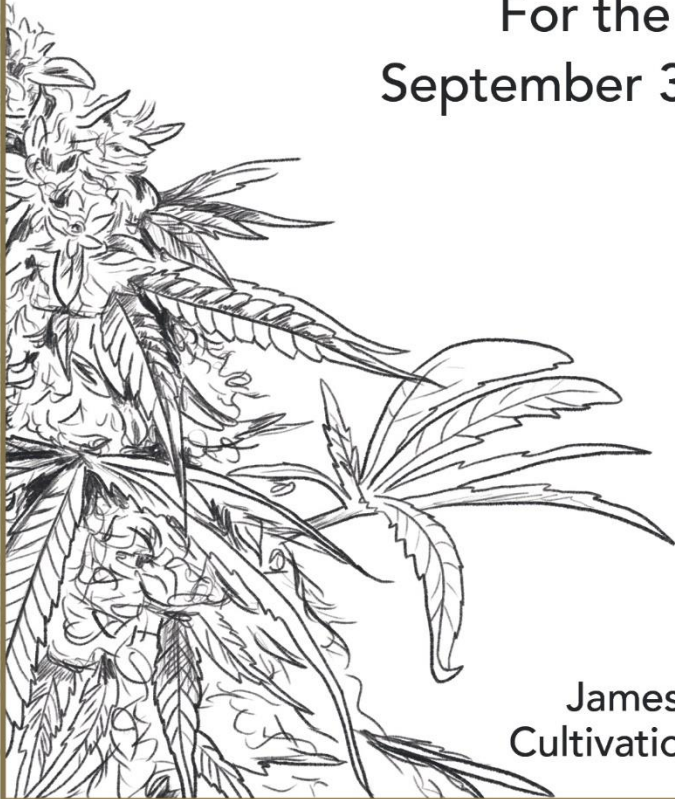




James E. Wagner
CULTIVATION

Consolidated Financial Statements

For the years ended
September 30, 2019 and 2018



James E. Wagner
Cultivation Corporation



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BDO Canada LLP
222 Bay Street
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Independent Auditor's Report

To the Shareholders of James E. Wagner Cultivation Corporation

Opinion

We have audited the consolidated financial statements of James E. Wagner Cultivation Corporation and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at September 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis for the year ended September 30, 2019 filed with the relevant Canadian Securities Commissions.

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

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

We obtained the Management Discussion and Analysis for the year ended September 30, 2019 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kerri Plexman, CPA, CA.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
December 9, 2019

James E. Wagner Cultivation Corporation

Consolidated Statement of Financial Position

	Notes	September 30, 2019	September 30, 2018
Assets			
Current			
Cash and cash equivalents	4	\$ 1,266,611	\$ 8,504,790
Short term investments		-	6,017,153
Funds in trust	4	100,000	140,165
Accounts receivable	17	1,244,390	120,255
Other receivables		324,477	343,752
Inventory	5	3,171,016	1,532,604
Biological assets	6	2,855,973	1,074,829
Prepaid expenses and deposits	7	946,898	943,299
		9,909,365	18,676,847
Property, plant and equipment	8	18,946,075	5,331,068
Intangible assets		111,832	144,633
		19,057,907	5,475,701
		\$ 28,967,272	\$ 24,152,548
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 2,824,479	\$ 1,098,212
Current portion of long-term debt	9	3,858,430	3,253
		6,682,909	1,101,465
Long-term debt	9	3,073,819	5,528
Royalty liability	10	2,498,150	2,489,102
Lease inducement		1,600,506	916,985
		7,172,475	3,411,615
Shareholders' equity			
Share capital	11	36,860,850	30,446,310
Contributed surplus		2,510,919	4,200,786
Retained earnings (Deficit)		(24,259,881)	(15,007,628)
		15,111,888	19,639,468
		\$ 28,967,272	\$ 24,152,548

Approved on behalf of the Board:
Nathan Woodworth Director



The accompanying notes are an integral part of these financial statements

James E. Wagner Cultivation Corporation
Consolidated Statement of Loss and Comprehensive Loss

	Notes	September 30, 2019	September 30, 2018
Revenue			
Wholesale		\$ 2,466,320	\$ -
Medical		422,977	57,612
Excise tax		(68,030)	-
Net revenue from sales		2,821,267	57,612
Cost of sales			
	5,6	2,607,372	28,873
Gross margin before fair value adjustments		213,895	28,739
Realized fair value amount on inventory sold		(2,356,183)	(12,979)
Fair value adjustment to biological assets		3,263,795	844,739
Gross margin		1,121,507	860,499
Expenses			
General and administrative		9,079,832	7,266,409
Advertising and promotion		527,891	362,454
Depreciation and amortization		374,493	243,508
Stock based compensation		95,400	198,000
Public company listing		-	1,795,724
		10,077,616	9,866,095
Loss from operations			
		(8,956,109)	(9,005,596)
Non-cash gain on debt modification		229,945	-
Interest and other revenue		115,539	174,013
Interest and financing costs		(641,628)	-
Fair value change in contingently issuable shares		-	(1,482,337)
		(296,144)	(1,308,324)
Loss and comprehensive loss			
		\$ (9,252,253)	\$ (10,313,920)
Loss per share, Basic and Diluted			
		\$ (0.10)	\$ (0.14)

James E. Wagner Cultivation Corporation

Consolidated Statement of Changes in Equity

	Notes	Number of Shares	Share Capital	Deficit	Contributed Surplus	Total
Balance, October 1, 2018		87,990,346	\$30,446,310	\$ (15,007,628)	\$4,200,786	\$19,639,468
Comprehensive loss for the period		-	-	(9,252,253)	-	(9,052,253)
Issuance of share capital	11	8,291,263	6,414,540	-	(2,143,258)	4,271,282
Warrants issued	11	-	-	-	335,981	335,981
Options issued	11	-	-	-	117,410	117,410
Balance, September 30, 2019		96,281,609	\$ 36,860,850	\$ (24,259,881)	\$ 2,510,919	\$ 15,111,888
Balance, October 1, 2017		65,018,857	\$ 7,887,117	\$ (4,693,708)	\$ 2,598,697	\$ 5,792,106
Comprehensive loss for the period		-	-	(10,313,920)	-	(10,313,920)
Issuance of share capital	11	21,016,575	22,038,731	-	30	22,038,761
Warrants Issued		-	-	-	1,339,190	1,339,190
Options issued	12	-	-	-	262,869	262,869
RTO Transaction	12	1,954,914	2,248,151	-	-	2,248,151
Share issue costs		-	(1,727,689)	-	-	(1,727,689)
Balance, September 30, 2018		87,990,346	\$ 30,446,310	\$ (15,007,628)	\$ 4,200,786	\$ 19,639,468

James E. Wagner Cultivation Corporation

Consolidated Statement of Cash Flows

For the year ended September 30,	2019	2018
Loss for the period	\$ (9,252,253)	\$ (10,313,920)
Cash from operating activities		
Items not involving cash		
Amortization and depreciation	1,327,319	363,002
Compensation options	64,841	1,051,025
Fair value change in biological assets	(3,263,795)	(831,760)
Fair value change in contingently issuable shares	-	1,482,337
Gain on debt modification	(229,945)	-
Amortization of financing costs	72,890	37,262
Share based payments	95,400	-
Interest on debt	98,862	-
Interest on royalty	469,528	524,288
Listing expense	-	1,795,724
Changes in non-cash working capital balances		
Accounts receivable	(1,138,633)	(120,255)
Other receivables	36,548	(65,476)
Prepaid expenses and deposits	(3,598)	(22,873)
Accounts payable and accrued liabilities	1,723,489	913,260
Lease inducement	683,521	894,693
Biological assets	1,512,404	(19,908)
Inventory	(1,668,165)	(1,505,921)
	(9,471,587)	(5,818,522)
Cash flows from investing activities		
Purchase of capital assets	(14,404,035)	(4,884,229)
Purchase of intangible assets	-	(25,601)
Proceeds (purchase) of short-term investments	6,017,153	(6,017,153)
	(8,386,882)	(10,926,983)
Cash from financing activities		
Issuance of share capital	4,271,283	20,048,793
Share issuance costs	(273,683)	(1,141,598)
Funds in trust	40,165	(140,165)
Long-term debt	8,253,180	-
Repayment of long-term debt	(1,183,155)	(2,945)
Repayment of debenture/royalty	(487,500)	(372,449)
	10,620,290	\$18,391,636
Increase (decrease) in cash during the period	(7,238,179)	1,646,131
Cash and cash equivalents, October 1	8,504,790	6,858,659
Cash and cash equivalents, September 30	\$ 1,266,611	\$ 8,504,790



James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

1. Nature of Operations

James E. Wagner Cultivation Corporation (the "Company" or "JWC") is in Kitchener, Ontario, Canada and is incorporated under the laws of Ontario. The Company, through its wholly owned subsidiary, James E. Wagner Cultivation Ltd ("JWC Ltd"), is engaged in the cultivation and sale of cannabis, as licensed under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") in Canada.

On June 7, 2018, the Company completed a reverse takeover transaction. James E. Wagner Cultivation Corporation (formerly AIM1 Ventures Inc.) completed the acquisition of James E. Wagner Cultivation Ltd. and began trading under the ticker JWCA on June 11, 2018.

These consolidated financial statements were approved by the Board of Directors on December 9, 2019.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were prepared under the historical cost convention as modified by the measurement of certain financial instruments at fair value as noted below and biological assets that are measured at fair value less costs to sell and costs to complete.

The Company's functional and presentation currency is the Canadian Dollar.

The consolidated financial statements are comprised of JWC and its wholly owned subsidiaries. Subsidiaries are entities controlled by the Company. JWC has two subsidiaries, JWC Ltd. and Growth Storm Inc. JWC Ltd is the operating company where all Cannabis related activities take place. Growth Storm Inc is not active and currently carries on no activities. JWC Ltd has three subsidiaries, JWC Supply Ltd, JWC 1 Ltd and JWC 2 Ltd. All three of these entities are inactive. The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements of loss and comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and continue to be consolidated until the date such control ceases.

The preparation of these consolidated financial statements requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Areas involving higher degrees of judgment and/or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

New standards adopted in the current year

(a) IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) and introduces new requirements for the classification, measurement and derecognition of the financial instruments. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets are initially measured at fair value plus transaction costs. Financial assets are subsequently measured at:

- i. Amortized cost;
- ii. Fair value through other comprehensive income (“FVOCI”); or
- iii. Fair value through profit or loss (“FVTPL”).

The classification is based on whether the contractual cash flow characteristics represent “solely payment of principal and interest” (the “SPPI test”) as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets and financial liabilities:

Financial Instruments	Per IAS 39	Per IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Short term investments	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Royalty payable	Other liabilities	Amortized cost
Contingently issued shares	FVTPL	FVTPL

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

There were no other changes on adoption aside from the above classification changes. The Company has performed an analysis on Expected Credit Loss, as required by IFRS 9 and notes that there was no material impact on prior reported comparatives. Similarly, the Company has determined that there is currently no material provision required related to amounts receivable as at September 30, 2019 and, as such, no provision has been recorded.

(b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 – *Revenue* (“IAS 18”). The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods and no transitional adjustments required as a result of the adoption of this standard. The Company’s accounting policy for revenue recognition under IFRS 15 is as follows:

1. In accordance with IFRS 15 requirements, the Company applies the following five steps:
2. Identify the contract(s) with a customer
3. Identify the performance obligations in the contract
4. Determine the transaction price
5. Allocate the transaction price to the performance obligations in the contract
6. Recognize revenue when or as the Company satisfies a performance obligation

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the goods to the customer. In conjunction to wholesale cannabis contracts, revenue is recognized once the performance obligation is met and the Company transfers control of the goods per wholesale contracts. For long term wholesale contracts, the effects of variable consideration over the term of the contract were determined to be not material.

New accounting standards released but not yet effective

(a) IFRS 16 – Leases

IFRS 16, issued in January 2016, replaces IAS 17, Leases. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company has begun its formal assessment of the overall impact that implementation will have on its consolidated financial statements and reporting requirements. The Company intends to apply IFRS 16 in accordance with a modified retrospective approach and believes the transition to IFRS 16 will result in a material impact to the consolidated financial statements. The standard will be adopted and initially implemented to the fiscal year ending September 30, 2020 in accordance with IFRS 16 requirements. The Company continues to conduct and refine its analysis and currently estimates that the IFRS 16 transition will result in an increase to assets and an increase to liabilities of approximately \$20 million as at September 30, 2020.

At the date of authorization of these consolidated financial statements, certain other new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been early adopted by the Company.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are convertible in to known amounts of cash with original maturities of three months or less. Cash and cash equivalents are subject to an insignificant risk of a change in value.

Short Term Investments

Short term investments are comprised of liquid investments with maturities of between 3 and 12 months. Short term investments are recognized at fair value when acquired and subsequently adjusted to fair value through profit and loss ("FVTPL").

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at the time of harvest, less costs to sell and costs to complete, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and shipping materials are valued at cost.

Biological Assets

The Company's biological assets consist of cannabis plants which are not yet harvested. Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. The Company values its biological assets in accordance with IAS41 and are presented at each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected yield per plant applied to the estimated price per gram, less processing and selling costs. This model also considers the progress in the plant life cycle. The Company's model estimates costs to complete harvest for each stage of a plant's lifecycle (propagation, vegetation and flowering). For a given plant, the Company applies the corresponding cost in calculating its fair value at harvest. Gains or losses arising from changes in fair value less costs to sell are included in the consolidated statement of loss for the year. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, Plant and Equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. As well as the purchase price, cost includes directly attributable costs of acquisition required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs. Depreciation is recognized in profit or loss and is provided over the estimated useful life of the assets as follows:

Furniture and fixtures	20% declining balance basis
Computer equipment	55% declining balance basis
Leasehold improvements	Term of lease, straight-line basis
Growth system	2 years straight-line basis

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Assets under construction are included in leasehold improvements and include cost of materials, direct labour and other costs directly attributable to bringing the asset to a working condition for the intended use and borrowing costs on qualifying assets. Once the asset is available for use, depreciation on the asset commences.

Intangible Assets

Intangible assets consist of computer software, which is not integral to the computer hardware owned by the Company, and seed licenses. Software and seed licenses are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a declining basis at 100%. Seed licenses are amortized over five years on a straight-line basis.

Impairment of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risk specific to the asset. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the reduction is included in comprehensive loss for the year.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or asset.

The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Loss Per Share

Basic loss per share is computed by dividing the net loss applicable to shares by the weighted average number of shares outstanding during the year. Diluted loss per share is computed by dividing the net loss applicable to shares by the weighted average number of shares issued and outstanding and all additional shares that would have been outstanding, if potentially dilutive instruments were converted during the year.

Financial Instruments at Amortized Cost

The Company's financial assets at amortized cost comprise of accounts receivable and other receivables in the consolidated statement of financial position.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services, but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the term's receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. Such provisions are recorded in a separate allowance account with the loss being recognized in profit or loss. On confirmation that the receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

Fair value through profit and loss

Financial assets and liabilities classified as fair value through profit and loss are carried at fair value with changes in fair value recognized through profit and loss. Transaction costs on these instruments are expensed as incurred.

Cash and cash equivalents, short term investments, funds held in trust (Level 1) and contingently issuable shares are classified as fair value through profit and loss.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities (Level 1), debenture, royalty liability and long-term debt (Level 3). The liabilities are initially measured at fair value net of any transaction costs and subsequently measured at amortized cost using the effective interest rate method.

Fair value through other comprehensive income

The Company does not have any financial instruments that are classified as fair value through other comprehensive income ("FVTOCI").

Income Taxes

The Company uses the liability method to account for income taxes. Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustments to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against the losses which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/(assets) are settled/(recovered). Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority, on the same taxable entity.

Tax Credits

Tax credits are recognized when it is certain that they will be received. Amounts are recognized as an offset to the cost incurred which gave rise to the credit.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Share Based Payments

The Company measures equity-settled share-based payments to directors, employees and others providing similar services at the fair value of the equity instruments at the grant date. The Company also measures equity-settled share-based payments to other parties providing goods or services, including consultants, at the fair value of the equity instruments where the fair value of the goods or services received is not otherwise reliable measurable. The fair value determined at the grant date of the equity-settled share-based is calculated using the Black-Scholes option valuation model and is expensed according to the vesting term, based on the Company's estimate of equity instruments that will eventually vest and credited to contributed surplus. These estimates affect the amount recognized as share-based payments in the Company's consolidated statements of loss and comprehensive loss. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

The use of the Black-Scholes model requires inputting several assumptions, including expected dividend yield, expected share price volatility, expected time until exercise and risk-free interest rate. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. If other assumptions were used, share-based payments could be significantly impacted.

Lease Inducement

Lease inducements represent incentives received from landlords in relation to active lease agreements. Lease inducements have been accounted for as a reduction in rent expense over the term of the lease on a straight-line basis.

3. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payments

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

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

3. Critical Accounting Estimates and Judgments (continued)

Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the outcome may result in a materially different outcome than the amount included in the tax liabilities.

Biological assets

The Company's biological assets consist of cannabis plants for which the valuation is subject to various assumptions and estimation uncertainties. Key assumptions include the duration of time from cloning to harvest, average expected yield per plant, average selling price and selling costs. Refer to Note 6 for more information on the sensitivity ranges applied in the valuation of biological assets.

Inventory

Inventories of harvested cannabis are valued at the lower of cost and net realizable value. Overall cost is subject to the valuation mentioned above in biological assets while net realizable value is subject to estimation uncertainty based on the expected average sales price per cannabis strain. Refer to Note 5 for more information.

Classification of financial instruments

The Company is required to make judgments about the classification of its financial instruments as to whether they are financial liabilities or equity instruments. These judgments are based on interpretations of the terms of the instruments as well as any related agreements that may modify the terms of the instruments.

Fair value of financial instruments

When the fair value of financial assets and liabilities recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Upon initial recognition, the fair value of the royalty liability and other long-term debt is subject to judgments and estimations and is measured on the statements of financial position using valuation techniques that include the use of mathematical models. The inputs to these models include estimates related to the timing of cash flows and market interest rates. Changes in assumptions about these factors could affect the reported fair value of the financial instrument upon initial recognition.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

4. Financial Instrument Classification

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

	Amortized cost	Fair value through profit and loss	Other financial liabilities – amortized cost	Total
September 30, 2019				
Cash and cash equivalents	\$ -	\$ 1,266,611	\$ -	\$ 1,266,611
Funds held in trust	-	100,000	-	100,000
Accounts receivable	1,244,390	-	-	1,244,390
Other receivables	324,477	-	-	324,477
Total financial assets	1,568,867	1,366,611	-	2,935,478
Accounts payable and accrued liabilities	-	-	(2,824,479)	(2,824,479)
Current portion long-term debt	-	-	(3,858,430)	(3,858,429)
Long-term debt	-	-	(3,073,819)	(3,073,819)
Royalty liability	-	-	(2,498,150)	(2,498,150)
Total financial liabilities	-	-	(12,254,878)	(12,254,878)
Net financial assets (liabilities)	\$ 1,568,867	\$ 1,366,611	\$(12,254,878)	\$ (9,319,400)
September 30, 2018				
Cash and cash equivalents	\$ -	\$ 8,504,790	\$ -	\$ 8,504,790
Short term investments	-	6,017,153	-	6,017,153
Funds held in trust	-	140,165	-	140,165
Accounts receivable	120,255	-	-	120,255
Other receivables	343,752	-	-	343,752
Total financial assets	464,007	14,662,108	-	15,126,115
Accounts payable and accrued liabilities	-	-	(1,098,212)	(1,098,212)
Long-term debt	-	-	(8,781)	(8,781)
Royalty liability	-	-	(2,489,102)	(2,489,102)
Total financial liabilities	-	-	(3,596,095)	(3,596,095)
Net financial assets (liabilities)	\$ 464,007	\$ 14,662,108	\$ (3,596,095)	\$ 11,530,020

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

4. Financial Instrument Classification (continued)

Cash and Cash Equivalents

The Company's bank accounts are held mostly at the Royal Bank of Canada ("RBC") with a portion of the balance at one credit union. The Company opened its accounts at RBC during the fourth quarter of 2019. The account at the credit union earns interest at a rate of 0.3% (2018 – 0.3%).

Funds Held in Trust

As at September 30, 2019, funds of \$100,000 (2018 - \$140,165) related to an exercise of stock options were held in trust by the Company's lawyer.

Short Term Investments

At the end of 2018, amounts included in short term investments were held in a fixed income wealth managed portfolio earning interest at 2% to 2.1%, maturing between July 2019 and September 2019. These investments were liquidated for working capital purposes during 2019.

5. Inventory

Inventories of harvested cannabis are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest which becomes the initial cost. The initial cost is then evaluated for the lower of cost and net realizable value with cost determined using the weighted average method.

The Company holds 561,294 grams of harvested cannabis at September 30, 2019 (September 30, 2018 – 190,235 grams) valued at \$2,657,616 (September 30, 2018 - \$1,487,236). The Company holds 148,996 mL of cannabis oil at September 30, 2019 valued at \$389,420 (September 30, 2018 – nil).

The cost of inventories recognized as an expense was \$2,184,072 for the year ended September 30, 2019 (September 30, 2018 - \$28,873).

	September 30, 2019	September 30, 2018
Agricultural produce	\$ 2,657,616	\$ 1,487,236
Cannabis oil	389,420	-
Packaging and shipping material	123,980	45,368
Balance, end of period	\$ 3,171,016	\$ 1,532,604

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

6. Biological Assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related grow costs, plant consumables, materials, utilities, facility costs, quality and testing costs and production related depreciation. The Company then measures the biological assets at fair value less costs to sell up to the point of harvest. Costs to sell include post-harvest production, shipping and fulfillment costs. The net unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included in the results of operations of the related period. The average selling price is determined by calculating the weighted average of actual sales, per strain, throughout the quarter as the selling price fluctuates depending on the quantity of grams purchased.

The Company's biological assets consist of cannabis plants. The continuity of biological assets for the period ending September 30, 2019 is as follows:

	September 30, 2019	September 30, 2018
Balance, beginning of the period	\$ 1,074,829	\$ 223,970
Production costs capitalized	4,863,406	1,533,266
Effect of unrealized changes in fair value of biological assets	3,263,795	831,760
Transferred to inventory upon harvest	(6,346,057)	(1,514,167)
Balance, end of period	2,855,973	1,074,829

As at September 30, 2019, the Company's biological assets are, on average, 45% complete (September 30, 2018 – 39%) and it is expected that the biological assets will yield approximately 2,160 kilograms of cannabis (September 30, 2018 – 240 kilograms) excluding any survival estimates. As at September 30, 2019, the Company has 8,745 plants for biological assets (September 30, 2018 – 1,429 plants).

As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates, by their nature, are subject to changes that could result in future gains or losses of biological assets. Changes in estimates could result from volatility of sales prices, changes in yields and variability of the costs necessary to complete the growth cycle.

The fair value of a plant at the reporting date is estimated based on its age at the reporting date. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- Expected average harvest yield of dried cannabis is 247 grams per plant
- Expected average selling price of dried cannabis flower is \$6.13 per gram
- Expected costs to sell is approximately 10% of expected sales

The estimates of growing cycle, harvest yield and costs per gram are based on the Company's historical results. The estimate of the selling price per gram is based on the Company's historical sales in addition to the Company's expected sales price going forward. These inputs are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

6. Biological Assets (continued)

Key Assumption	Change in Fair Value Less Costs to Sell ("FVLCS")
Growing Cycle	An increase in the growing cycle by 2 weeks results in a decrease in the FVLCS of \$329,601 A decrease of the growing cycle by 2 weeks results in an increase in the FVLCS of \$405,494
Average Yield of Dried Cannabis	An increase in the yield of dried cannabis by 20 grams per plant would result in an increase in the FVLCS of \$228,807 (vice versa)
Average Selling Price	An increase in the average selling price of dried cannabis by 20% would result in an increase in the FVLCS of \$565,244 (vice versa)
Expected Cost to Sell	An increase in the cost to sell by 5% would result in a decrease in the FVLCS of \$371,912. A decrease in the cost to sell by 5% would result in an increase in the FVLCS of \$391,760.

7. Prepaid Expenses

Prepaid expenses consist of rental, security and utility deposits as well as annual subscriptions and premiums, which amortize on a monthly basis and are incurred in the normal course of operations.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

8. Property, Plant and Equipment

	Furniture and Fixtures	Computer Equipment	Leasehold Improvements	Growth System	Total
Cost					
Balance at October 1, 2017	\$ 332,058	\$ 22,798	\$ 581,940	\$ 32,760	\$ 969,556
Additions	586,340	41,994	4,193,683	62,214	4,884,231
Balance at October 1, 2018	918,398	64,792	4,775,623	94,974	5,853,787
Additions	2,013,396	91,729	12,468,584	335,816	14,909,525
Balance at September 30, 2019	2,931,794	156,521	17,244,207	430,790	20,763,312
Accumulated depreciation					
Balance at October 1, 2017	\$ 44,820	\$ 7,467	\$ 133,957	\$ 8,190	\$ 194,434
Depreciation in period	116,179	16,291	150,740	45,075	328,285
Balance at October 1, 2018	160,999	23,758	284,697	53,265	522,719
Depreciation in period	295,099	44,832	848,269	106,318	1,294,519
Balance at September 30, 2019	456,098	68,590	1,132,966	159,583	1,817,237
Net book value					
September 30, 2018	\$ 757,399	\$ 41,034	\$ 4,490,927	\$ 41,709	\$ 5,331,068
September 30, 2019	\$ 2,475,696	\$ 87,931	\$ 16,111,241	\$ 271,207	\$ 18,946,075

As at September 30, 2019, the Company holds assets for which no depreciation has been applied. These assets are not yet available for use and include leasehold improvements under construction with costs of \$421,410 (September 30, 2018 – \$3,508,061) and furniture and fixture costs of \$102,119 (September 30, 2018 - \$76,244). As related to the debt issuance described in note 9, the interest capitalized is \$441,343 (September 30, 2018 - \$nil).

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

9. Long Term Debt

On February 20, 2019 the Company entered into an agreement to borrow \$3.5 million by way of a single cash advance from Trichome Financial Inc. The proceeds of the loan were used to finance approximately \$1.4 million of HVAC equipment, \$0.9 million for the payment of invoices related to the construction of the JWC 2 facility and the remainder for working capital. The loan carries an interest rate of 9.25% payable monthly, with no requirement to repay any principal until the maturity date of the loan, February 19, 2021. There was also an original issue discount of 5.0% which constitutes additional interest paid to the Lender in advance. JWC agreed to pay costs and expenses to the Lender to a maximum of \$65,000 plus taxes and disbursements. JWC agreed to pay a set-up fee of \$105,000. JWC provided the Lender with 291,667 common share purchase warrants with an exercise price \$0.80 and a maturity of 2 years. The loan is being carried on the balance sheet at its amortized cost using the effective interest method, where the effective interest rate of the loan is 14.71%.

On February 21, 2019 the Company entered into an agreement with Ball Construction to put in place a revolving loan with a maximum loan amount of \$5.0 million. On July 17, 2019 the agreement was amended to extend the repayment dates for the outstanding balance of the loan. As such, the loan is presented on the statement of financial position under current portion of long-term debt. Interest will accrue on the date of any advances and compound monthly until that date. Interest will be calculated using the HSBC Canada prime lending rate plus 0.5%, which as of September 30, 2019 was a total of 4.45%. In addition, JWC agreed to provide the Lender with 300,000 warrants to purchase common shares at an exercise price of \$1.00 and a maturity of 2 years. The loan is being carried on the balance sheet at its amortized cost. Management has determined that the interest rate of the revolving loan is below market rates. In order to fair market value the loan the effective interest rate of 13.89%, has been used, as management believes this represents a fair market rate. The residual amount of the proceeds of the loan amounts are accounted for as a construction credit under leasehold improvements.

During the year ending September 30, 2019, the Company was invoiced \$9,630,812 by Ball Construction for leasehold improvements at the Manitou Drive facility. Of the total amount invoiced, \$4,928,180 was included in the revolving loan.

The expected timing for repayment of long-term debt is as follows:

Fiscal 2020	Fiscal 2021
\$ 3,858,430	\$ 3,073,819

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

9. Long Term Debt (continued)

Long term debt at October 1, 2018 (including current portion)	\$ 8,781
Trichome loan amount	3,190,250
Ball revolving loan amount	4,706,083
Interest costs	668,049
Payments	(1,183,155)
Gain on debt modification	(229,945)
Balance before issuance costs	7,160,063
Issuance costs	(227,814)
Balance after issuance costs	6,932,249
Less: Current portion of long-term debt	(3,858,430)
Long term debt as at September 30, 2019	\$ 3,073,819

10. Debenture and Royalty Liability Agreement

On August 11, 2017, the Company entered into an investment agreement with Canopy Rivers Corporation ("Canopy"). The agreement consisted of multiple components including the following:

- i) Share subscription agreement whereby the Company issued 5,391,304 common shares at \$0.46 per share, for cash proceeds of \$2,500,000;
- ii) Share acquisition agreement whereby Canopy acquired 3,504,347 common shares from existing shareholders of the Company at \$0.28 per share, facilitated by the Company acquiring these shares from existing shareholders and re-issuing them in the name of Canopy. The discounted acquisition price of the shares of \$650,000 has been included in contributed surplus;
- iii) 1,347,826 common share purchase warrants were issued, exercisable at \$0.46 per share with a life of two years;
- iv) Debenture Agreement whereby the Company borrowed \$2,500,000 from Canopy in the form of a debenture payable, due the earlier of February 10, 2019 and the date the Company receives its sales license from Health Canada. The balance owing by the Company will be offset against the balance owing from Canopy, as described in vi) below. The discounted cash flows of the future royalty stream, discounted at an effective interest rate of 17.8%, resulted in a fair value of \$2,300,000, net of transaction costs and has been disclosed as a debenture. Until the debenture is converted to the future royalty stream, interest on the debenture of 8% is payable quarterly in arrears on the final day of each consecutive three-month period, commencing on September 30, 2017 and the Company is restricted from declaring or paying any dividend on its issued and outstanding common shares. As at September 30, 2017, the debenture was determined to be current due to a lack of conformity with non-financial covenants. The Company achieved its sales license on March 29, 2018 and the debenture was considered paid in full, as consideration for the Royalty agreement effective as of this date, resulting in a liability for future royalty stream as noted in vi) below.

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

10. Debenture and Royalty Liability Agreement (continued)

- v) Fixed Price Minimum Supply Commitment whereby the Company is required to supply Canopy with minimum quantities of product at a 50% discount from the retail price of the product. The agreement is an executory contract with fair value terms.
- vi) Royalty Agreement whereby Canopy agreed to pay the Company \$2,500,000 for a \$0.375 per gram royalty for certain product produced by the Company at JWC 1. The agreement provides for a minimum annual royalty of \$487,500 for a term of 20 years, commencing upon the Company's receipt of their sales license. The fair value of the discounted future cash flow of the royalty stream, net of transaction costs, was determined to be \$2,300,000, net of transaction costs, as noted in iv) above.
- vii) Royalty cancellation whereby, upon entering into the royalty agreement described in vi) above, Canopy agreed to cancel the previous royalty agreement for no additional consideration. The fair value of the cancelled royalty agreement of \$300,000 has been expensed in the fiscal year September 30, 2018.
- viii) Licence agreement whereby Canopy will provide the Company with a non-exclusive, non-transferable license to use certain provided genetics seeds. The fair value of the license agreement was determined to be \$150,000 and has been included in intangibles assets, with \$60,000 of amortization (September 30, 2018 - \$30,000) recognized as at September 30, 2019.
- ix) Royalty schedule as at September 30, 2019:

	2019	2018
Debenture/Royalty as at October 1 (before issuance costs)	\$ 2,651,840	\$ 2,500,000
Interest costs	469,528	524,289
Payments	(487,500)	(372,449)
Balance before issuance costs	2,633,868	2,651,840
Issuance costs	(135,718)	(162,738)
Debenture/Royalty as at September 30, 2019	\$ 2,498,150	\$ 2,489,102

11. Share Capital

Authorized

Unlimited common shares, voting, non-preferential dividends

Issued

	September 30, 2019	September 30, 2018
96,281,609 Common Shares (September 30, 2018 – 87,990,346)	\$ 36,860,850	\$ 30,446,310

As at September 30, 2019, 5,110,280 shares of the Company were held in escrow (September 30, 2018 – 33,316,292 shares).

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

11. Share Capital (continued)

Equity Raises

On April 7, 2017, the Company completed a private placement financing of 5,933,130 common shares at \$0.35 per share for aggregate gross proceeds of \$2,090,950. The Company paid cash fees of \$167,276 and issued 593,313 compensation warrants valued at \$154,470 for broker fees. Each compensation warrant entitles the holder to acquire one common share at \$0.35 for a period of thirty-six months from the date of closing. The financing agreement entitles the shareholder to acquire common shares equal to 10% and 5% of the number of common shares held without further payment if the Company has not completed a public listing by January 31, 2018 and July 31, 2018, respectively. These contingently issuable shares are accounted for as a derivative liability at fair value as their settlement is not wholly within the control of the Company. The fair value was determined by applying a probability weighing to the public listing event based on management's best estimate of the timing of its occurrence. As at September 30, 2018 \$185,000 was recognized through profit and loss related to the fair value of these contingently issuable shares.

On August 9, 2017 and September 7, 2017, the Company completed a private placement financing of 5,419,339 and 1,078,260 common shares at \$0.46 per share for aggregate gross proceeds of \$2,013,000 and \$500,000, respectively. The Company paid fees of \$161,040 and issued 864,765 compensation warrants for broker fees valued at \$296,241. Each compensation warrant entitles the holder to acquire one common share at \$0.46 for a period of thirty-six months from the date of closing. The financing agreement entitles the shareholder to acquire common share equal to 10% and 5% of the number of common shares held without further payment if the Company has not completed a public listing by June 1, 2018 and December 1, 2018, respectively. These contingently issuable shares are accounted for as a derivative liability at fair value as their settlement is not wholly within the control of the Company. The fair value was determined by applying a probability weighing to the public listing event based on management's best estimate of the timing of its occurrence. As at September 30, 2018, \$1,119,100 was recognized through profit and loss related to the fair value of these contingently issuable shares

On October 27, 2017, the Company issued 998,469 common shares in consideration for rental services with a fair value of \$500,040.

On December 14, 2017, the Company issued 278,730 common shares in consideration for rental services with a fair value of \$149,930.

On December 28, 2017, the Company completed a private placement financing of 1,540,565 common shares at \$0.65 per share for aggregate gross proceeds of \$1,000,125. Transaction costs were \$87,338. The financing agreement entitles the shareholder to acquire common shares equal to 10% and 5% of the number of common shares held without further payment if the Company has not completed a public listing by June 1, 2018 and December 31, 2018, respectively. These contingently issuable shares are accounted for as a derivative liability at fair value as their settlement is not wholly within the control of the Company. As at September 30, 2018, \$178,237 was recognized through profit and loss related to the fair value of these contingently issuable shares.

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

11. Share Capital (continued)

On April 27, 2018, the Company closed a brokered private placement financing of 16,078,447 subscription receipts at a price of \$1.15 per Subscription Receipt for gross proceeds of \$18,490,214. Each subscription receipt entitles the bearer to one common share of the resulting issuer and one-half of one warrant to purchase an additional share at a cost of \$1.50 per share for a period of 24 months. In connection with the financing, the Company has agreed to pay the agents a cash fee equal to six percent of the gross proceeds financing and to issue compensation options to the Agents equal to six percent (three percent for the president's list subscriptions) of the number of Subscription Receipts sold in connection with the financing. Each compensation option shall be exercisable for one common share of the resulting issuer at an exercise price of \$1.15 per share for a period of two years from the closing of the financing. The gross proceeds of the financing less the expenses of the Agents incurred in connection with the financing will be held in escrow pending satisfaction of certain conditions, including, among others, the completion or waiver of all condition's precedent to the completion of the transaction and the receipt of all shareholder and regulatory approvals required for the completion of the transaction. All conditions were satisfied, and the transaction was closed on June 7, 2018 resulting in the issuance of 16,078,447 common shares to the holders of the subscription receipts.

Warrants Issued

During the year ended September 30, 2018, the Company issued compensation warrants to a vendor as part of an agreement for services to be rendered. The warrants were issued by the Company upon entering the contractual agreements. The Company established exercise prices, at not less than market price at the date of the grant. The Company also issued offering warrants as part of the brokered private placement closed on April 27, 2018. Also, on this date, the Company issued compensation options to the brokers of the private placement. Particulars of the offering warrants and compensation options can be found as part of the Equity Raise section of Note 11. As a part of the Reverse Takeover Transaction (as described in the September 30, 2018 audited consolidated financial statements), previously granted AIM1 warrants were acquired by the Company.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

11. Share Capital (continued)

Warrants and Options Issued

The table below summarizes the warrants and options activity to date:

Activity to date as it relates to:	Issued	Vested	Exercised or Expired	Outstanding	Exercise Price
October 1, 2017 Balance	9,545,034	9,545,034	(6,104,343)	1,062,626	\$0.44
December 1, 2017 Consultant options	2,156,522	2,156,522	(2,156,522)	-	0.65
April 27, 2018 Offering warrants	8,039,223	8,039,223	-	8,039,223	1.50
April 27, 2018 Broker warrants	762,150	762,150	-	762,150	1.15
June 7, 2018 AIM1 warrants	88,220	88,220	(84,092)	-	0.48
June 7, 2018 AIM1 options	195,305	195,305	(195,305)	-	0.48
July 19, 2018 Consultant options	300,000	300,000	-	300,000	1.15
August 28, 2018, Director Options	300,000	300,000	(100,000)	200,000	0.78
September 30, 2018 Balance	21,386,454	21,386,454	(8,640,262)	10,363,999	1.34
February 26, 2019, Director Options	150,000	150,000	(50,000)	100,000	0.85
February 28, 2019, Trichome bonus warrants	291,667	291,667	-	291,667	0.80
March 26, 2019, Ball Construction bonus warrants	300,000	300,000	-	300,000	1.00
August 19, 2019, Capital Market Access bonus warrants	300,000	-	-	-	1.15
September 30, 2019 Balance	22,428,121	22,128,121	(8,690,262)	11,055,666	\$ 1.31

During the year ended September 30, 2019, the following warrants were exercised:

- 84,092 (2018 – 3,547) AIM1 warrants for proceeds of \$38,661
- 195,305 AIM1 options for proceeds of \$93,746
- 2,156,520 Consultant options for proceeds of \$1,390,971
- 150,000 Director options for proceeds of \$120,500
- 4,361,065 (2018 – 395,452) Employee options for proceeds of \$2,006,090, the remaining 2,378,065 Employee options expired (included in the October 1, 2017 balance)
- 1,347,826 Canopy Rivers Consultant warrants for proceeds of \$620,000 (included in the October 1, 2017 balance)

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

11. Share Capital (continued)

Options issued to consultants are measured based on fair value of the goods or services received, at the date of receiving those good and services. If the fair value of the goods and services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model. The fair value was determined using the Black-Scholes option pricing model for the offering warrants and broker compensation warrants granted during the period by applying the following assumptions for each tranche granted:

	Risk Free Interest Rate	Expected Life (years)	Expected Annualized Volatility	Expected Dividend Yield
December 2017 consultant options	1.50%	1.5	125%	0%
April 2018 offering warrants	1.50%	2	125%	0%
April 2018 broker warrants	1.50%	2	125%	0%
July 2018 consultant options	1.90%	2	125%	0%
August 2019 consultant options	1.31%	3	100%	0%

Stock options issued

The Company has a stock option plan (“the Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan state that the Directors have the right acquire common shares of the Company at not less than 100% of the fair market value of the common shares on the Grant Date. Pursuant to the Plan and unless otherwise specified by the Board of Directors, the maximum aggregate number of options issuable represents ten percent (10%) of the issued common shares as of the grant date.

The Company acquired a stock option plan when it completed the Reverse Takeover Transaction (As described in the September 30, 2018 audited consolidated financial statements). The stock options were issued on September 7, 2017 by AIM1 Ventures Inc. The AIM1 stock options vested immediately, became exercisable on the Grant Date and must be exercised by September 7, 2022. The Stock Option plans were merged as part of the reverse takeover transaction. Refer to Note 12 more information.

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

11. Share Capital (continued)

The fair value of stock options issued is determined using the Black-Scholes option pricing model. The assumptions used in determining fair value are as follows:

	Risk Free Interest Rate	Expected Life (years)	Expected Annualized Volatility	Expected Dividend Yield
September 2017 Employee Stock Options	1.61%	2	125%	0%
August 27, 2018 Directors Stock Options	2.11%	5	125%	0%
February 26, 2019 Directors Stock Options	1.80%	5	100%	0%

12. Reverse Takeover Transaction

On June 7, 2018 the Company, formerly AIM1 Ventures Inc. ("AIM1") completed its acquisition of James E. Wagner Cultivation Ltd. ("Old JWC") by way of a three-cornered acquisition and amalgamation among the Company, Old JWC and 2622627 Ontario Inc., a wholly owned subsidiary of AIM1. Immediately prior to the transaction, the Company changed its name from AIM1 Ventures Inc. to James E. Wagner Cultivation Corporation. In connection with the acquisition and amalgamation transaction, the amalgamated entity (named James E. Wagner Cultivation Ltd.) is a wholly owned subsidiary of the Company.

AIM1 had 1,954,914 common shares issued and outstanding immediately prior to the closing of the Transaction. Upon the completion of the Transaction, AIM1 had 87,591,349 Issuer Shares issued and outstanding with the former Old JWC shareholders holding 85,636,435 (approximately 97.8%).

The transaction does not qualify as a business combination under IFRS 3, because the accounting acquiree (AIM1) did not meet the definition of a business.

As a result, for accounting purposes, the transaction is being accounted for as a reverse takeover asset acquisition with Old JWC being identified as the acquirer and the net assets of AIM1 being treated as the acquired assets and a share-based payment under IFRS 2 related to the acquisition of the public company listing. Accordingly, the consolidated financial statements are presented as a continuation of Old JWC, which has a financial year end of September 30. Consideration paid by the acquirer is measured at the fair value of the equity issued to the shareholders of AIM1, \$2,248,151 (1,954,914 shares at \$1.15/share), with the excess amount above the fair value of the net assets acquired, treated as a listing expense in profit and loss. Transaction costs of \$141,120 are allocated between the listing cost and the equity raise. In addition, for the year end September 30, 2018 the Company paid \$498,506 for legal and accounting costs related to the transaction which have been included in professional fees in the consolidated statement of loss and comprehensive loss.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

12. Reverse Takeover Transaction (continued)

The assets acquired and liabilities assumed at their fair value on the acquisition date are as follows:

	Amount
Consideration	\$ 2,248,151
Transaction costs paid	141,120
Less: Transaction costs attributable to equity raise	(35,057)
	2,354,214
Identifiable assets acquired – Cash	(558,490)
Public company listing expense	1,795,724

13. Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel are comprised of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Compliance Officer (CCO), Chief Operating Officer (COO), Chief Administrative Officer (CAO) and Chief Information Officer (CIO). Compensation paid in the form of salaries, benefits and bonuses was \$952,103 for the year ended September 30, 2019 (for the year ended September 30, 2018 - \$822,548).

14. Income Taxes

Reasons for the difference between the tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2018 – 26.5%) are as follows:

	2019	2018
Loss for the year	\$ (9,252,253)	\$ (10,313,920)
Expected taxes based on the statutory rate	(2,451,847)	(2,731,189)
Permanent differences	56,173	278,522
Change in deferred tax asset not recognized	2,198,145	2,491,648
Other	197,530	(38,981)
	\$ -	\$ -

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

15. Income Taxes (continued)

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities are as follows:

	Opening balance at October 1, 2018	Recognized in net income	Closing balance at September 30, 2019
Deferred tax asset (liabilities)			
Financing costs	\$ 378,768	\$ (78,161)	\$ 300,607
Non-capital losses	2,647,687	2,634,671	5,282,358
Property, plant, equipment and	(66,309)	(358,365)	(424,674)
Deferred tax asset not recognized	(2,960,146)	(2,198,145)	(5,158,291)
Deferred tax asset (liability)	\$ -	\$ -	\$ -

	Opening balance at October 1, 2017	Recognized in net income	Closing balance at September 30, 2018
Deferred tax asset (liabilities)			
Financing costs	\$ 97,598	\$ 281,170	\$ 378,768
Non-capital losses	382,087	2,265,600	2,647,687
Property, plant, equipment and	(11,187)	(55,122)	(66,309)
Deferred tax asset not recognized	(468,498)	(2,491,648)	(2,960,146)
Deferred tax asset (liability)	\$ -	\$ -	\$ -

The Company has accumulated non-capital losses of \$21,670,298 (2018 - \$8,817,020) for income tax purposes, which may be deducted in the calculation of taxable income for future years.

2024	\$ 100,295
2025	187,954
2026	296,603
2027	2,062,396
2028	6,169,772
2029	11,116,407
	\$ 19,933,427

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

16. Commitments

The Company is obligated under operating leasing contracts for the initial premises from which it currently operates. The leases for the facility rentals are \$7,142 per month beginning April 1, 2014, increasing over the term of the lease to \$8,073 per month by April 1, 2019. The lease terminates on July 30, 2021 with an option to extend for 60 months to July 31, 2026.

During the year ended September 30, 2018, the Company entered into an agreement to rent a second premises. The rental agreement is for the period from February 1, 2018 to January 31, 2033 at a monthly rate of \$98,008 increasing to \$201,477 per month over the term of the lease.

During the year ended September 30, 2018, the Company also entered into an agreement to lease additional office space. The Company has signed a two-year lease for this space at a rate of \$6,500 per month from June 2018 to May 2020.

Also included in the Commitments table are all payments related to the Trichome loan, the Ball Construction line of credit and the Canopy Royalty agreement.

Commitments for the next five years and thereafter are as follows:

	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Thereafter
Leases	\$1,669,867	\$1,661,402	\$1,900,377	\$2,084,322	\$2,107,315	\$19,112,987
Debt	4,384,213	3,637,481	-	-	-	-
Royalty	487,500	487,500	487,500	487,500	487,500	6,578,579
	\$6,541,580	\$5,786,383	\$2,387,877	\$2,571,822	\$2,594,815	\$25,691,566

Lease and common area maintenance payments made during the year ended September 30, 2019 and included in the consolidated statement of loss and comprehensive loss total \$751,298 (September 30, 2018 - \$483,394).

17. Contingencies

The Company is subject to litigation throughout regular ongoing business activities. There are no claims for which a material outflow is probable.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

18. Financial Instruments

General Objectives, Policies and Processes

The Directors have overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the senior management. The Directors review the financial information periodically through which they examine the operating effectiveness of the established processes and the appropriateness of the objectives and policies that are set. The overall objective of the Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

The Company's financial instruments are exposed to certain financial risks, including credit risk and liquidity risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

Credit Risk

Credit risk is the risk of financial loss to the Company 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 relate primarily to cash, accounts receivable and other receivables. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. In accordance with IFRS 9, management has performed an assessment over the 12-month expected credit loss and has determined there is no significant increase in credit risk related to receivables and that no material provision is required. Accordingly, no expected credit loss provision has been included in this reporting period.

	September 30, 2019	September 30, 2018
0-30 days	\$ 1,243,411	\$ 14,584
31-60 days	-	104,692
61-90 days	-	-
Over 90 days	979	979
Total	\$ 1,244,390	\$ 120,255

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 is exposed to interest rate fluctuations through the Ball Construction revolving loan which has a variable interest rate (HSBC Canada prime rate + 0.5%).

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

18. Financial Instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is exposed to this risk through its accounts payable and accrued liabilities, royalty liability, long-term debt and lease related commitments. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company will pay its current liabilities through revenue, its subsequent debt arrangements (refer to Note 20) and, if required, through the draw-down equity facility of up to \$18,000,000 per agreement with Alumina Partners. In addition, management continues to explore opportunities for future financing, should it be required. The Company expects sufficient liquidity to allow all commitments to be met and growth strategies to be achievable.

	Due Within 1 Year	Due within 1-2 Years	Due within 3-4 Years	Due in Over 5 years	Total
Accounts payable and accrued liabilities	\$ 2,824,479	-	-	-	\$2,824,479
Long term debt	4,384,213	3,637,481	-	-	8,021,694
Royalty liability	487,500	975,000	975,000	6,578,579	9,016,079
Lease Payments	1,669,867	3,561,779	4,191,637	19,112,987	28,536,270
Total	\$ 9,366,059	\$ 8,174,260	\$5,166,637	\$25,691,566	\$48,398,522

Financial Liabilities

As at September 30, 2019, the fair value of the Company's financial liabilities was \$10,017,811 and the carrying value was \$9,430,399. The disclosed fair value of the Company's financial liabilities is valued using the discounted cash flow technique as related to the Trichome debt, Ball Construction debt and the Canopy Rivers Royalty liability. For each debt instrument, the unobservable input is the discount rate. An increase or decrease in the discount rate will result in a decrease or increase in fair value, respectively.

19. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to meet its operational needs and to best utilize capital allocations. Management seeks to maximize shareholder value while balancing the interests of its stakeholders. For the purpose of capital management, the Company has defined capital as retained earnings (deficit), contributed surplus and share capital.

James E. Wagner Cultivation Corporation

Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

20. Canopy Offtake Agreement

Due to an accident during the extraction process, the decision was made by the three companies involved to sell the product to MediPharm instead of Canopy Growth, which resulted in JWC not meeting the requirements of the Offtake Agreement for 2018. The shortfall results in a penalty of \$135,122, currently recorded in accrued liabilities, which the Company expects to cover with additional product during the first quarter of Fiscal 2020.

21. Subsequent Events

Trichome Loan

On November 6, 2019 the Company entered into a \$4,000,000 loan agreement with Trichome Financial Inc. The loan is to be advanced in two tranches. The first tranche of the loan is in the amount of \$2,850,000 and is to be advanced upon the satisfaction of customary closing conditions. The second tranche of the loan will be advanced upon satisfaction of certain further conditions set out in the loan agreement. These conditions are expected to be satisfied during December 2019.

A set-up fee in the amount of \$60,000 and a 5% original issue discount was applied to the first tranche. A 5% original issue discount will also be applied to the second tranche at the time it is advanced. Interest on the loan will be due monthly and applied at an annual interest rate of 9.25%. The loan is due and payable in full on November 6, 2021. As security for the loan, JWC has provided the Lender with a perfected, first lien on current and future tangible and intangible assets and equity interests of JWC (including a share pledge from all subsidiaries of JWC) and each of the direct and indirect wholly owned subsidiaries of JWC.

As consideration for providing the first tranche and pursuant to TSX Venture Exchange ("TSXV") Policy 5.1 – Loans, Loan Bonuses, Finder's Fees and Commissions, JWC will issue the Lender 1,696,385 warrants to purchase common shares of JWC ("the "Bonus Warrants") and 984,208 common shares of JWC (the "Bonus Shares" and together with the Bonus Warrants, the "Loan Bonus"). Each Bonus Warrant will be exercisable for one common share of JWC at an exercise price of \$0.42 being a 5% premium to the trading price of the common shares of JWC at market close on the last trading day preceding this announcement. The Bonus Warrants will be exercisable for a period of two years from the date of issuance and both the Bonus Warrants and Bonus Shares will be subject to a four month hold period in accordance with applicable Canadian securities laws. Subject to the approval of the TSXV, a similar Loan Bonus is anticipated in relation to the second tranche with pricing reflective of the then current market price of common shares of JWC.

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Notes to Consolidated Financial Statements

For the years ended September 30, 2019 and 2018

21. Subsequent Events (continued)

Ball Loan Amendment

On October 9, 2019 the Company and Ball Construction signed an amending agreement to the Loan agreement originally signed on February 20, 2019 and further amended on July 17, 2019. This amendment adjusted the amount due to be paid on October 15, 2019 from \$825,000 to \$425,000 and deferred the amounts to be paid on November 15, 2019 and December 15, 2019. The parties further agreed that the deferred payments would be made when the equity raise referred to in the term sheet for the Trichome loan is completed. The Company expects this condition to be satisfied during December 2019. Once the deferred payments are made, the payment schedule as provided in the July 17, 2019 amendment shall resume and be completed.