CONSOLIDATED FINANCIAL STATEMENTS OF

Fire & Flower Inc.

FOR THE PERIODS ENDED FEBRUARY 2, 2019 AND FEBRUARY 3, 2018

UHY McGovern Hurley LLP
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Independent Auditor's Report

To the Shareholders of Fire & Flower Inc.

Opinion

We have audited the consolidated financial statements of Fire & Flower Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 2, 2019 and February 3, 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the fifty-two weeks ended February 2, 2019 and the forty-six weeks ended February 3, 2018, 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 February 2, 2019 and February 3, 2018, and its consolidated financial performance and its consolidated cash flows for the periods then ended in accordance with International Financial Reporting Standards ("IFRS").

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. 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 Management's Discussion and Analysis, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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.

When we read the Management's Discussion and Analysis, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRS, 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 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 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 judgement 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 risks 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.

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 of the audit resulting in this independent auditor's report is Martin Cairns.

UHY McGovern Hurley LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
May 22, 2019

Fire & Flower Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at February 2, 2019 and February 3, 2018
(In Canadian Dollars)

	As at February 2, 2019	As at February 3, 2018
	$	**$**
Assets		
Current assets		
Cash and cash equivalents (note 7)	10,410,330	3,802,855
Restricted cash (note 14g)	34,544,793	-
Trade and other receivables (note 8)	1,754,836	240,190
Merchandise inventories (note 9)	4,079,122	-
Deposits held in trust	2,963,932	83,574
Prepaid expenses	810,651	738,159
Work in process	51,623	-
Total current assets	**54,615,287**	4,864,778
Non-current assets		
Deposits held in trust	1,254,055	148,881
Property, plant and equipment, net (note 10)	20,865,646	1,115,155
Intangible assets, net (note 11)	3,366,287	21,547
Goodwill (note 11)	402,312	-
Total assets	**80,503,587**	6,150,361
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	14,471,928	631,364
Convertible debentures (note 12)	25,683,347	-
Derivative liability (note 12)	11,252,692	-
Provisions (note 13)	1,661,757	-
Total current liabilities	**53,069,724**	631,364
Contingent liability (note 16a)	435,499	-
Total liabilities	**53,505,223**	631,364
Shareholders' equity		
Share capital (note 14)	26,375,736	6,826,605
Common shares to be issued (note 14g)	34,290,181	-
Warrant reserve (note 15c)	5,095,633	400,960
Contributed surplus (notes 15a,b)	830,183	86,041
Accumulated deficit	(39,593,369)	(1,794,609)
Total shareholders' equity	**26,998,364**	5,518,997
Total liabilities and shareholders' equity	**80,503,587**	6,150,361

Nature of operations and going concern (note 1)
Commitments and contingencies (notes 16,25)
Subsequent events (note 27)

Approved by the Board

/s/ "Trevor Fencott" Director
Trevor Fencott

/s/ "Norman Inkster" Director
Norman Inkster

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

Fire & Flower Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(In Canadian Dollars)

	Fifty-Two weeks ended February 2, 2019	Forty-Six weeks ended February 3, 2018
	$	$
Revenue		
Retail sales	11,658,241	-
Wholesale	795,407	-
Digital development sales	525,508	-
Total revenue	**12,979,156**	**-**
Cost of goods sold		
Merchandise (note 9)	8,001,658	-
Gross profit	**4,977,498**	**-**
Expenses		
General and administrative (note 20)	16,923,165	1,104,847
Share based payments (note 15)	5,671,693	511,880
Marketing and promotion	3,031,523	169,032
Acquisition costs (note 16)	210,933	-
Depreciation (notes 10,11)	495,368	211
Total expenses	26,332,682	1,785,970
Loss from operations	**(21,355,184)**	(1,785,970)
Other expenses		
Lease termination costs (note 13)	(3,889,012)	-
Listing expense (note 14g)	(470,000)	-
Loss on revaluation of derivative liability (note 12)	(9,597,979)	-
Finance costs, net (note 17)	(2,486,585)	(8,639)
Total other expenses	(16,443,576)	(8,639)
Net loss and comprehensive loss	**(37,798,760)**	(1,794,609)
Net loss per share, basic and diluted (Note 19)	**(0.55)**	(0.14)
Weighted average number of outstanding shares (Note 19)	**#**	#
Basic and diluted	**68,645,883**	12,870,434

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

Fire & Flower Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Canadian Dollars)

	Common Shares	Share capital	Shares to be issued	Warrant reserve	Contributed surplus	Deficit	Total shareholders' equity
	#	$	$	$	$	$	$
Balance, March 17, 2017	-	-	-	-	-	-	-
Issuance of common shares - founders (note 14c)	7,500,000	150,000	-	-	-	-	150,000
Redemption - founder shares (note 14c)	(500,000)	(10,000)	-	-	-	-	(10,000)
Stock options expensed (note 15a)	-	-	-	-	86,468	-	86,468
Issuance of common shares – share based payments (note 14h)	4,912,620	1,012,000	-	-	-	-	1,012,000
Issuance of warrants (note 15c)	-	-	-	369,524	-	-	369,524
Issuance of 2017 convertible debenture units, net of costs (note 12)	-	-	-	67,325	42,573	-	109,898
Conversion of 2017 convertible debentures (note 12)	10,802,620	1,015,011	-	-	(43,000)	-	972,011
Exercise of convertible debenture warrants (note 12)	4,600,000	495,889	-	(35,889)	-	-	460,000
Issuance of common shares, net of costs (note 14h)	20,482,360	4,163,705	-	-	-	-	4,163,705
Net loss and comprehensive loss	-	-	-	-	-	(1,794,609)	(1,794,609)
Balance, February 3, 2018	47,797,600	6,826,605	-	400,960	86,041	(1,794,609)	5,518,997
Issuance of common shares, net of costs (note 14d)	15,582,636	9,100,948	-	2,242,716	-	-	11,343,664
Issuance of common shares , net of costs (note 14e)	8,177,728	4,963,455	-	1,221,377	-	-	6,184,832
Issuance of common shares – share based payments	133,333	200,000	-	-	-	-	200,000
Issuance of shares for royalty cancellation (note 14f)	3,478,260	4,000,000	-	-	-	-	4,000,000
Issuance of subscription receipts, net of costs (note 14g)	-	-	33,666,981	582,105	-	-	34,249,086
Broker warrants issued (notes 12,14d,14e)	-	-	-	312,310	-	-	312,310
Warrants issued (note 15c)	-	-	-	336,165	-	-	336,165
Acquisition of Hifyre Inc. (note 16a)	700,000	512,000	623,200	-	-	-	1,135,200
Acquisition of 10945072 Canada Inc. (note 16b)	454,545	500,000	-	-	-	-	500,000
Stock options expensed (note 15a)	-	-	-	-	862,668	-	862,668
Stock options exercised (note 15b)	1,200,000	272,728	-	-	(118,526)	-	154,202
Net loss and comprehensive loss	-	-	-	-	-	(37,798,760)	(37,798,760)
Balance at February 2, 2019	**77,524,102**	**26,375,736**	**34,290,181**	**5,095,633**	**830,183**	**(39,593,369)**	**26,998,364**

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

Fire & Flower Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian Dollars)

	Fifty-Two weeks ended February 2, 2019	Forty-Six weeks ended February 3, 2018
	$	$
Operating activities		
Net loss and comprehensive loss	(37,798,760)	(1,794,609)
Items not affecting cash		
Depreciation (notes 10, 11)	495,368	211
Share based payments (note 15)	5,671,693	511,880
Acquisition costs (note 16)	104,159	-
Loss on revaluation of derivative liability (note 12)	9,597,979	3,011
Interest expense (note 17)	2,845,749	9,620
	(19,083,812)	(1,269,887)
Changes in non-cash working capital items		
Merchandise inventories	(3,978,722)	-
Trade and other receivables	(1,167,454)	(240,190)
Deposits	(3,985,532)	(174,957)
Prepaid expenses	(435,511)	(194,047)
Work in process	56,424	-
Accounts payable and accrued liabilities	12,772,236	574,601
Provisions	1,661,757	-
Net cash used in operating activities	**(14,160,614)**	(1,304,480)
Financing activities		
Issuance of common shares and other equity securities (note 14)	19,008,283	4,779,529
Transaction costs on issue of shares (note 14)	(1,248,312)	(55,661)
Redemption of common shares	-	(10,000)
Issuance of unsecured debentures (note 12)	27,317,000	1,080,000
Transaction costs on issue of unsecured debentures (note 12)	(1,560,623)	(9,620)
Interest paid on unsecured debentures	(1,146,732)	-
Exercise of stock options (note 15b)	154,202	-
Exercise of warrants	-	460,000
Net cash provided by financing activities	**42,523,818**	6,244,248
Investing activities		
Acquisition of subsidiaries, net of cash acquired (note 16)	(1,276,626)	-
Acquisition of property, plant and equipment (note 10)	(19,513,991)	(1,115,155)
Purchase of intangible assets (note 11)	(965,112)	(21,758)
Net cash used in investing activities	**(21,755,729)**	(1,136,913)
Increase in cash and cash equivalents	6,607,475	3,802,855
Cash and cash equivalents, beginning of period	3,802,855	-
Cash and cash equivalents, end of period	**10,410,330**	3,802,855

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND GOING CONCERN

Fire & Flower Inc., (the "Company" or "F&F") is a private corporation and was incorporated under the name "10150266 Canada Inc." by articles of incorporation pursuant to the provisions of the *Canada Business Corporations Act* on March 17, 2017. On November 24, 2017, articles of amendment were filed to change the name to Fire & Flower Inc. Its head office is located at 5241 Calgary Trail NW, Suite 400, Edmonton, Alberta, T6H 5G8 Canada.

F&F is an independent retail chain that offers cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal under: (a) *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* (the "Cannabis Act") which came into effect on October 17, 2018; and (b) applicable provincial regimes for regulating the sale of cannabis by licensed private retailers. F&F was founded by leading legal cannabis entrepreneurs in Canada, with significant combined experience in launching premium, successful businesses with extensive experience in the legal cannabis space.

The Company has obtained provincial licenses to operate seven cannabis retail stores and two cannabis accessories stores in Alberta, two cannabis retail stores in Saskatchewan, and a wholesale business in Saskatchewan. The Company is also pursuing additional licenses to operate retail stores in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. On October 17, 2018, the first day of legalization of recreational cannabis in Canada, the Company opened four retail locations and for the year ended February 2, 2019, the Company was operating nine retail locations.

Subsequent to year end on February 13, 2019, the Company completed its previously announced qualifying transaction (the "Qualifying Transaction") between the Company, Cinaport Acquisition Corp. II ("Cinaport"), and 11048449 Canada Inc. ("Subco"). The Qualifying Transaction was completed by way of a three-cornered amalgamation, pursuant to which Subco, a wholly-owned subsidiary of Cinaport, amalgamated with the Company to form a newly amalgamated company which then became Fire & Flower Inc., and Cinaport, which now holds the assets of Fire & Flower Inc. as a wholly-owned subsidiary, changed its name to "Fire & Flower Holdings Corp." For additional details of the transaction, see note 14g.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company (the "Board of Directors") on May 22, 2019.

These financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

During the fifty-two week period ended February 2, 2019, the Company had a net loss of $37,798,760, negative cash flow from operations of $14,160,614, and positive working capital of $1,545,563. Excluding the convertible debentures (which was subsequently amended, see note 27b) and derivative liability which are classified as current liabilities, the Company's working capital would be $38,481,602. The positive working capital balance was mainly due to having a cash and cash equivalents balance of $10,410,330 and restricted cash balance of $34,554,793 as of February 2, 2019. Subject to the satisfaction and/or waiver of certain escrow release conditions, and the release of restricted cash from escrow, management believes that it will have sufficient capital to operate over the next 12 months; however, additional funding will be necessary to continue the expansion of retail store locations across Canada.

The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by uncertain market conditions, securing an adequate number of licenses, and unfavorable reception of legalization in the market place. To address its financing requirements, the Company will seek debt and equity financings and will enter into the public marketplace. While the Company has been successful in raising financing in the past, successful entry into the public environment cannot be assured.

2. BASIS OF PRESENTATION

a) *Statement of Compliance*

The consolidated financial statements of the Company for the year ended February 2, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements were based on IFRS issued and outstanding as at February 2, 2019.

b) *Fiscal Year*

The fiscal year of the Company consists of a fifty-two or fifty-three week period ending on the Saturday closest to January 31. Fiscal year 2018 represents the fifty-two week period ended February 2, 2019 with a comparative fiscal year 2017 consisting of the forty-six weeks ended on February 3, 2018, from incorporation (March 17, 2017) to February 3, 2018. References to years in the financial statements and notes to the financial statements relate to fiscal year or period rather than calendar year.

3. PRINCIPALS OF CONSOLIDATION

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries, 10926671 Canada Ltd., operating as Open Fields Distribution ("Open Fields"), and Hifyre Inc. ("Hifyre") (see note 16a).

On August 1, 2018, the Company incorporated 10926671 Canada Ltd., a private corporation pursuant to the provisions of the *Canada Business Corporations Act*. The registered address for 10926671 Canada Ltd. is 1500 – 1874 Scarth Street, Regina, Saskatchewan, S4P 0S3. On August 29, 2018, 10926671 Canada Ltd., registered the operating name Cannica Wholesale Distribution with the Information Corporate Service Saskatchewan Corporate Registry. On December 19, 2018, the Company registered the operating name Open Fields Distribution with the Information Corporate Service Saskatchewan Corporate Registry.

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases.

Business Combinations

On the acquisition of a subsidiary, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed as incurred;
- identifiable assets acquired, and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"), which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the consolidated statements of loss and comprehensive loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Cash and Cash Equivalents*

Cash and cash equivalents include cash deposits in financial institutions and other short-term deposits that are readily convertible into cash, adjusted for in-transit items including outstanding cheques and deposits.

b) *Functional and Presentation Currency*

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

c) *Basis of Measurement*

These consolidated financial statements have been prepared on a historical cost and accrual basis, except for certain financial instruments which are measured at fair value, as described below.

d) *Foreign Currency Translation*

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the statement of financial position date are translated into Canadian dollars at the foreign exchange rate applicable on that date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the date of the transaction. The Company's primary source for obtaining foreign exchange rates is the Bank of Canada.

As at February 2, 2019, the Company did not have any foreign operations.

e) *Trade and Other Receivables*

Trade and other receivables are recognized at fair value and subsequently measured at amortized cost less any allowance for impairment. An allowance for impairment of accounts receivable is recognized when collection of amounts due becomes highly doubtful in accordance with the terms of the receivable.

f) *Inventory*

Inventory is valued at the lower of cost and net realizable value.

Cost is determined using the average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Costs are comprised of all variable costs, and certain fixed costs, incurred in bringing inventories to the location and condition necessary for sale to customers. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of goods sold.

g) *Property, Plant and Equipment*

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that can be directly attributed to the acquisition of the asset as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. Depreciation is accounted for using the following terms and methods:

Fixed Asset	**Method**	**Depreciation Periods**
Land	Non-Depreciable	Non-Depreciable
Buildings	Straight-Line	20 years
Leasehold Improvements	Straight-Line	Shorter of useful life or initial lease term plus one option renewal period
Computer, Hardware and Software, and Equipment	Straight-Line	5 years
Signage and Displays	Straight-Line	3 years
Vehicles	Straight-Line	5 years
Furnitures and Fixtures	Straight-Line	5 years

An asset's residual value, useful life and depreciation method are reviewed at the end of each financial reporting period and adjusted where appropriate.

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

Depreciation commences once the acquired asset is available for use or, in the case of leasehold improvements, at the commencement of the lease of the property to which the leasehold improvement relates to.

h) *Intangible Assets*

Intangible assets with finite useful lives are carried at cost less accumulated depreciation and accumulated impairment losses. The estimated useful life and depreciation method are reviewed at the end of each financial reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives are as follows:

Intangible Assets	Method	Depreciation Periods
Trademarks and Patents	Straight-Line	15 years
Acquired Licenses	Straight-Line	15 years
Capitalized Software Development	Straight-Line	10 years
Product Design	Straight-Line	10 years
Acquired Customer Lists	Straight-Line	5 years

Costs associated with maintaining computer software are recognized as an expense as incurred. Development costs that directly contribute to the design and testing of identifiable and unique products controlled by the Company, including employee costs, are recognized as intangible assets.

Depreciation commences once the acquired asset is available for use or, in the case of patents or trademarks, on the date the license is acquired.

i) *Impairment of Non-Financial Assets*

Non-financial assets, including property, plant and equipment and intangible assets are reviewed for impairment at the end of each financial reporting period. If any such indications exist, the asset's recoverable amount is estimated and compared to its carrying amount.

The recoverable amount of an asset or cash-generating-unit is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit" or "CGU").

When the carrying amount of the asset exceeds the recoverable amount, the excess amount is recognized as an impairment charge in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. Losses are recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

j) *Provisions*

Provisions, including those for onerous contracts and legal claims, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract.

Actual costs and timing of future cash flows are dependent on future events; thus, any variance between estimates and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

k) *Leases*

Lessee – Finance leases

Leases where the Company assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases. The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognized on the balance sheet as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognized in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Lessee – Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognized in profit or loss on a straight-line basis over the period of the lease. Contingent rents are recognized as an expense in profit or loss when incurred.

l) *Business Combinations*

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of acquisition.

Identifiable assets acquired, and liabilities assumed are measured at their fair values at the acquisition date.

The Company expenses acquisition-related expenses as incurred.

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognized either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

m) *Revenue Recognition*

Revenue is measured at the fair value of the consideration received or receivable from customers for the sale of goods and services provided by the Company, net of promotional discounts, estimated returns and sales taxes.

The Company recognizes revenue when the customer obtains control of the related goods or services as set out below.

Retail merchandise sales

Revenue consists of sales through the Company's network of retail stores and includes sales through the Company's e-commerce platform. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale. Merchandise sales through the Company's e-commerce operations are recognized upon estimated date of receipt by the customer.

Wholesale distribution sales

Revenue from sales to customers through the Company's wholesale distribution arm are recognized when control of the goods has transferred to the customer. Where the Company arranges the shipping of goods, revenue is generally recognized on the expected date of delivery of goods to the customer's location (FOB destination). Where the customer arranges for the pickup of goods, revenue is recognized at the time the goods are transferred to the customers carrier (FOB shipping point). Costs to ship orders to customers are included as an expense in cost of goods sold.

Digital development revenue

Digital development revenue are earned by Hifyre through custom software development and other digital services, and customers can enter into fixed or variable fee contracts. For variable fee contracts, revenue is deferred and recognized during the period over which services are performed. For fixed fee arrangements, revenue is recorded using the percentage of completion method based on labour hours incurred as compared to total estimated hours.

n) *Cost of Goods Sold*

Cost of goods sold includes cost of inventory, packaging costs and shipping costs.

o) *Research and Development*

Expenditures related to research activities are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise, they are recognized in profit and loss as incurred.

p) *Income Taxes*

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can 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.

q) *Share Capital*

Common shares, stock options and warrants are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction to equity, net of any tax effects. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

r) *Share Based Payments*

Equity settled share-based payments are measured at their fair value on the date of grant using the Black-Scholes model. Stock options are recognized as compensation expense on a graded vesting basis over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When stock options or warrants expire after vesting, the recorded value remains in contributed surplus.

For stock options and warrants granted to non-employees, the compensation expense is measured at the fair value of goods or services received. If the fair value cannot be reasonably estimated, compensation expense is then measured at the fair value of the equity instruments granted and measured at the date the Company obtains goods or services rendered.

Where the terms and conditions of options are modified, the increase or decrease in the fair value of the options, measured immediately before and after the modification, is charged to profit or loss over the remaining vesting period.

Consideration paid by employees or non-employees on the exercise of stock options and warrants are recorded as share capital and the related share-based payment expense is transferred from contributed surplus or warrant reserve, respectively, to share capital.

s) *Earnings or Loss per Share*

Basic earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share reflect the potential dilutive effect that could occur if additional common shares were assumed to be issued under securities or instruments that may entitle their holders to obtain common shares in the future. Dilution could occur through the exercise of stock options, the exercise of warrants, and the exercise of the conversion option of convertible debentures. The number of additional shares for inclusion in the diluted earnings (loss) per share calculation was determined using the treasury stock method.

t) Financial instruments

Financial assets

Pursuant to IFRS 9 – Financial instruments (“IFRS 9”), the classification of financial assets is based on the Company’s assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Marketable securities have been classified as FVTPL. Cash, short-term deposits, restricted cash and accounts receivable has been classified as amortized cost.

Financial liabilities

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the consolidated statement of loss and comprehensive loss. Financial liabilities are derecognized when the obligation in discharged, cancelled or expired. Accounts payable and accrued liabilities, refundable franchise fee deposits, payable to related party, and royalty debt have been classified as amortized cost.
- A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss and comprehensive loss.

Impairment of financial asset

At each statement of financial position reporting date, an assessment is made whether there is objective evidence that a financial asset is impaired based on expected credit loss information. For the Company's financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss over the asset's lifetime. Expected losses are an estimate of credit-losses, considering possible default events over the expected life of a financial asset. All impairment losses are recognized in the consolidated statements of loss and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized costs the reversal is recognized in the consolidated statements of loss and comprehensive loss.

Accounting policy applicable prior to February 4, 2018

The Company adopted IFRS 9 retrospectively without restating comparatives, and therefore, the comparative information in respect of financial instruments for the year ended February 3, 2018 was accounted for in accordance with the Company's previous accounting policy under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The accounting policy under IAS 39 in respect of financial assets and liabilities, other than category classification changes (described under Note 5), was similar to the accounting policy adopted in the current year, with the following exceptions:

- Financial instrument classification changes (further described under Note 5).
- Impairment of financial assets - a financial asset was determined to be impaired and impairment losses were incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and if that event has a negative impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or, if relevant, delinquencies in payments. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

5. NEW STANDARDS AND INTERPRETATIONS

Adoption of Accounting Standards

The Company has adopted the following standards and amendments effective February 4, 2018:

- IFRS 2, Share-Based Payment ("IFRS 2") was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. There was no material impact to the consolidated financial statements as a result of the adoption of this amendment.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB in May 2014 and contains a single model for revenue recognition that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine the amount and timing of revenue recognition. The new standard also provides guidance on whether revenue should be recognized over time or at a point in time, and includes additional informative disclosures. There was no material impact to the consolidated financial statements as a result of the adoption of this new standard.
- IFRS 9, Financial Instruments was issued by the IASB as a complete standard in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 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. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial

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liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. There was no material impact to the consolidated financial statements as a result of the adoption of this standard.

The following table summarizes the changes in classification due to the adoption of IFRS 9:

Financial Instrument	Previous Classification under IAS 39	New Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivative liability	Fair value through profit or loss	Fair value through profit or loss
Contingent liability	Fair value through profit or loss	Fair value through profit or loss

Standards Issued But Not Yet Effective

The following are new accounting standards issued by the IASB that have not yet been adopted and are being evaluated to determine their impact on the Company:

- IFRS 16, Leases ("IFRS 16") was issued in January 2016 and is effective for fiscal years beginning on or after January 1, 2019. IFRS 16 replaces IAS 17, Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes a lease liability reflecting future lease payments and a right-of-use asset. Lessor accounting remains substantially the same as under IAS 17.

  IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach which does not require restatement of the prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. The Company intends to adopt IFRS 16 for the annual period beginning on February 3, 2019 using the modified retrospective approach.

  The Company expects the adoption of IFRS 16 will have a material impact to its consolidated financial statements due to the recognition of a right-of-use asset and lease liability associated with its real estate leases, which are currently recognized as operating leases in the consolidated statement of loss and comprehensive loss.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) *Estimated useful lives and depreciation of property, plant and equipment and intangible assets*

Depreciation of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. No assurance can be given that actual useful lives will not differ from current assumptions.

b) *Merchandise inventories*

Merchandise inventories are carried at the lower of cost and net realizable value. The cost of merchandise inventories is determined based on weighted average cost and includes costs incurred in bringing the merchandise inventories to their present location and condition. All inventories are finished goods. Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value.

c) *Share-based payments and warrants*

Management determines the costs for share-based payments and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made, and judgment is used in applying the valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions may affect the fair value estimates of share-based payments and share purchase warrants.

d) *Assets' carrying values and impairment charges*

In the determination of carrying values and impairment, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets, and reviews objective evidence to support whether the assets have a significant or prolonged decline in fair value. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

e) *Income taxes and other taxes*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the benefits associated with deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

f) *Business valuation*

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to fair value of intangible assets requires a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates.

g) *Provisions*

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, and the costs to settle the obligation are both probable and reliably measurable. The determination of provision amounts are based on management's assumptions and best estimate of the most likely settlement outcome.

(In Canadian Dollars)

h) *Derivative liability*

Management applies judgement in determining the fair value of the derivative liability component of its unsecured convertible debentures by applying assumptions and estimates using the Black-Scholes valuation model. These assumptions and estimates require a high degree of judgment and a change in these estimates may result in a material effect to the consolidated financial results.

7. CASH AND CASH EQUIVALENTS

As at February 2, 2019 and February 3, 2018, the Company's cash and cash equivalents was comprised of the following:

	February 2, 2019	February 3, 2018
	$	$
Cash	3,914,804	48,878
Cash equivalents	6,495,526	3,753,977
Total Cash and Cash Equivalents	**10,410,330**	3,802,855

Cash equivalents are comprised of highly liquid money market mutual funds and GIC's held with large Canadian financial institutions.

8. TRADE AND OTHER RECEIVABLES

As at February 2, 2019 and February 3, 2018, the Company's trade and other receivables was comprised of the following:

	February 2, 2019	February 3, 2018
	$	$
Trade accounts receivable	262,263	-
Sales tax receivable	1,155,575	117,932
Interest receivable	166,594	-
Due from related parties	68,509	122,258
Other receivables	101,895	-
Total Trade and Other Receivables	**1,754,836**	240,190

(In Canadian Dollars)

9. MERCHANDISE INVENTORIES

As at February 2, 2019 and February 3, 2018, the Company's merchandise inventories was comprised of the following:

	February 2, 2019	February 3, 2018
	$	$
Cannabis	3,237,969	-
Accessories	777,697	-
Apparel	63,456	-
Total Merchandise Inventories	**4,079,122**	**-**

During the period ended February 2, 2019, the Company recognized $8,001,658 of inventory as an expense (2018 - $nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Furniture and Fixtures	Leasehold Improvements	Computer Hardware and Software, and Equipment	Signage and Displays	Vehicles	Total
Cost	$	$	$	$	$	$	$
Balance, March 17, 2017	-	-	-	-	-	-	-
Additions	1,100,000	1,036	14,119	-	-	-	1,115,155
Balance, February 3, 2018	1,100,000	1,036	14,119	-	-	-	1,115,155
Acquisitions (note 16)	-	10,951	554,448	18,021	-	-	583,420
Additions	4,004,793	213,436	12,251,425	2,506,003	189,463	348,871	19,513,991
Balance, February 2, 2019	**5,104,793**	**225,423**	**12,819,992**	**2,524,024**	**189,463**	**348,871**	**21,212,566**
Accumulated Depreciation							
Balance, March 17, 2017	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Balance, February 3, 2018	-	-	-	-	-	-	-
Depreciation	10,340	14,661	114,369	164,347	12,393	30,810	346,920
Balance, February 2, 2019	**10,340**	**14,661**	**114,369**	**164,347**	**12,393**	**30,810**	**346,920**
Net Book Value							
Balance, February 3, 2018	1,100,000	1,036	14,119	-	-	-	1,115,155
Balance, February 2, 2019	**5,094,453**	**210,762**	**12,705,623**	**2,359,677**	**177,070**	**318,061**	**20,865,646**

As at February 2, 2019, the amount of property, plant and equipment classified as under construction or development and not being amortized was $9,625,114 (2018 - $1,115,155).

(In Canadian Dollars)

11. INTANGIBLE ASSETS AND GOODWILL

	Trademarks	Licenses	Product Design	Software Development	Customer List	Total
Cost	$	$	$	$	$	$
Balance, March 17, 2017	-	-	-	-	-	-
Additions	21,758	-	-	-	-	21,758
Balance, February 3, 2018	21,758	-	-	-	-	21,758
Acquisition (note 16)	190,000	1,528,076	-	-	810,000	2,528,076
Additions	11,841	-	179,567	773,704	-	965,112
Balance, February 2, 2019	**223,599**	**1,528,076**	**179,567**	**773,704**	**810,000**	**3,514,946**
Accumulated Depreciation						
Balance, March 17, 2017	-	-	-	-	-	-
Depreciation	211	-	-	-	-	211
Balance, February 3, 2018	211	-	-	-	-	211
Depreciation	8,384	29,707	-	29,357	81,000	148,448
Balance, February 2, 2019	**8,595**	**29,707**	**-**	**29,357**	**81,000**	**148,659**
Net Book Value						
Balance, February 3, 2018	21,547	-	-	-	-	21,547
Balance, February 2, 2019	**215,004**	**1,498,369**	**179,567**	**744,347**	**729,000**	**3,366,287**

During the period ended February 2, 2019, the Company generated $276,129 (2018 - $nil) of internally developed software assets.

As at February 2, 2019, the Company had goodwill of $402,312 arising from the acquisition of Hifyre Inc., which was allocated to its digital development CGU (see note 16a). The Company performed its annual goodwill impairment test on February 2, 2019 by comparing the carrying amount of assets within its digital development CGU to its recoverable amount as measured by discounting the expected future cash flows using the value in use approach. As at February 2, 2019, the Company's estimate of the recoverable amount for its digital development operating segment exceeded their respective carrying values, as such the Company determined that its goodwill had not been impaired. Management believes that any reasonable possible change in key assumptions used to calculate the recoverable amounts would have no impact on the impairment test.

12. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

On December 11, 2017, the Company issued 1,080 unsecured convertible debentures units for gross proceeds of $1,080,000 (the "December Debentures"). Each unit was comprised of one 1.0% unsecured $1,000 principal amount convertible debenture, maturing in one year, and convertible into 10,000 common shares of the Company at $0.10 per common share and 10,000 common share purchase warrants of the Company. Each warrant issued was detachable, transferable, and exercisable to acquire one common share in the capital of the Company at an exercise price of $0.10 for a period of 24 months from the date of issuance.

The proceeds of $1,080,000 were first allocated to the debenture component, and the remainder allocated to the equity conversion option and warrants as follows: i) the debenture component for $969,000, ii) the equity conversion option for $43,000, and iii) the warrants for $68,000. The equity conversion option was valued using the Black-Scholes valuation method using the following assumptions: stock price of $0.08; expected life of 1 year; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.10; and risk-free interest rate of 1.49%. The warrants were valued using the Black-Scholes valuation method using the following assumptions: stock price of $0.08; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.10; and risk-free interest rate of 1.49%.

On December 20, 2017, the December Debenture holders elected to convert their December Debentures into common shares, resulting in the issuance of 10,802,620 common shares at a price of $0.10, and $1,015,011 recorded to share capital.

On January 1, 2018, 4,600,000 of the warrants associated with the December Debentures were exercised at $0.10 per warrant for gross proceeds of $460,000 which was recorded to share capital. Additionally, the Company recorded a transfer of $35,889 from warrant reserve to share capital.

On July 26, 2018 and August 1, 2018, respectively, the Company issued $26,597,000 and $720,000 in unsecured convertible debentures (the "July Debentures") in a private placement at a price of $1,000 per July Debenture. The July Debentures bear interest at the rate of 8% per annum and have a maturity date of July 31, 2019. On the earlier of the maturity date or a triggering event (as set out below), the July Debentures, along with any accrued interest, will be satisfied by converting into common shares of the Company at the lesser of (i) 90% of the price of the Company's common shares issued in a triggering event and (ii) $1.15 per share. The holders have the option to convert all of the principal amount plus accrued and unpaid interest into a loan on maturity date. The loan will have an interest rate of 12% compounded and paid quarterly in arrears up to the date of maturity; July 31, 2023. The offering of the July Debentures resulted in gross proceeds of $27,317,000.

A triggering event is a transaction or series of transactions that results in (i) an initial public offering; (ii) an amalgamation, arrangement, merger, reverse takeover, reorganization or other similar transactions; (iii) a sale or conveyance of all or substantially all of the property and assets of the Company to any arm's length third party; (iv) the sale or exchange of all or substantially all of the shares of the Company for free trading securities, or (v) any combination of (i), (ii), (iii), or (iv), concurrently with the Company or the resulting issuer obtaining new common equity capital for minimum proceeds of $10,000,000.

Due to the varying conversion outcome should a triggering event occur, the financial instrument was classified as a debenture with a fair value derivative liability component. The debenture component of the July Debentures issued on July 26, 2018 was valued at amortized cost and accreted such that the carrying amount at maturity will equal $26,597,000 using an effective interest rate of 21.61%. The debenture component of the July Debentures issued on August 1, 2018 was valued at amortized cost and accreted such that the carrying amount at maturity will equal $720,000 using an effective interest rate of 14.42%. The derivative liability component of the July Debentures was initially measured at $1,655,045 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 1 year; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and risk-free interest rate of 2.02%.

(In Canadian Dollars)

In connection with the July Debenture issuance, the Company issued 1,178,956 broker warrants. Each broker warrant will allow the holder thereof to acquire one common share of the Company at an exercise price of $1.15 for a period of one or two years from the date of issuance. The broker warrants were valued at $80,835 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 1 or 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and risk-free interest rate of 2.02%.

The Company incurred $1,641,458 in transaction costs, including the broker warrants valued at $80,835, associated with the issuance of the July Debentures.

For the year ended February 2, 2019, $2,809,250 interest expense (2018 - $12,619) was recorded in the consolidated statements of loss and comprehensive loss in relation to convertible debentures.

On February 2, 2019, the Company revalued the fair value of the derivative liability and recognized an unrealized loss of $9,597,979 in the consolidated statements of loss and comprehensive loss. The derivative liability was revalued to $11,252,692 using the Black-Scholes model and the following assumptions: stock price of $1.50; expected life of 0.49 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and risk-free interest rate of 1.83%.

Subsequent to year end, the terms of certain of the July Debentures were revised (see note 27a).

13. PROVISIONS

During the period ended February 2, 2019, the Company entered into a number of operating leases with the intention of operating retail cannabis stores out of these locations. As a result of changes in the provincial licensing regulations and the delay in granting retail cannabis licenses, the Company decided to terminate a number of its operating lease agreements thereby incurring termination and other fees. Accordingly, the Company recorded an onerous provision for several of its operating leases as at February 2, 2019 as it does not intend to operate retail cannabis stores out of these locations. The Company has classified its provisions as current and expects to settle these liabilities within 12 months.

	Onerous leases
	$
Balance, February 4, 2018	-
Incurred during the year	3,889,012
Drawdown during the year	(2,227,255)
Balance, February 2, 2019	**1,661,757**

14. SHAREHOLDERS' EQUITY

a) *Share Capital Authorized*

The Company was incorporated on March 17, 2017 and is authorized to issue an unlimited number of common shares.

b) *Stock-Split*

On December 6, 2017, the Company amended its articles to affect a stock split on a 1 to 5,000 basis.

On April 9, 2018, the Company amended its articles to affect a stock split on a 1 to 10 basis.

All share and related option and warrant information presented in these financial statements and accompanying notes has been retroactively adjusted to reflect the increased number of shares resulting from these stock splits.

c) *Founding Shares*

On March 17, 2017, 7,500,000 common shares in the Company were issued to founding shareholders for $150,000. On November 10, 2017, the Company redeemed 500,000 common shares at a redemption price of $10,000 from a founding shareholder.

d) *April Private Placement*

On April 18, 2018, the Company completed a brokered private placement of units of the Company (the "April Private Placement"). Each unit was comprised of one common share and one common share purchase warrant at a price of $0.80 per unit. Each warrant entitles the holder to acquire one common share at $1.05 for a period of two years. The April Private Placement resulted in the issuance of 15,582,626 common shares and 15,582,626 warrants. The Company issued an additional 777,693 broker warrants, which entitle the broker to acquire one common share at $0.80 for a period of two years (see note 15c).

Gross proceeds were $12,466,101 and net proceeds were $11,343,664, net of cash transaction costs of $960,719 and broker warrants valued at $161,718. Net proceeds were allocated on a relative fair value basis to share capital for $9,100,948 and warrant reserve for $2,242,716.

The warrants and broker warrants were valued using the Black-Scholes valuation method using the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.05; and risk-free interest rate of 1.88%.

e) *May Private Placement*

On May 29, 2018, the Company completed a non-brokered private placement of units of the Company (the "May Private Placement"). Each unit comprised of one common share and one common share purchase warrant at a price of $0.80 per unit. Each warrant entitles the holder to acquire one common share at $1.05 for a period of two years. The May Private Placement resulted in the issuance of 8,177,728 common shares and 8,177,728 warrants. The Company issued an additional 336,075 broker warrants, which entitle the broker to acquire one common share at $0.80 for a period of two years (see note 15c).

Gross proceeds amounted to $6,542,182 and net proceeds were $6,184,832, net of cash transaction costs of $287,593 and broker warrants valued at $69,757. Net proceeds were allocated on a relative fair value basis to share capital for $4,963,455 and warrant reserve for $1,221,377.

The warrants and broker warrants issued were valued using the Black-Scholes valuation method using the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and risk-free interest rate of 1.84%.

f) *Cancellation of Royalty Agreements*

On August 17, 2018, the Company entered into a letter agreement (the "Letter Agreement") with each of Millstone Ventures Ltd. ("Millstone"), a private company controlled by the Chief Executive Officer of the Company (the "CEO"), and JNZS Consulting Inc. ("JNZS"), a private company controlled by the Executive Director of the Company, whereby each of the parties agreed to terminate the royalty agreement entered into by the parties on January 1, 2018 (the "Royalty Agreement") and to terminate the Company's obligations under the Royalty Agreement for consideration. The Royalty Agreement was valued at $4,000,000 by an arm's length valuation consultant, and were issued 3,478,260 common shares in the capital of the Company at a share price of $1.15 per common share upon execution of the Letter Agreement. The Company has the option to repurchase 739,130 common shares for nominal consideration until August 17, 2019, and a further option to purchase 739,130 common shares for nominal consideration until August 17, 2020 (see note 23b).

g) *Reverse Take Over Transaction and Concurrent Financing*

On September 12, 2018, the Company entered into the Letter of Intent ("Letter of Intent") with Cinaport Acquisition Corp. II ("Cinaport") to combine their respective businesses. On October 31, 2018, the Company entered into the Acquisition Agreement with Cinaport and 11048449 Canada Inc. ("Subco"), a wholly-owned subsidiary of Cinaport, which superseded the Letter of Intent. The Qualifying Transaction ("Qualifying Transaction") will be completed by way of a "three-cornered" amalgamation pursuant to which Fire & Flower and Subco will amalgamate to form amalco ("Amalco"), which will be a wholly-owned subsidiary of Cinaport, and each issued and outstanding common share of Fire & Flower shall be cancelled and the holder of such share shall receive one common share in the capital of Cinaport. In addition, each: (a) Fire & Flower option will be cancelled and replaced with one Cinaport option, having substantially the same terms and conditions as the Fire & Flower option and entitle the holder thereof to acquire one common share in the capital of Cinaport; (b) Fire & Flower warrant will be cancelled and replaced with one Cinaport warrant, having substantially the same terms and conditions as the Fire & Flower warrant and entitle the holder thereof to acquire one common share in the capital of Cinaport; and (c) Fire & Flower compensation security will be cancelled and replaced with one Cinaport compensation security, having substantially the same terms and conditions as the Fire & Flower compensation security and entitle the holder thereof to acquire one common share in the capital of Cinaport.

Prior to the closing of the Qualifying Transaction, Cinaport was required, among other things, to consolidate the Cinaport Shares on a 10.64814815 to 1 basis (the "Consolidation"), whereby each fractional share shall be rounded down to the nearest whole post-Consolidation Cinaport share, and no cash payment or other form of consideration will be payable in lieu thereof.

On November 1, 2018, the Company completed a private placement in connection with the Qualifying Transaction (the "November 2018 Financing"). The Company issued 24,333,334 subscription receipts (the "Subscription Receipts") at a price of $1.50 per Subscription Receipt for aggregate gross proceeds of $36,500,001. Each Subscription Receipt entitles the holder to receive one common share of the Company upon satisfaction and/or waiver of escrow release conditions (the "Escrow Release Conditions") including, but not limited to, the completion, satisfaction or waiver of all conditions precedent to the Qualifying Transaction (other than the release of the Escrowed Funds), the receipt of all shareholder and regulatory approvals required for the Qualifying Transaction, and other customary escrow conditions for a transaction of this nature. As additional consideration, the agents and certain other finders received 1,376,205 broker warrants ("Compensation Options") in connection with the November 2018 Financing. Transaction costs of $2,833,020, including Compensation Options valued at $582,105, were incurred in respect to the November 2018 Financing (see note 15c).

The issuance of common shares is subject to satisfaction of escrow and/or waiver of escrow release conditions and the release of funds from escrow, the Company has recorded the issuance of the Subscription Receipts in common shares to be issued and has included these Subscription Receipts in shareholders' equity on the statement of financial position. The proceeds of the November 2018 Financing were held in escrow by Computershare Trust Company of Canada subject to the waiver and/or satisfaction of the escrow release conditions.

For the period ended February 2, 2019, the Company incurred $470,000 for legal fees in relation to the Qualifying Transaction which were expensed in the consolidated statements of loss and comprehensive loss.

Subsequent to year end on February 13, 2019, the Company completed its Qualifying Transaction by way of a three-cornered amalgamation, pursuant to which 11048449 Canada Inc. amalgamated with Fire & Flower Inc. to form a newly amalgamated company which became Fire & Flower Holdings Corp., holding the assets of Fire & Flower Inc. as a wholly-owned subsidiary of the Company. Fire & Flower and Cinaport satisfied the escrow release conditions of the November Private Placement and the Escrowed Funds, net of the outstanding cash commission and expenses payable to the agents, were released.

h) *Share capital issued*

On December 19, 2017, the Company completed a private placement of 20,482,360 common shares at price of $0.206 per common share for gross cash proceeds of $4,219,366. The Company incurred transaction costs of $55,661 in connection with the issuance of these shares.

On January 1, 2018, the Company entered into two management services agreements (the "Management Services Agreements") for two years with an automatic renewal of one year unless written notice is provided by either party.

Terms of the Management Services Agreements allow for an election by the executive to receive a percentage of the remuneration amount in common shares in the capital of the Company ("Election Shares"). The number of shares issued is determined by multiplying the remuneration value opted to receive in shares by the elected share percentage divided by the fair market value of the common shares on the date of the election.

For the 2018 calendar year, the Executive Director and Chief Executive Officer elected to receive $300,000 each in Election Shares. The fair value of the Election Shares at the time of election was $0.206 resulting in 2,912,620 Election Shares issued in accordance with the terms of the Management Services Agreement. As at February 3, 2018, $544,112 had been recorded as a prepaid expense in the consolidated statements of financial position.

(In Canadian Dollars)

On January 1, 2018, the Chief Executive Officer and JNZS Consulting Limited ("JNZS"), a private company controlled by the Executive Director subscribed for, in the aggregate, 2,000,000 common shares at a price of $0.206 per common share. Gross proceeds for the issuance of common shares was $412,000, which was paid using the balances owing to the Executive Director and Chief Executive Officer related to their cash signing bonuses of $412,000.

On July 20, 2018, the Company acquired 100% of the issued share capital of Hifyre Inc. The Company issued to the vendor 400,000 common shares of the Company on the date of acquisition, 300,000 common shares of the Company on January 20, 2019, and an additional 1,050,000 common shares of the Company at an average fair market value of approximately $0.60 per share was recorded in shares to be issued. See note 16a for full acquisition details.

On October 18, 2018, the Company acquired 100% of the issued share capital of 10945072 Canada Inc. The Company issued to the vendor 454,545 common shares of the Company on the date of acquisition at a fair market value of $1.10 per share. See note 16b for full acquisition details.

As at February 2, 2019, the Company had the following number of shares issued and outstanding:

Issued	**Common Shares**	**Amount**
	#	**$**
Balance, March 17, 2017	-	-
Net shares issued – founder shares (note 14c)	7,000,000	140,000
Common shares issued – share based payments	4,912,620	1,012,000
Conversion of 2017 convertible debentures (note 12)	10,802,620	1,015,011
Exercise of convertible debenture warrants (note 12)	4,600,000	495,889
Common shares issued – private placement	20,482,360	4,163,705
Balance, February 3, 2018	**47,797,600**	**6,826,605**
Common shares issued – April Private Placement (note 14d)	15,582,636	9,100,948
Common shares issued – May Private Placement (note 14e)	8,177,728	4,963,455
Common shares issued – share based payments	133,333	200,000
Shares issued - cancellation of royalty agreements (note 14f)	3,478,260	4,000,000
Acquisition of Hifyre Inc. (note 16a)	700,000	512,000
Acquisition of 10945072 Canada Inc. (note 16b)	454,545	500,000
Stock options exercised (note 15b)	1,200,000	272,728
Balance, February 2, 2019	**77,524,102**	**26,375,736**

(In Canadian Dollars)

15. SHARE BASED PAYMENTS

a) *Stock Options*

On November 30, 2017, the Company resolved to implement a stock option plan (the "2017 Stock Option Plan" or the “Plan”) entitling an optionee to acquire a designated number of common shares from treasury at a price determined by the board of directors, for a period not to exceed 10 years from the date the option is granted (the “Option”).

During the period ended February 3, 2018, the Company granted 4,850,000 options with exercise prices ranging from $0.02 to $0.206. These options were fair valued on their grant date using the Black-Scholes model using the following assumptions: stock price of $0.08 - $0.206; expected life of 1 - 7 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.02 - $0.206; and a risk-free interest rate of 1.47% - $2.08%.

During the period ended February 2, 2019, the Company granted 5,107,500 options with exercise prices ranging from $0.206 to $1.50. These options were fair valued on their grant date using the Black-Scholes model using the following assumptions: stock price of $0.08 - $1.50; expected life of 5 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.206 - $1.50; and a risk-free interest rate of 1.71% - $2.13%.

	Fifty-two weeks ended February 2, 2019		**Forty-six weeks ended February 3, 2018**	
	Options #	**Weighted Average Exercise Price $**	**Options #**	**Weighted Average Exercise Price $**
Outstanding balance, beginning of period	4,850,000	0.16	-	-
Options issued	5,107,500	0.94	4,850,000	(0.16)
Options exercised	(1,200,000)	(0.16)	-	-
Options forfeited	(679,167)	(0.27)	-	-
Outstanding balance, end of period	**8,078,333**	**0.64**	4,850,000	0.16
Exercisable balance, end of period	**2,435,417**	**0.14**	1,000,000	0.06

For the period ended February 2, 2019, the Company recorded an expense of $862,668 (2018 - $86,468) related to stock options in share based payment expense and contributed surplus.

(In Canadian Dollars)

The following table reflects the options issued and outstanding as of February 2, 2019:

	Outstanding			Exercisable	
Expiry date	Exercise price	Number of options	Remaining contractual life	Number of options	Remaining contractual life
	$	#	(years)	#	(years)
March 1, 2019	0.02	500,000	0.07	500,000	0.07
October 5, 2019	0.206	37,500	0.67	37,500	0.67
January 2, 2023	0.206	750,000	3.92	750,000	3.92
January 2, 2023	0.206	1,100,000	3.92	297,917	3.92
January 30, 2023	0.206	600,000	3.99	600,000	3.99
March 1, 2023	0.206	350,000	4.08	-	-
April 24, 2023	0.80	2,450,000	4.22	-	-
May 18, 2023	0.80	363,333	4.29	-	-
May 22, 2023	0.80	37,500	4.30	-	-
July 31, 2023	1.15	90,000	4.49	-	-
August 27, 2023	1.15	350,000	4.57	-	-
December 18, 2023	1.50	1,200,000	4.88	-	-
December 24, 2024	0.10	250,000	5.86	250,000	5.86
	0.64	**8,078,333**	**4.03**	**2,435,417**	**3.30**

b) *Exercise of stock options*

On May 22, 2018, the Company determined that it was desirable and in the best interest of the Company to amend the vesting schedule of 500,000 options granted on January 2, 2018 to vest on May 22, 2018 rather than July 1, 2018. On May 22, 2018, these options were exercised at an exercise price of $0.206 per common share for proceeds of $103,000.

On June 5, 2018, 500,000 stock options were exercised at an exercise price of $0.02 for proceeds of $10,000.

On August 29, 2018, 200,000 stock options were exercised at an exercise price of $0.206 for proceeds of $41,200.

c) *Warrants*

On January 1, 2018, 4,600,000 warrants were issued to the Chief Executive Officer and 2089064 Ontario Ltd, a private company controlled by the Executive Director, in recognition for early exercise of warrants attached to the 2017 Unsecured Convertible Debenture Units. The warrants issued have an exercise price of $0.206 and expire January 1, 2020 and were valued at $369,524 using the Black-Scholes model and the following assumptions: stock price of $0.206; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.206; and a risk-free interest rate of 1.70%.

On April 18, 2018, 15,582,626 warrants were issued as a result of the April Private Placement (see note 14d). Each warrant will allow the holder to acquire one common share for $1.05 for two years and were valued at $2,242,716, net of costs, using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.05; and a risk-free interest rate of 1.88%. Transaction costs associated with the issuance of the warrants was $221,913. 777,693 broker warrants were also issued in connection to the April Private Placement. Each broker warrant will allow the holder to acquire one common share for $0.80 for two years and were valued at $161,719 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and a risk-free interest rate of 1.93%.

On May 22, 2018, the Company issued 500,000 performance warrants in connection with advisory services. Each performance warrant will allow the holder to acquire one common share for $0.80 for two years and were valued at $104,159 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and a risk-free interest rate of 2.00%.

On May 22, 2018, the Company issued 500,000 consideration warrants for early exercise of stock options. Each consideration warrant will allow the holder to acquire one common share for $0.80 for two years and were valued at $104,159 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and a risk-free interest rate of 2.00%.

On May 22, 2018, the Company issued 500,000 finders' warrants in connection to the acquisition of Hifyre Inc. (see note 16a). Each finders warrant will allow the holder to acquire one common share for $0.80 for two years and were valued at $104,159 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and a risk-free interest rate of 2.00%.

On May 29, 2018, 8,177,728 warrants were issued as a result of the May Private Placement (see note 14e). Each warrant will allow the holder to acquire one common share for $1.05 for two years and were valued at $1,221,377, net of costs, using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.05; and a risk-free interest rate of 1.80%. Transaction costs associated with the issuance of the warrants was $70,570. 336,075 broker warrants were also issued in connection with the May Private Placement. Each broker warrant will allow the holder to acquire one common share $0.80 for two years and were valued at $69,756 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $0.80; and a risk-free interest rate of 1.80%.

On July 26, 2018, the Company issued 1,178,956 broker warrants in connection with the July Debenture issuance (see note 12). Each broker warrant will allow the holder to acquire one common share at $1.15 for one or two years. The broker warrants were valued at $80,835 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 1 or 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and a risk-free interest rate of 2.02%.

(In Canadian Dollars)

On July 31, 2018, the Company issued 40,000 consideration warrants for the early exercise of stock options. The Company also issued 25,000 common share warrants to a consultant. Each common share warrant will allow the holder to acquire one common share for $1.15 for two years and were valued at $9,325 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and a risk-free interest rate of 2.03%.

On August 17, 2018, the Company granted the Chief Finance Officer ("CFO") 200,000 common share warrants. 100,000 of the warrants were issued on August 17, 2018 and 100,000 of the warrants are to be issued on the business day immediately following the date that the TSXV conditionally approves Cinaport to file the filing statement in connection with the Qualifying Transaction. Each warrant is exercisable at an exercise price of $1.15 per warrant for a period of two years from the date of issuance. The 100,000 purchase warrants issued on August 17, 2018 were valued at $14,363 using the Black-Scholes model and the following assumptions: stock price of $0.642; expected life of 2 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.15; and a risk-free interest rate of 2.08% (see note 23b).

On November 1, 2018, the agents to the November 2018 Financing and certain other finders received 1,376,205 Compensation Options in connection with the November 2018 Financing. Each Compensation Option will be exercisable after the satisfaction and/or waiver of the escrow release conditions for one common share at a price of $1.50 per share until the date that is 12 months following the satisfaction and/or waiver of the Escrow Release Conditions. The Compensation Options were included in transaction costs in the statement of changes in shareholders' equity and were valued at $582,108 using the Black-Scholes model and the following assumptions: stock price of $1.50 expected life of 1 years; $nil dividends; expected volatility of 70% based on comparable companies; exercise price of $1.50; and a risk-free interest rate of 2.28%.

The following is a summary of warrants outstanding, along with the corresponding values:

	Fifty-two weeks ended February 2, 2019		Forty-six weeks ended February 3, 2018	
	Warrants #	**Weighted Average Exercise Price $**	**Warrants #**	**Weighted Average Exercise Price $**
Outstanding balance, beginning of period	10,800,000	0.15	-	-
Warrants issued	29,094,283	1.05	15,400,000	0.13
Warrants exercised	-	-	(4,600,000)	0.10
Warrants forfeited	-	-	-	-
Outstanding balance, end of period	**39,894,283**	**0.81**	10,800,000	0.15

(In Canadian Dollars)

The following table reflects the warrants issued and outstanding as of February 2, 2019:

Expiry dates	Number of warrants outstanding	Exercise price ($)	Grant date fair value per warrant ($)	Remaining Contractual Life (years)
December 11, 2019	6,200,000	0.10	0.060	0.85
January 2, 2020	4,600,000	0.206	0.800	0.91
April 20, 2020	15,582,626	1.05	0.140	1.21
May 22, 2020	1,500,000	0.80	0.208	1.30
May 29, 2020	6,527,750	1.05	0.150	1.32
May 31, 2020	1,499,978	1.05	0.150	1.33
June 7, 2020	25,000	1.05	0.150	1.35
June 19, 2020	125,000	1.05	0.150	1.38
July 31, 2020	65,000	1.15	0.143	1.49
August 17, 2020	100,000	1.15	0.144	1.54
Total warrants	**36,225,354**			
April 20, 2020	777,693	0.80	0.208	1.21
May 29, 2020	249,825	0.80	0.208	1.32
May 31, 2020	86,250	0.80	0.208	1.33
July 26, 2020	1,178,956	1.15	0.070	1.48
February 13, 2020	1,376,205	1.50	0.423	1.03
Total broker warrants	**3,668,929**			
	79,788,566			

16. ACQUISITIONS

a) *Acquisition of Hifyre Inc.*

On July 20, 2018, the Company acquired 100% of the issued share capital of Hifyre, an Ontario-based digital development corporation. The Company engaged an independent third-party valuator to determine the fair value of the consideration given and of the assets acquired and liabilities assumed. The independent third-party valuator used a combination of income, market and cost-based approaches to estimate fair value. The inputs in the assessment included a weighted average cost of capital of 22.5% and an expected growth rate ranging from 4% to 9% per annum, which are classified as Level 3 in the fair value hierarchy.

The consideration paid to the vendor of the Hifyre shares (the “Hifyre Vendor”) is as follows: (a) 400,000 common shares of the Company issued on closing; (b) 1,350,000 common shares of the Company to be issued in six month intervals over the next three years conditional upon the Hifyre Vendor continuing to provide services to the Company; (c) one-half of one common share of the Company for every $1 of Hifyre’s gross revenue in excess of $800,000 following the twelve month anniversary of the closing of the Hifyre acquisition date up to a maximum issuance of 375,000 common shares of the Company; (d) one common share of the Company for every $1 of earnings before interest, taxes, depreciation and amortization (“EBITDA”) less any bonuses payable or paid to directors, officers or employees following the twelve month anniversary of the closing date of the Hifyre acquisition up to a maximum issuance of 375,000 common shares of the Company; and (e) $406,626 in cash consideration paid one hundred and twenty days post-closing based on verified accounts receivable and work-in-progress balances on the closing date for a total cost of $1,940,826. The share consideration has been valued at the acquisition date fair value of the Company's common shares of $0.80 and discounted to incorporate the issuance over time. The revenue and EBITDA based consideration is due as follows: one-third ninety days following the twelve month anniversary, one-third twenty-four months after closing and the final one-third thirty-six months after closing.

(In Canadian Dollars)

The Company issued 500,000 finders' warrants in connection to the acquisition of Hifyre Inc. (see note 15c).

The principal reason for this acquisition was to secure access to Hifyre's expert capabilities in building digital systems to provide the Company's customers with an excellent in-store retail and mobile application experience. Acquisition costs of $174,662 arose as a result of the transaction and have been recognized as an expense in the consolidated statement of loss and comprehensive loss.

In accordance with IFRS 3, Business Combinations, the transaction meets the definition of a business combination and, accordingly, the assets acquired, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The purchase price allocation is based on an independent third-party valuation.

Details of the fair value of identifiable assets and liabilities acquired and purchase consideration paid is as follows:

Consideration paid	
	$
Common shares issued	320,000
Common shares to be issued	815,200
Contingent consideration	399,000
Cash	406,626
Total Consideration	**1,940,826**

Identifiable assets (liabilities) acquired	**$**
Cash and cash equivalents	130,000
Accounts receivable	298,579
Work-in-progress	108,047
Prepaid expenses	14,000
Taxes receivable	24,202
Fixed assets	28,972
Accounts payable	(68,989)
Taxes recoverable	3,703
Customer list	810,000
Trademarks	190,000
Goodwill	402,312
Total identifiable net assets	**1,940,826**

The goodwill is attributable to the workforce and the profitability of the acquired business. It will not be deductible for tax purposes.

The acquisition of Hifyre on July 20, 2018 resulted in an increase in revenue and Company's net loss and comprehensive loss in the amounts of $525,508 and $96,128, respectively, for the year ended February 2, 2019.

The following unaudited pro forma financial information presents information as if the acquisition had been completed on February 4, 2018. The unaudited pro forma financial information presented below is for information purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the 2018 fiscal year. The unaudited pro forma financial information presented includes depreciation charges for acquired intangible assets based on the values assigned in the purchase price allocation. If the acquisition was completed on February 4, 2018, revenue for the Company would have been approximately $1,263,954 and net loss and comprehensive loss would have decreased by approximately $67,990 for the period ended February 2, 2019.

The Company signed an employment agreement with the sole shareholder of Hifyre for a term of one year at an annual base salary of $250,000. After one year, the Company will extend the employment agreement indefinitely at an annual base salary no less than $200,000. The Company may terminate the agreement with one month's written notice and the employee may terminate the agreement with six months' written notice.

On December 6, 2018, Hifyre filed articles of amendment to change its name to Hifyre Inc. from Kardeo Inc.

On January 20, 2019, 300,000 shares were issued pursuant to the Hifyre acquisition agreement.

b) *Acquisition and amalgamation of 10945072 Canada Inc.*

On October 18, 2018, the Company purchased 100% of the issued and outstanding shares in the capital of 10945072 Canada Inc. (the "North Battleford Acquisition") for the purpose of operating an adult cannabis retail store in North Battleford, Saskatchewan. In accordance with IFRS 3, Business Combinations, the substance of the North Battleford Acquisition does not constitute a business combination since substantially all of the fair value acquired is concentrated in the Saskatchewan Liquor and Gaming Authority ("SLGA") license held by 10945072 Canada Inc. As such, the transaction was treated as an acquisition of a net assets, recognizing the individual identifiable assets acquired and liabilities assumed. The Company acquired the group of assets for a purchase price of $1,500,000; $1,000,000 payable in cash, and $500,000 payable in common shares of the Company at $1.10 per share (454,545 common shares).

(In Canadian Dollars)

The costs were allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of purchase as follows:

Consideration paid	
	$
Common shares issued	500,000
Cash	1,000,000
Total Consideration	**1,500,000**

Identifiable assets (liabilities) acquired	**$**
Sales taxes receivable	20,708
Inventory	100,400
Property, plant and equipment	554,448
Intangible assets – SLGA License	1,528,076
Accounts payable and accrued liabilities	(702,948)
Sales tax payable	(684)
Total identifiable net assets	**1,500,000**

On October 30, 2018, the Company amalgamated with 10945072 Canada Inc. under section 185 of the Canada Business Corporation Act. The Company has presented all balances and activities of 10945072 Canada Inc. as a fully consolidated entity for financial statement purposes combining the carrying value of the assets and liabilities of each entity at their book values. Accordingly, these financial statements, including the comparative figures, are presented as if Fire & Flower Inc. and 10945072 Canada Inc. have been combined since date of acquisition.

17. FINANCE COSTS, NET

Finance costs, net are comprised of the following:

	Fifty-two weeks ended February 2, 2019	**Forty-six weeks ended February 3, 2018**
	$	$
Interest income	359,164	3,980
Interest expense on convertible debentures	(1,164,362)	(262)
Accretion expense on convertible debentures	(1,644,888)	(12,357)
Accretion expense on contingent liability	(36,499)	-
Total Finance Costs, net	**(2,486,585)**	(8,639)

Interest income is earned on the Company’s cash deposits and short-term investments in money market mutual funds and GIC’s.

(In Canadian Dollars)

18. INCOME TAXES

a) Provision for income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to income or loss before income taxes. These differences result from the following:

	Fifty-two weeks ended February 2, 2019	**Forty-six weeks ended February 3, 2018**
	$	$
Combined Canadian statutory income tax rate	26.50%	26.50%
(Loss) before income taxes	(37,798,760)	(1,794,609)
Expected tax recovery based on statutory rate	(10,017,000)	(476,000)
Adjustments to expected income tax benefit:		
Share-based payments	1,503,000	136,000
Non-deductible expenses	489,000	3,000
Change in unrecorded deferred tax asset	8,025,000	337,000
Deferred income tax provision (recovery)	**-**	-

b) Deferred income tax

Deferred income tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

	Fifty-two weeks ended February 2, 2019	**Forty-six weeks ended February 3, 2018**
	$	$
Non-capital loss carry-forwards	1,031,000	-
Capital assets	(561,000)	-
Intangibles	(470,000)	-
Total	**-**	-

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	Fifty-two weeks ended February 2, 2019	**Forty-six weeks ended February 3, 2018**
	$	$
Non-capital loss carry-forwards	20,884,000	1,283,000
Share issue costs	3,596,000	45,000
Total	**24,480,000**	1,328,000

c) Loss Carry-Forwards

As at February 2, 2019, the Company's non-capital losses, stated in Canadian dollars, expire as follows:

	$
2037	253,000
2038	20,631,000
	20,884,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

19. LOSS PER COMMON SHARE

For the periods ended February 2, 2019 and February 3, 2018, basic loss per share and diluted loss per share were the same as the Company recorded a net loss for both periods, and the exercise of any potentially dilutive instruments would be anti-dilutive.

	Fifty-two weeks ended February 2, 2019	**Forty-two weeks ended February 3, 2018**
Loss attributable to common shares ($)	(37,798,760)	(1,794,609)
Weighted average number of shares outstanding (#)	68,645,883	12,870,434
Loss per common share, basic and diluted ($)	**(0.55)**	(0.14)

(In Canadian Dollars)

20. EXPENSES BY NATURE

Below are the expenses included in general and administrative expenses for the year ended February 2, 2019 and February 3, 2018:

	Fifty-two weeks ended February 2, 2019	Forty-two weeks ended February 3, 2018
	$	$
General and administrative expenses		
Salaries and benefits	6,793,923	463,387
Bank fees	95,241	540
Office expenses	731,206	7,408
Insurance	187,477	2,363
Legal and professional fees	2,099,130	88,521
Consulting fees	2,774,916	398,575
Facility expenses	2,523,118	71,898
Travel and entertainment	1,330,266	71,126
Training, dues and memberships	134,968	1,029
IT costs	219,843	-
Foreign exchange loss	11,619	-
Bad debt	21,458	-
Total General and Administrative Expenses	**16,923,165**	1,104,847

21. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact of the financial instruments are summarized below.

a) *Interest Risk*

The Company is exposed to interest rate risk to the extent that cash and investments maintained at financial institutions may fluctuate with the prevailing market rate. The Company invests surplus cash in a highly liquid money market mutual funds and GIC's which accumulate interest at the prevailing rate. As at February 2, 2019 and February 3, 2018, the Company had cash and cash equivalents of $10,410,330 (2018 - $3,802,855), restricted cash of $34,544,793 (2018 - $nil) and outstanding convertible debentures of $25,683,347 (2018 - $nil). Interest earned on the Company's surplus cash is not significant and the Company's financial liabilities have fixed rates of interest; therefore, the Company is not exposed to any significant interest rate fair value risk.

b) *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 and arises principally from the Company's cash and cash equivalents, restricted cash, and trade and other receivables. The Company's cash and cash equivalents include petty cash, store cash flows, and cash held at Canadian financial institutions, which management believes the risk of loss is minimal. The Company's trade and other receivables is comprised of trade accounts receivable, sales tax receivable, interest receivable, due from related parties and other receivables. The Company's trade accounts receivable balance arise from the Company's Hifyre business segment, as the Company operated point-of-sale retail stores that do not give rise to accounts receivable amounts, and Open Fields had not extended credit to its customers during the current fiscal year.

The carrying amount of cash and cash equivalents, restricted cash, and trade and other receivables represent the maximum exposure to credit risk and at February 2, 2019, this amounted to $46,709,959 (February 3, 2018 - $4,043,045).

c) *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at February 2, 2019, the Company had $10,410,330 (February 3, 2018 - $3,802,855) of cash and cash equivalents and restricted cash of $35,544,793 (February 3, 2018 - $nil).

The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $14,471,928 (February 3, 2018 - $631,364), which are due within 1 year. The company also has convertible debentures outstanding in the amount of $25,683,347 (February 3, 2018 - $nil) with a corresponding derivative liability of $11,252,692 (February 3, 2018 - $nil). Subsequent to February 2, 2019, the convertible debentures were amended, see note 27b.

d) *Fair Value of Financial Instruments*

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 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 for the asset or liability that are not based on observable market data (unobservable inputs).

(In Canadian Dollars)

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities measured as at February 2, 2019 and February 3, 2018:

February 2, 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
	$	$	$	$
Cash and cash equivalents	10,410,330	10,410,330	-	-
Restricted cash	34,544,793	34,544,793	-	-
Trade and other receivables	599,261	-	-	599,261
Accounts payable and accrued liabilities	14,471,928	-	-	14,471,928
Convertible debentures	25,683,347	-		25,683,347
Derivative liability	11,252,692	-	11,252,692	-
Provisions	1,661,757	-	-	1,661,757

February 3, 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
	$	$	$	$
Cash and cash equivalents	3,802,855	3,802,855	-	-
Trade and other receivables	240,190	-	-	240,190
Accounts payable and accrued liabilities	631,364	-	-	631,364

Cash and cash equivalents and restricted cash are classified as Level 1 in the hierarchy, are determined with reference to quoted prices in active markets and represent of fair value. The carrying values of trade and other receivables, accounts payable and accrued liabilities, convertible debentures and provisions approximate their fair values due to the short-term maturities on these financial instruments. The derivative liability is classified as Level 2 in the hierarchy and the fair value is determined using indirect inputs using the Black-Scholes valuation method.

There were no transfers between Level 1, Level 2 or Level 3 during the current or prior year.

22. KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation for key management personnel, including the Company's Officers and Board of Directors and private companies controlled by Officers and Directors, was as follows:

	Fifty-two weeks ended February 2, 2019	Forty-six weeks ended February 3, 2018
	$	$
Management salaries, bonuses and other benefits	682,530	430,630
Share-based payment – management[i]	698,403	55,888
Directors' fees	32,000	-
Share-based payments – directors	21,868	3,763
Total	**1,434,801**	490,281

[i]Represents base salary and management fees elected to be paid in common shares of the Company and warrants issued to management.

23. RELATED PARTY DISCLOSURE

The Company had the following transactions with directors, officers and private companies controlled by directors and officers for the year ended February 2, 2019 and February 3, 2018:

a) *Related party balances*

As of February 2, 2019, $4,082 (February 3, 2018 - $122,258) was due from the directors and officers to the Company. The amount outstanding is unsecured, non-interest bearing with no fixed terms of payment. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

b) *Related party transactions*

On March 17, 2017, the Executive Director participated in the founder share issuance. The Executive Director was issued 1,750,000 common shares of the Company for proceeds of $35,000.

2089064 Ontario Ltd. (“2089064 Ltd.”), a private company controlled by the Executive Director participated in the December 11, 2017, Convertible Debenture Unit offering in the amount of $310,000. The total principal balance plus accrued interest was converted during the period ended February 3, 2018.

Millstone Ventures Ltd. (“Millstone”), a private company controlled by the Chief Executive Officer (“CEO”), participated in the December 11, 2017, Convertible Debenture Unit offering in the amount of $260,000. In addition, a private company in which the CEO has a 25% equity interest participated in the December 2017, Convertible Debenture Unit offering in the amount of $100,000. The total principal balance plus accrued interest was converted during the period ended February 3, 2018.

On December 19, 2017, the spouse of the CEO participated in a private placement for the issuance of 1,097,080 common shares of the Company for proceeds of $225,998.

On January 1, 2018, JNZS participated in a private placement for the issuance of 1,000,000 common shares of the Company for proceeds of $206,000. Also, on January 1, 2018, the CEO participated in a private placement for the issuance of 1,000,000 common shares of the Company for proceeds of $206,000.

On January 1, 2018: (a) Millstone exercised 2,600,000 warrants for an aggregate price of $260,000; and (b) 2089064 Ltd., exercised 2,000,000 warrants for proceeds of $200,000. As consideration for the early exercise of the warrants, the Company issued to: (a) the CEO, as directed by Millstone, 2,600,000 warrants; and (b) 2089064 Ltd. 2,000,000 warrants, with each such warrant entitling the holder thereof to acquire one (1) common share in the capital of the Company for a period of two (2) years from the date of grant at an exercise price of $0.206 per warrant. The Black-Scholes value of the warrants issued was $369,524.

On January 1, 2018, the Company entered into a Royalty Agreement (the “Royalty Agreement”) with each of Millstone and JNZS entitling each to a royalty payment (the “Royalty Payment”) equal to 1% percent of the Company’s Annual Net Revenue. For the purposes of the Royalty Agreement, “Annual Net Revenue” is defined as gross revenue less the cost of goods sold as set forth in the audited annual financial statements of the Company.

On April 10, 2018, the Company entered into a three-year supply agreement with Emblem Corp. ("Emblem"), a public company. At the time of entering into the agreement the Executive Director served as Chairman of the Board of Emblem.

On April 18, 2018, 2089064 Ontario Ltd. ("2089064 Ltd."), a private company controlled by the Executive Director participated in the April 2018 Private Placement. 2089064 Ltd. was issued 125,000 units at $0.80 per unit for proceeds of $100,000. Millstone, subscribed for 375,000 units for proceeds of $300,000.

On April 18, 2018, Emblem participated in the April 2018 Private Placement. Emblem was issued 3,125,000 units at $0.80 per unit for proceeds of $2,500,000.

On April 24, 2018, 1,090,000 common shares of the Company held by the spouse of the Chief Executive Officer were sold to non-related parties.

On June 1, 2018, 1,000,000 founding common shares were sold. 2089064 Ltd. purchased 272,727 common shares and Millstone purchased 363,636 common shares. The remaining 363,637 were sold to non-related parties. On June 7, 2018, the CFO participated in the May Private Placement. The CFO was issued 25,000 units at $0.80 per unit for an aggregate price of $20,000. On July 26, 2018, the CFO also participated in the offering of July Debentures. The July Debentures were issued at $1,000 per unit for an aggregate price of $10,000.

On August 17, 2018, the Company granted the CFO 200,000 common share purchase warrants. 100,000 of the warrants were issued on August 17, 2018 and 100,000 of the warrants are to be issued on the business day immediately following the filing of the filing statement in connection with the RTO. Each warrant is exercisable at an exercise price of $1.15 per warrant for a period of two years from the date of issuance.

On August 17, 2018, the Company entered into a Letter Agreement with Millstone and JNZS, whereby each of the parties agreed to terminate the royalty agreement entered into by the parties on January 1, 2018 and to terminate the Company's obligations under the agreement for consideration.

On August 27, 2018, the Company paid a $40,000 signing bonus and issued 350,000 stock options to the Executive Vice President, Finance under the Company's stock option plan, each exercisable at an exercise price of $1.15.

The Company paid $30,000 in directors' fees for the period and an additional $2,000 in meeting fees.

During the fifty-two weeks ended February 2, 2019, $143,716 (February 3, 2018 - $3,763) in stock options vested in regard to related parties.

24. CAPITAL RISK MANAGEMENT

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business. The Company currently has not paid any dividends to its shareholders.

As at February 2, 2019, total capital was comprised of shareholders' equity of $26,998,364.

The Company's objective when managing capital is to spend its existing working capital and raise additional amounts in the subsequent period.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions and manages its capital by:

i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;

ii) minimizing discretionary disbursements; and

iii) reducing or eliminating expansion expenditures which are of limited strategic value.

In light of the above, the Company will continue to assess retail locations and seek to acquire an interest in additional locations if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis.

There were no changes in the Company's approach to capital management during the periods ended February 2, 2019 and February 3, 2018. As at February 2, 2019 and February 3, 2018, the Company was not subject to externally imposed capital requirements. Changes in capital are described in the statement of changes in shareholders' equity.

25. COMMITMENTS AND CONTINGENCIES

Commitments

On January 1, 2018, the Company entered into a *Management Services Agreement* with the Executive Director effective January 1, 2018 to December 31, 2020 at an annual base fee of $400,000. In the case of a change of control, the Company would be obligated to make a payment of the then applicable and outstanding base fee. At the beginning of each calendar year, the Executive Director can choose to receive a percentage of the base fee in shares. The Executive Director has elected to receive 75% of his annual calendar year 2018 base management fees in shares. For the 2019 calendar year, the Executive Director has elected to received 50% of the base management fees in shares.

On January 1, 2018, the Company entered into a *Management Services Agreement* with the CEO effective January 1, 2018 to December 31, 2020 at an annual base salary of $400,000. In the case of a change of control, the Company would be obligated to make a payment of the then applicable and outstanding base salary. At the beginning of each calendar year, the CEO can choose to receive a percentage of the base salary in shares. The CEO has elected to receive 75% of his annual calendar year 2018 salary in shares. For the 2019 calendar year, the CEO's salary was increased to $450,000 with no election to receive a percentage of base salary in shares.

(In Canadian Dollars)

On April 10, 2018, the Company entered into a three-year supply agreement for the purchase of cannabis, with the option to renew for two additional years at the Company's discretion with the annual renewal date set at April 10th. Under the terms of the agreement the annual purchase amount is based on the ability of the Company to purchase cannabis products from the supplier under applicable laws and regulations, with a maximum annual commitment of $5,000,000. At the start of the first year under the agreement (April 10, 2018), the Company was not permitted to purchase cannabis products at any location as legalization of cannabis had yet been enacted. Managements estimate the annual commitment for the second year of the supply agreement to be $769,231.

On April 16, 2018, the Company entered into a three-year supply agreement for the purchase of cannabis, with the option to renew for two additional years at the Company's discretion with the annual renewal date set at September 30th. Under the terms of the agreement the annual purchase amount is based on the ability of the Company to purchase cannabis products from the supplier under applicable laws and regulations, with a maximum annual commitment of $5,000,000. At the start of the first year under the agreement (September 30, 2018), the Company was not permitted to purchase cannabis products at any location as legalization of cannabis had yet been enacted. Managements estimate the annual commitment for the second year of the supply agreement to be $1,212,121.

On January 15, 2019, the Company entered into an agreement for purchase and sale for a commercial property located at 129 York Street in the city of Ottawa for a purchase price of $1,925,000. The closing date occurred on February 14, 2019, subsequent to year-end.

On January 30, 2019, the Company entered into a one-year supply agreement for the purchase of $348,000 in cannabis, with the option to renew for one additional year at the Company's discretion with an annual renewal date set to be January 30 of each year.

The Company entered into operating leases in anticipation of retail stores opening in the subsequent fiscal year. The following is a schedule of the approximate future minimum lease payments required under the operating leases as of February 2, 2019:

	$
Within one year	4,355,125
After one year but less than five years	21,162,266
After five years	7,234,601
Total	**32,751,992**

(In Canadian Dollars)

26. SEGMENTED INFORMATION

The Company's reportable segments are as follows:

1) The retail segment which sells cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal;
2) The wholesale distribution segment which distributes cannabis products and accessories; and
3) The digital development segment which designs, develops and delivers digital experiences.

For management purposes, the group is organized into three business segments based on their products and services. The chief operating decision makers monitor the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. All segments operated within Canada.

For the year ended February 3, 2018, the Company did not have reportable segments. Information on the Company's operating segments for the year ended February 2, 2019 is as follows:

	Retail	Wholesale distribution	Digital development	Eliminations and adjustments	Consolidated
	$	$	$	$	$
Revenues	11,658,241	795,407	525,508	-	12,979,156
Intercompany revenues[1]	-	1,256,115	788,939	(2,045,054)	-
Total revenues	**11,658,241**	**2,051,522**	**1,314,447**	**(2,045,054)**	**12,979,156**
Cost of sales	(7,372,185)	(1,751,454)	-	1,121,981	(8,001,658)
Gross margin	**4,286,056**	**300,068**	**1,314,447**	**(923,073)**	**4,977,498**
Total operating expenses before depreciation	(24,890,363)	(327,656)	(720,491)	312,129	(25,626,381)
Depreciation	(382,923)	(22,505)	(89,940)	-	(495,368)
Segment profit (loss)	**(20,987,230)**	**(50,093)**	**504,016**	**(610,944)**	**(21,144,251)**
Acquisition costs					(210,933)
Lease termination costs					(3,889,012)
Listing expense					(470,000)
Change in fair value of derivative liability					(9,597,979)
Finance costs, net					(2,486,585)
Loss before income taxes					**(37,798,760)**

[1] Sales between segments are made at prices that approximate market prices.

	Retail	Wholesale distribution	Digital development	Eliminations and adjustments	Consolidated
Total assets	**77,646,708**	**344,765**	**2,512,113**	**-**	**80,503,586**
Total liabilities	**53,042,353**	**394,758**	**68,113**	**-**	**53,505,224**

The Company currently purchases 100% of its cannabis inventory in the Province of Alberta from the Government of Alberta's Crown enterprise.

27. SUBSEQUENT EVENTS

a) *Completion of Reverse Takeover Transaction and Concurrent Financing*

On February 13, 2019, the Company completed the Qualifying Transaction, as described in note 14g.

b) *Amendment to July Debentures*

As a result of certain provinces restricting licensed producers or an affiliate thereof from owning or controlling (directly or indirectly) more than 9.9% of an entity that is a licensed operator of cannabis retail stores in the province of Ontario, contemporaneous with, and as part of closing the Qualifying Transaction described in note 14g, the Company and licensed producers that are holders of July Debentures have agreed to amend the terms of $20,000,000 of July 2018 Debentures (the "Fire & Flower LP Debentures") (see note 12). Upon the completion of the Qualifying Transaction, the Resulting Issuer is expected to have Fire & Flower LP Debentures with an aggregate principal amount of $20,000,000. The Fire & Flower LP Debentures will mature on July 31, 2020. At any time following the completion of the Qualifying Transaction the Resulting Issuer may:

i. subject to compliance with the policies of the TSXV, force the conversion of the Fire & Flower LP Debentures at a conversion price equal to: (i) for the principal, a conversion equal to $1.15; and (ii) for the interest, subject to the approval of the TSXV, at the last closing price of the Resulting Issuer Shares on the TSXV on the TSXV (or such other recognized stock exchange) on the date the Resulting Issuer gives notices of its intention to convert; and

ii. redeem all or part of the outstanding principal amount of the Fire & Flower LP Debentures (and interest thereon). The amount due to the holder upon redemption shall equal the product of the amount of principal and accrued interest to be redeemed, multiplied by the greater of: (i) $1.00; and (ii) the result of the equation A/B whereby:

A = the last closing price of the Resulting Issuer Shares on the TSXV (or such other recognized stock exchange) on the date immediately prior to the date the Resulting Issuer gives notice of its intention to exercise its redemption right

B = $1.15

c) *Share debentures*

Contemporaneous with, and as part of closing the Qualifying Transaction, Fire & Flower may enter into securities exchange agreements with certain specified persons who are Fire & Flower shareholders. Pursuant to these agreements, up to an aggregate of 7,250,000 Fire & Flower common shares may be exchanged for up to $5,800,000 principal amount of convertible debentures (the "Share Debentures"). The principal amount of the Share Debentures would be equal to the number of Fire & Flower Shares held by such specified person divided by $0.80 (representing the issue price of the share purchased by such specified person) (the "Original Issue Price"), are non-interesting bearing with a maturity date of November 30, 2019 (the "Maturity Date"). On the Maturity Date, such holder of Share Debentures is permitted to elect to convert the principal amount owing into Resulting Issuer Shares at the Original Issue Price.

For the purposes of these consolidated financial statements, a specified person shall mean either (a) one or more licensed producers or an affiliate (as such term is contemplated in the Ontario Cannabis Regulation); and (b) any person (including persons acting jointly or in concert) whose beneficial or registered ownership of Resulting Issuer Shares (or power and/or direction over such Resulting Issuer Shares) could reasonably be expected to result in the loss, suspension or revocation (or similar action) with respect to one or more licenses ("Licenses") required for the Resulting Issuer to carry out its business as currently conducted or intended to be conducted or in the Resulting Issuer or an affiliate thereof being unable to obtain any new Licenses or to otherwise fail to comply with the requirements of a governmental authority in respect of the Resulting Issuer or an affiliate's Licenses, as determined by the board of directors of the Resulting Issuer, in its sole discretion acting in good faith, after consultation with legal counsel and if a License application has been filed, after consultation with the applicable governmental authority.

At any time following the completion of the Qualifying Transaction the Resulting Issuer may:

i. subject compliance with the policies of the TSXV, and if required to be in compliance with applicable provincial laws, force the conversion of the Share Debentures at a conversion price equal to the lesser of: (A) \$0.80; and (B) the last closing price of the Resulting Issuer Shares on the TSXV (or such other recognized stock exchange) on the date immediately prior to the date the Resulting Issuer gives notices of its intention to convert; and

ii. redeem all or part of the outstanding principal amount of the Share Debentures. The amount due to the holder upon redemption shall equal the product of the amount of principal and accrued interest to be redeemed, multiplied by the greater of: (A) \$1.00; and (B) the result of the equation X/Y whereby:
X = the last closing price of the Resulting Issuer Shares on the TSXV (or such other recognized stock exchange) on the date immediately prior to the date the Resulting Issuer gives notices of its intention to exercise its redemption right
Y = \$0.80

In the event the Share Debentures are transferred such that they are not controlled or owned, directly or indirectly, by a Specified Person, the Share Debentures will automatically convert into Resulting Issuer Shares at a conversion price equal to the Original Issuer Price.

d) *Agreements with Ontario Retail Cannabis Store Lottery winners*

On December 13, 2018, the Government of Ontario announced a temporary cap of 25 retail store authorizations to be in effect while cannabis supply stabilizes. As set out in Ontario Regulation 468/18, under the Cannabis Licence Act (Ontario) (the "Ontario Regulation"), the Government of Ontario mandated the Alcohol and Gaming Commission of Ontario ("AGCO") to hold a lottery ("the Lottery") to limit the number of candidates applying for a Retail Operator License ("ROL") (as contemplated under the Ontario Regulation).

On February 14, 2019, Fire & Flower entered into a consulting services agreement with each of two Ontario lottery winners (the "Consulting Services Agreements"). Pursuant to the terms of the Consulting Services Agreements, Fire & Flower will provide each lottery winner with (a) advisory and consulting services; (b) a letter of credit for all application fees in connection with each lottery winners' ROL and retail store authorization ("Store Authorization"), as such terms are contemplated under the Cannabis Licence Act (Ontario); (c) a non-exclusive license to use certain of Fire & Flower's intellectual property; and (d) certain non-refundable payments to be made to each lottery winner. In exchange for the services, each lottery winner shall pay to Fire & Flower a monthly consulting fee.

The Consulting Services Agreements also contemplate each lottery winner having the option to require Fire & Flower, and Fire & Flower having the option to purchase from each lottery winner, their interest in the cannabis retail store (including the ROL) at the conclusion of the period from January 2, 2019 to December 13, 2019 (subject to compliance with applicable law, including the Ontario Cannabis Regulation).

The purchase option for the first lottery winner includes 933,333 common shares of Fire & Flower (subject to compliance with applicable law, including the Ontario Cannabis Regulation). The purchase option further contemplates that if the proposed transfer is not permitted under applicable law on or before April 1, 2020, then on such day, Fire & Flower shall issue to the lottery winner 933,333 common shares of Fire & Flower and the parties shall enter into a definitive agreement requiring the lottery winner to transfer their interest in the cannabis retail store for no further consideration on the date such transfer is permitted under applicable law.

The purchase option for the second lottery winner includes 800,000 common shares of Fire & Flower (subject to compliance with applicable law, including the Ontario Cannabis Regulation). The purchase option further contemplates that at the time the purchase option is exercised, that if the 10 day volume weighted average price of the common shares is less than $1.50, Fire & Flower will pay an additional amount in cash to the second lottery winner that would bring the aggregate consideration paid to $1,200,000.

On March 8, 2019 and March 11, 2019, the Company entered into a promissory note agreement with each of the two lottery winners for $800,000, subject to interest at the Canadian prime lending rate and maturity on December 13, 2019.

e) *Agreements to purchase additional stores*

On May 13, 2019, the Company acquired four retail store locations from a retail cannabis operator in the province of Saskatchewan. The acquisition includes the leases, equipment, furnishings, inventory and provincial and municipal licenses and permits used to operate the store locations for an aggregate purchase price of $13,000,000, comprised of $6,500,000 in cash and $6,500,000 in common shares of the Company.

On May 22, 2019, the Company acquired certain assets from 1011173 B.C. Ltd. o/a The Green Rhino in relation to two locations to operate cannabis retail stores in Vancouver, British Columbia. The acquisition includes leases, furnishings and development permits for an aggregate purchase price of $8,000,000, comprised of $4,500,000 in cash and $3,500,000 in common shares of the Company.