,000
February 1, 2024	\$0.350	-	501,000
June 12, 2024	\$0.210	-	250,000
June 28, 2024	\$0.250	550,000	550,000
July 29, 2024	\$0.200	500,000	500,000
August 7, 2024	\$0.165	100,000	600,000
August 30, 2024	\$0.115	150,000	1,225,000
January 16, 2025	\$0.140	350,000	-
February 6, 2025	\$0.085	3,378,836	-
May 30, 2028	\$0.200	890,000	1,500,000
March 30, 2029	\$0.350	-	500,000
Total		6,618,836	5,963,500
Weighted average remaining contractual life of warrants outstanding at the end of the period		4.8 years	

The Company recognized share-based compensation expense of \$430,658 and \$682,318 during the six months ended February 29, 2020, respectively (three and six months ended February 28, 2019 - \$265,202 and \$587,946, respectively) with respect to the share purchase options.

The Company granted 5,778,836 stock options during the six months ended February 29, 2020 (2019 – 4,288,500). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2020	2019
Risk-free rate	0.50%	1.42%
Expected life of options	4.66 years	4.44 years
Annualized volatility	100%	150%
Dividend rate	0%	0%

(g) Agent options

At February 29, 2020, the following agent options were outstanding, entitling the holders thereof the right to purchase one common share and one half of one share purchase warrant exercisable at \$0.75 per warrant for each option held as follows:

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10. SHARE CAPITAL (continued)

Grant Date	Expiry Date	Number of Agent Options	Number of Exercisable Agent Options	Weighted Average Exercise Price	Weighted Average Remaining Years
June 29, 2018	January 1, 2021	378,245	378,245	\$ 0.35	0.92
July 31, 2018	January 1, 2021	66,850	66,850	\$ 0.35	0.92
Total		445,095	445,095	\$ 0.35	0.92

(h) Reserves

The following is a summary of changes in reserves:

	Share Purchase Options	Performance Warrants	Contributed Surplus	Total
Balance, August 31, 2018	\$ 753,499	\$ 49,911	\$ -	\$ 803,410
Share-based payments	621,156	-	-	621,156
Performance Warrants	-	158,764	-	158,764
Stock options deemed to be issued in RTO	28,160	-	-	28,160
Reclassified on cancellation of stock options	(555,439)	-	555,439	-
Balance, August 31, 2019	847,376	208,675	555,439	1,611,490
Share-based payments	600,316	-	-	600,316
Performance Warrants	-	82,002	-	82,002
Reclassified on cancellation of stock options	(694,885)	-	694,885	-
Balance, February 29, 2020	\$ 752,807	\$ 290,677	\$ 1,250,324	\$ 2,293,808

11. FINANCIAL RISK MANAGEMENT

Fair value of financial assets and liabilities

IFRS 13 – *Fair Value Measurement* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 - Inputs that are not based on observable market data.

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11. FINANCIAL RISK MANAGEMENT (continued)

The fair value of cash is measured using Level 1 inputs. The carrying values of trade and other receivables, prepaid expenses, promissory note receivable, and trade payables and other liabilities approximate their respective fair values due to the short-term nature of these instruments.

12. CAPITAL RISK MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity which is comprised of issued share capital, reserves, accumulated other comprehensive income and deficit. In the management of capital, the Company includes the components of shareholders' equity, cash, trade and other receivables, trade payables and other liabilities, which are summarized below:

	February 29, 2020	August 31, 2019
Trade payables and other liabilities	\$ 400,492	\$ 527,558
Less:		
Cash	(158,878)	(512,777)
Trade and other receivables	(515,824)	(401,590)
Net capital	(274,210)	(386,809)
Shareholders' equity	5,590,469	6,193,514
Net capital and shareholders' equity	\$ 5,316,259	\$ 5,806,705

The Company manages its capital structure and adjusts in light of economic conditions.

The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements as at February 29, 2020.

13. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

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13. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation for the three and six months ended February 29, 2020 and February 28, 2019 were as follows:

	Three months ended,		Six months ended,	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Management fees	\$ 76,849	\$ 66,454	\$ 136,321	\$ 125,319
Consulting fees	-	-	16,500	-
Share-based payments	361,118	53,908	361,118	103,594
	\$ 437,967	\$ 120,362	\$ 513,939	\$ 228,913

Share-based payments are the fair value of options granted to key management personnel as at the grant date.

Other related party transactions for the three and six months ended February 29, 2020 and February 28, 2019 were as follows:

	Three months ended,		Six months ended,	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Professional fees	\$ 16,635	\$ 63,156	\$ 53,158	\$ 125,843
	\$ 16,635	\$ 63,156	\$ 53,158	\$ 125,843

During the three and six months ended February 29, 2020, the Company incurred \$16,635 and \$16,635, respectively (three and six months ended February 28, 2019 - \$nil and \$nil, respectively) in accounting costs to a firm related to the Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 29, 2020, the Company incurred \$nil and \$36,523, respectively (three and six months ended February 28, 2019 - \$7,648 and \$7,648, respectively) in accounting costs to a firm owned by the former Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 29, 2020, the Company incurred \$nil and \$nil, respectively (three and six months ended February 28, 2019 - \$55,508 and \$118,195, respectively) in legal costs to a law firm in which a former director is a partner. The legal costs are included in professional fees in the consolidated statement of comprehensive loss.

Due to related parties as at February 29, 2020 and August 31, 2019 were as follows:

	February 29, 2020	August 31, 2019
Trade payables and other liabilities	\$ 140,534	\$ 196,442
	\$ 140,534	\$ 196,442

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13. RELATED PARTY TRANSACTIONS (continued)

As at February 29, 2020, included in trade payables and other liabilities is \$18,680 (August 31, 2019 - \$nil) payable to a Company owned by the Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 29, 2020, included in trade payables and other liabilities is \$95,209 (August 31, 2019 - \$62,301) payable to a Company owned by the former Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 29, 2020, included in trade payables and other liabilities is \$7,295 (August 31, 2019 - \$63,322) payable to a company owned by the former Chief Financial Officer for professional fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 29, 2020, included in trade payables and other liabilities is \$14,496 (August 31, 2019 - \$29,025) payable to a consulting firm owned by the former Chief Operations Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 29, 2020, included in trade payables and other liabilities is \$nil (August 31, 2019 - \$20,794) payable to a company owned by the former President for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 29, 2020, included in trade payables and other liabilities is \$4,854 (August 31, 2019 - \$21,000) payable to directors of the Company for consulting fees. The amount is unsecured, non-interest bearing and due on demand.